

May 6, 2020

Philippine Stock Exchange

9/F PSE Tower, 28th St. cor. 5th Ave.
Bonifacio Global City (BGC)
Taguig City, Philippines

Attention: MS. JANET A. ENCARNACION
Head, Disclosure Department

.....

Dear Ms. Encarnacion,

We would like to submit the attached SEC 20-IS Definitive Information Statement of Philippine Savings Bank (PSBank).

We hope that you will find everything in order.

Thank you very much.

Very truly yours,



Leah M. Zamora
Controller

May 6, 2020

SECURITIES AND EXCHANGE COMMISSION

Secretariat Building, PICC Complex,
Roxas Boulevard, Pasay City

ATTENTION: VICENTE GRACIANO P. FELIZMENIO, JR.
Director


Dear Director Felizmenio:

This refers to Philippine Savings Bank's submission of Definitive Information Statement (DIS) in connection with the forth coming 2020 Annual Stockholder's meeting to be held on **27 May 2020**.

In compliance with **SRC Rule 20** and **Revised SRC Rule 68**, we submit the following documents:

1	Definitive Information Statement and Management Report
Annex A	Audited Financial Statements as of December 31, 2019 and 2018 and for the Years Ended December 31, 2019, 2018 and 2017 and Independent Auditor's Report
	Independent Auditors' Report on Supplementary Schedules
	Independent Auditors' Report on Components of Financial Soundness Indicators
	Index to the Financial Statements and Supplementary Schedules
	<ul style="list-style-type: none"> Reconciliation of retained earnings available for dividend declaration
	<ul style="list-style-type: none"> Map showing the relationships between and among the company and its ultimate parent company, middle parent, subsidiaries or co-subsidiaries, and associates, wherever located or registered
	<ul style="list-style-type: none"> Supplementary schedules as required by Revised SRC Rule 68 - Annex 68- J
	<ul style="list-style-type: none"> Schedule of financial soundness indicators
Annex B	SEC Form 17-C
Annex C	Certification of Independent Directors
Annex D	Interim Statements of Condition as of March 31, 2020
Annex E	Interim Statements of Income for the period ended March 31, 2020
Annex F	Interim Statements of Changes in Equity as of March 31, 2020
Annex G	Interim Statements of Cash Flows as of March 31, 2020
Annex H	Management Discussion and Analysis as of March 31, 2020

Very truly yours,



LEAH M. ZAMORA
Controller

COVER SHEET

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SEC Registration Number

[illegible]

(Company's Full Name)

[illegible]

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

Leah M. Zamora

(Contact Person)

8885-8208

(Company Telephone Number)

DEFINITIVE

1	2
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3	1
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Month *Day*
(Fiscal Year)

2	0	-	I	S
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(Form Type)

0	5	2	7
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Month *Day*
(Annual Meeting)

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(Secondary License Type, If Applicable)

Markets and Securities
Regulation Department

Dept. Requiring this Doc.

Amended Articles Number/Section

1,455

Total No. of Stockholders as of
March 31, 2020

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

LCU

[illegible]

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

PHILIPPINE SAVINGS BANK

(COMPANY'S NAME)

PSBANK CENTER

777 Paseo de Roxas cor. Seden St. Makati City

(COMPANY'S ADDRESS)

8885-82-08

(TELEPHONE NUMBER)

DECEMBER 31

(FISCAL YEAR ENDING MONTH & DAY)

SEC Form 20-IS

(FORM TYPE)

May 6, 2020

(PERIOD ENDED DATE)

Government Securities Eligible Dealer

(SECONDARY LICENSE TYPE AND FILE NUMBER)

**SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20- IS**

**INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE**

- | | | |
|------------|--|--|
| 1. | Type of Statement | <input type="checkbox"/> Preliminary Information Statement
<input checked="" type="checkbox"/> Definitive Information Statement |
| 2. | Name of Registrant as specified in its character | PHILIPPINE SAVINGS BANK |
| 3. | Province, country or other jurisdiction or incorporation or organization | Manila, Philippines |
| 4. | SEC Identification No. | 15552 |
| 5. | BIR Tax Identification No. | 000-663-983-000 |
| 6. | Address of principal office &
Postal Code | PSBank Center, 777 Paseo de Roxas
corner Sedeño Sts., Makati City
1226 |
| 7. | Registrant's Telephone No.
including area code | (632) 8885- 8208 |
| 8. | Date, time, and mode of
conduct of meeting of security holder | May 27, 2020 3:00 PM
Virtual meeting via secure online
meeting platform |
| 9. | Approximate date on which the
Information Statement is first to
be sent or given to security holders | May 6, 2020 |
| 10. | In case of Proxy Solicitations
Name of Person Filing the Statement
Address and Telephone Number | Not Applicable
Not Applicable |
| 11. | Securities registered pursuant
to Section 4 and 8 of RSA
(information on number of shares
and amount is applicable only to
corporate registrant) | Common Shares
426,859,416 outstanding
as of March 31, 2020 |
| 12. | Are any or all of registrant's
Securities listed on the Philippine
Stock Exchange | Yes |



NOTICE OF ANNUAL STOCKHOLDERS' MEETING

Notice is hereby given that the annual meeting of stockholders of the Philippine Savings Bank (PSBank) will be held on **May 27, 2020, Wednesday, at 3:00 P.M.** In light of the COVID-19 pandemic and to ensure the safety and welfare of our stockholders, the meeting will be conducted virtually via secure online meeting platform to pass upon the following matters:

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of the Minutes of the Annual Stockholders' Meeting held on April 15, 2019
4. Presentation of the President's Report and the PSBank's 2019 Audited Financial Statements
5. Confirmation of All Acts of the Board of Directors, Management and All Committees
6. Election of the Members of the Board of Directors
7. Appointment of the External Auditor
8. Other Matters
9. Adjournment

Stockholders of record as of February 28, 2020 shall be entitled to vote at the Meeting.

Pocholo V. Dela Peña
Corporate Secretary

Stockholders who intend to participate or be represented in the virtual meeting shall first submit the following via email to psbasm2020@psbank.com.ph not later than May 12, 2020, subject to validation procedures, to gain access to the secure online meeting link:

- Letter of Intent (LOI) to participate by remote communication and vote in absentia
- Duly accomplished proxy instrument for a representative to the virtual meeting, as applicable
- Copy of proof of identity, ownership and other certification/information for validation purposes

Once validated, a confirmation along with access credentials to the secure online meeting link shall be sent to the stockholder's email as provided. For reference and other details, please go to <https://www.psbank.com.ph/about-psbank/annual-stockholders-meeting/>.

The Information Statement (IS) containing the attendance/voting (via remote communication) and nomination/election procedures, along with the Notice and Agenda, Proxy and other ASM-related information can be accessed through any of the following options:



1. Scan the QR code using a QR code reader, downloadable from your mobile app store
2. Go to the PSBank website via this link:
<https://www.psbank.com.ph/about-psbank/annual-stockholders-meeting/>
3. Go to the PSE EDGE portal via <https://edge.pse.com.ph>
4. Request for a copy by sending an email to psbasm2020@psbank.com.ph

The use of this QR code has been approved by the SEC on March 5, 2020.

Please visit the PSBank's 2020 ASM webpage at
<https://www.psbank.com.ph>

Philippine Savings Bank Head Office: 777 Paseo de Roxas corner Sedeño St., 1226 Makati City

The meeting proceedings shall be recorded in audio and video format and shall be made available in a secured manner to stockholders upon request by sending an email to psbasm2020@psbank.com.ph. For ASM-related matters, please go to <https://www.psbank.com.ph/about-psbank/annual-stockholders-meeting/>. For ASM-related queries, please send an email to psbasm2020@psbank.com.ph or contact the Office of the Corporate Secretary at 8885-8208 local 8180/8535. For account updating/validation concerns, please get in touch with PSBank's Stock Transfer Agent, Metrobank Trust Banking Group (Attention: Walter R. Briones or Ma. Annette Valene A. Bautista), through 857-5694 to 95 or via email to walter.briones@metrobank.com.ph or annette.bautista@metrobank.com.ph.

EXPLANATION AND RATIONALE OF AGENDA ITEMS

1. Call to Order

Chairman Jose T. Pardo will welcome stockholders and guests to formally begin the 2020 Annual Stockholders' Meeting of PSBank.

2. Certification on Notice and Quorum

The Corporate Secretary, Pocholo V. dela Pena, will certify that the Notice of Meeting has been duly sent and circulated via appropriate disclosures and publications pursuant to the regulations of the Securities and Exchange Commission (SEC) for the purpose of informing the Stockholders of record. The Corporate Secretary will further announce whether or not a quorum is present constituting two-thirds of the outstanding capital stock.

3. Approval of the Minutes of the Annual Stockholders' Meeting held on April 15, 2019

The stockholders will be requested to approve the minutes of the Annual Stockholders' Meeting held on April 15, 2019, which contain among others, the (a) Annual Report to Stockholders, (b) Confirmation of all acts of the Board of Directors, the Management and all Committees, (c) Election of the members of the Board of Directors (d) Appointment of the External Auditor, and (e) Increase in Authorized Capital Stock with corresponding amendment of Article VII of the Bank's Articles of Incorporation and its related declaration of Stock Dividends.

Resolution to be Adopted: Stockholders will vote for the adoption of a resolution approving the minutes of the April 15, 2019 Annual Stockholders' Meeting.

4. Presentation and Approval of the President's Report and the PSBank's Audited Financial Statements (AFS) as of December 31, 2019

The President will render his Annual Report on the Bank's activities, business and financial performance for year-end 2019. It includes the summary of the AFS which is incorporated in the Definitive Information Statement for dissemination to stockholders of record within prescribed period and in a manner pursuant to the SEC rules. Due to logistical limitations of the meeting conducted virtually, voting and open forum/discussion will not be possible during the virtual meeting. However, a stockholder, once validated/ registered, will be given an opportunity to raise any relevant questions or express an appropriate comment limited to the agenda items by sending an email to psbas2020@psbank.com.ph not later than May 22, 2020 to be properly noted and addressed accordingly.

Resolution to be Adopted: Stockholders will vote for the adoption of a resolution noting and approving the President's Annual Report for 2019 and the Bank's Audited Financial Statements as of December 31, 2019

5. Confirmation of all Acts of the Board of Directors, Management and All Committees in 2019

The stockholders will be requested to confirm all acts, transactions and resolutions of the Board of Directors, including transactions with the Bank's DOSRI and other related parties, Management and all Committees during the year 2019.

Resolution to be Adopted: Stockholders will vote for the adoption of a resolution confirming the acts of the Board of Directors and all Committees during the year 2019.

6. Election of the Members of the Board of Directors

The Chairman of the Corporate Governance Committee will present nominees for election as members of the Board of Directors, including independent directors. This is in compliance with regulatory requirements of the Bangko Sentral ng Pilipinas and the Securities and Exchange Commission on the nomination of directors, and after the Corporate Governance Committee's review and evaluation of the qualifications of all persons nominated to the Board.

7. Appointment of the External Auditor

As endorsed by the Audit Committee and approved by the Board of Directors, the stockholders will be requested to confirm appointment of the selected External Auditor for 2020.

Resolution to be Adopted: Stockholders will vote for the adoption of a resolution for the appointment of said auditing firm as independent external auditor of the Bank for 2020.

8. Other Matters

Other relevant matters or issues may be taken up during the meeting. Any relevant questions or comments received by the Office of the Secretary via email within the prescribed period given to registered stockholders shall be properly acknowledged, noted and addressed accordingly.

9. Adjournment

Upon determination that there are no other matters to be considered, the Chairman shall declare the meeting adjourned. The meeting proceedings shall be recorded in audio and video format to be safekept by the Office of the Corporate Secretary and shall be made available in a secured manner to stockholders upon request by sending an email to psbas2020@psbank.com.ph.

PROXY

I, _____ do hereby nominate, constitute and appoint _____ as my proxy and representative at the Annual Meeting of Stockholders of Philippine Savings Bank (PSBank) to be held on **May 27, 2020**, with authority to participate in the deliberations thereof, and to vote in my behalf all the shares standing in my name for the election of directors and/or approval of transactions included in the Agenda or any related matter which may properly arise during the said Meeting or any adjournment thereof.

In witness whereof, I have signed on _____ (date) at _____ (place).

Name of Stockholder : _____

Signature : _____

This form is being provided for your convenience. Stockholders who wish to do so may adopt the above proxy form.

In case you cannot attend the virtual meeting and you wish to be represented, you may designate your authorized representative by submitting a proxy instrument on or before May 12, 2020 via email to psbas2020@psbank.com.ph. If so preferred or if no name is indicated, the Chairman of the Meeting shall act as the proxy.

THIS PROXY FORM NEED NOT BE NOTARIZED.

PART I. INFORMATION STATEMENT

A. GENERAL INFORMATION

Item 1. Date, Time and Place of Meeting of Security Holders

Date : May 27, 2020 Wednesday
Time : 3:00 PM
Platform : Virtual meeting via secure online meeting application platform

Mailing address of the principal office:
PSBank Center
777 Paseo de Roxas cor. Sedeño St., Makati City 1226

Approximate date on which copies of the Information Statement are first to be given to security holders:
May 6, 2020

<p>WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY.</p>

Item 2. Dissenters' Right of Appraisal

There is no matter or proposed action in the Agenda which may give rise to the exercise by the security holders of their right of appraisal. Generally, however, the right of appraisal should be exercised in instances and in accordance with the procedures mentioned by the Revised Corporation Code of the Philippines.

The appraisal right may be exercised by any stockholder who shall have voted against the proposed corporate action, by making a written demand on the corporation for the payment of the fair value of shares held within thirty (30) days from the date on which the vote was taken: Provided, That failure to make the demand within such period shall be deemed a waiver of the appraisal right. If the proposed corporate action is implemented, the corporation shall pay the stockholder, upon surrender of the certificate or certificates of stock representing the stockholder's shares, the fair value thereof as of the day before the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.

If, within sixty (60) days from the approval of the corporate action by the stockholders, the withdrawing stockholder and the corporation cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the corporation, and the third by the two (2) thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by the corporation within thirty (30) days after such award is made: Provided, That no payment shall be made to any dissenting stockholder unless the corporation has unrestricted retained earnings in its books to cover such payment: Provided, further, That upon payment by the corporation of the agreed or awarded price, the stockholder shall forthwith transfer the shares to the corporation.

Item 3. Interests of Certain Persons in or Opposition to Matters to be Acted Upon

Other than election to office, there is no matter to be acted upon in which any director, executive officer, or nominee for election as director (or any associates of the foregoing), is involved or has a direct, indirect or substantial interest. There is also no incumbent director who has informed the Bank in writing that he intends to oppose any action to be taken at the Annual Stockholders' Meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

- a) No. of Shares outstanding as of March 31, 2020 : **426,859,416 Common Shares**
No. of votes to which each share is entitled : **one (1) vote per share**
- b) Record date to determine stockholders entitled to Notice and to vote at the regular meeting : **February 28, 2020**
- c) Election of Directors:

Majority vote is required for the election of directors. Security holders shall have the right to cumulative voting. Cumulative voting is allowed provided that the total votes cast by a stockholder shall not exceed the number of shares registered in the name of that security holder in the books of the Bank as of the record date multiplied by the whole number of directors to be elected. There is no condition precedent to the exercise of the right to cumulative voting.

- d) Arthur V. Ty is the person authorized to vote the MBTC shares in PSBank.
- e) Security Ownership of Certain Record and Beneficial Owners and Management

(1) Security Ownership of Certain Record and Beneficial Owners

As of March 31, 2020, the following stockholder owns more than 5% of the common voting securities:

Title of Class	Name, address of Record Owner and relationship with issuer	Name of Beneficial Owner and relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common Stock	Metropolitan Bank and Trust Company Metrobank Plaza, Gil Puyat Avenue, Makati City 1200 (Parent Company of PSBank)	Arthur V. Ty, Chairman of Metrobank	Filipino	377,279,068	88.38%

There is no person who holds more than 5% of the Bank's securities lodged with PCD Nominee Corporation.

(2) Security Ownership of Directors and Management as of March 31, 2020

Title of Class	Name of Stockholder	Position	Citizenship	No. of Shares	% of Ownership
Common stock	Jose T. Pardo*	Chairman / Independent Director	Filipino	2,063	0.00048%
Common stock	Arthur V. Ty**	Vice Chairman	Filipino	129	0.00003%
Common stock	Vicente R. Cuna, Jr.	Vice Chairman	Filipino	111	0.00003%
Common stock	Rosanna F. De Vera	Director	Filipino	111	0.00003%
Common stock	Maria Soledad D.S. De Leon	Director	Filipino	4,456,795	1.04409%
Common stock	Jose Vicente L. Alde	Director/President	Filipino	111	0.00003%
Common stock	Samson C. Lim*	Independent Director	Filipino	111	0.00003%
Common stock	Benedicto Jose R. Arcinas*	Independent Director	Filipino	111	0.00003%
Common stock	Eduardo A. Sahagun*	Independent Director	Filipino	111	0.00003%

* Independent director

** Includes 18 shares lodged with PCD Nominee Corp.

(3) Voting Trust Holders of 5% or more

There is no person who holds more than 5% of the Bank's securities under a voting trust or similar agreement.

(4) Changes in Control

There is no arrangement that may result in a change in control of the registrant. There is no change in control that has occurred since the beginning of the last fiscal year.

Item 5. Directors and Executive Officers

a. Directors

The following are the Directors for 2019 – 2020:

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4 th Civil degree
Jose T. Pardo Chairman/ Independent Director	80	Filipino	<p><u>Present Involvements</u></p> <ul style="list-style-type: none"> Chairman since Jan 2003/ Independent Director since May 2007, Philippine Savings Bank* Chairman and Independent Director, Philippine Seven Corporation* since 2015 Chairman and Independent Director, Philippine Stock Exchange* since 2011 Chairman and Independent Director, Securities Clearing Corporation of the Philippines since 2011 Chairman since 2011 /Independent Director since 2003, Bank of Commerce Independent Director, National Grid Corporation of the Philippines since 2009 Independent Director, JG Summit Holdings, Inc.* since 2003 Independent Director, ZNN Radio Veritas since 2006 Independent Director, Monte Oro Grid Resources Corporation since 2016 Independent Director, Synergy Grid and Development Philippines, Inc. (Non-Operating) since 2014 Independent Director, Araneta Hotels, Inc. since 2016 Independent Director, League One Finance and Leasing Corporation since 2016 Independent Director, Del Monte Philippines, Inc. since 2018 Chairman, ECOP Council of Business Leaders since 2009 Chairman, PCCI Council of Business Leaders since 2007 Chairman, Philippine Business Center Inc. from 2011 to 2019 <p><u>Past Experiences/ Positions Held</u></p> <ul style="list-style-type: none"> Chairman, De La Salle University, Inc. Co-Chairman, De La Salle Philippines Chairman, Assumption (Antipolo) Chairman, EDSA People Power Commission from 1999 to 2001 President, Philippine Seven Corporation* (Philippine Area Licensee of 7- Eleven, USA) 	None

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4 th Civil degree
			<ul style="list-style-type: none"> Chairman, Wenphil Corporation (Philippine Area Licensee of Wendy's, USA) Chairman, Asian Holdings Corporation President, Land and Housing Development Corporation Chairman, ABC Development Corporation (ABC-5) Chairman, Philippine Franchise Association Senior Vice-President, Bancom Group, Inc. Director, San Miguel Purefoods, Inc. Director, GMA Network Inc. (Channel 7) Director, Metropolitan Bank and Trust Company* (Metrobank) Director, C.C. Unson Co., Inc. (Battery Manufacturing) Director, Mabuhay Philippine Satellite Corporation in 2001 Director, Coca - Cola Bottlers Philippines, Inc. <p><u>Past experiences/ Positions held in Government Service</u></p> <ul style="list-style-type: none"> Cabinet Secretary, Department of Finance (DOF) from 2000 to 2001 Cabinet Secretary, Department of Trade and Industry (DTI) from 1998 to 1999 Governor for the Philippines, Asian Development Bank in 2000 Alternate Governor for the Philippines, International Monetary Fund in 2000 Governor, International Fund for Agricultural Development (IFAD) in 2000 Chairman, Committee on Privatization (COP) from 2000 to 2001 Chairman, Philippine Deposit Insurance Co. (PDIC) from 2000 to 2001 Chairman, Trade and Investment Development Corp. from 1998 to 1999 Vice Chairman, Economic Coordinating Council (ECC) from 1999 to 2000 Member, Bangko Sentral Monetary Board from 1998 to 2001 <p><u>Academic Qualifications</u></p> <ul style="list-style-type: none"> Master's Degree in Business Administration- First graduate under the Harvard- DLSU Advisory Program, De La Salle University Manila, Philippines BS Commerce, Major in Accounting, De La Salle University Manila, Philippines Doctor of Science in Finance, Honoris Causa De La Salle University, Manila Philippines Doctor of Humanities, Honoris Causa, Gregorio Araneta University Foundation Honorary Doctorate, Academy of Multi-Skills, United Kingdom 	

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4 th Civil degree
Arthur V. Ty Vice Chairman	53	Filipino	<p><u>Present Involvements</u></p> <ul style="list-style-type: none"> • Vice Chairman, Philippine Savings Bank* since 2001 • Chairman, Metropolitan Bank & Trust Company* since 2012 • Vice Chairman/ Director, First Metro Investment Corporation since 2012 • Director, Federal Land, Inc. since 2002 • Chairman/ Director, Global Treasure Holdings Inc. since 2006 • Chairman, Great Mark Resources Corp. since 2015 • President/ Director, Horizon Royale Holdings, Inc. since 2000 • Chairman, Metrobank Foundation, Inc. since 2018 • President/ Director, Phil. Securities Corp. since 2003 • Chairman, GT Capital Holdings Inc.* since 2016 • Chairman/ Director, Grand Titan Capital Holdings, Inc. since 2007 • President/ Chairman, Nove Ferum Holdings, Inc. since 2009 • Chairman, Metropolitan Bank (China) Ltd. since 2010 • Chairman, Ferum Cee Inc. since 2011 • Chairman, GT Metro Foundation Inc. since 2010 • Vice Chairman, AXA Philippines since 2017 • Chairman / President, Milgen Holdings Inc. since 2016 • Vice Chairman. Charter Ping An Insurance Corp. since 2018 <p><u>Past Experiences/ Positions Held</u></p> <ul style="list-style-type: none"> • President, Philippine Savings Bank* from 2000 to 2001 • President, Metropolitan Bank & Trust Company* from 2006 to 2012 • Vice Chairman, Great Mark Resources Corp. from 2012 to 2015 • Director, Global Business Power Corporation from 2009 to 2012 • Vice Chairman, GT Capital Holdings Inc.* from 2014 to 2016 • Vice Chairman, Cathay Int'l Resources Corp. from 2006 to 2012 • Director, AXA Philippines from 2016 to 2017 • Vice Chairman, Metrobank Foundation, Inc. since 2006 to 2018 • Chairman, Manila Medical Services, Inc. from 2017 to 2019 <p><u>Academic Qualifications</u></p> <ul style="list-style-type: none"> • MBA, Columbia University • BS Economics, University of California-Los Angeles 	None

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4 th Civil degree
Vicente R. Cuna, Jr. Vice Chairman	58	Filipino	<p><u>Present Involvements</u></p> <ul style="list-style-type: none"> • Vice Chairman, since 2018 / Director since 2013, Philippine Savings Bank* • Director, Metropolitan Bank and Trust Company* since 2014 • Senior Executive Vice President, Enterprise Services Sector – Metropolitan Bank and Trust Corporation* since 2018 • Chairman, ORIX Metro Leasing & Finance Corporation since 2016 • Chairman, ORIX Auto Leasing Philippines Corporation since 2016 • Chairman, ORIX Rental Corporation since 2016 • Chairman, OMLF International Trading Development Corp. since 2016 • Chairman, OMLF Insurance Agency, Inc. since 2016 <p><u>Past Experiences/ Positions Held</u></p> <ul style="list-style-type: none"> • President, Philippine Savings Bank* from 2013 to 2018 • Senior Executive Vice President/Head, Metrobank* – Institutional Banking Sector from 2012 to 2013 • Executive Vice President/Head, Metrobank* – Corporate Banking Group from 2006 to 2012 • Adviser, Metropolitan Bank and Trust Company* from 2007 to 2009 • Director, FMIC from 2011 to 2015 • Chairman, Metro Remittance Center, Inc. (California) from 2010 to 2013 • Vice Chairman, Metro Remittance Center Inc. (U.S.A) from 2010 to 2013 • Chairman, Metro Remittance Inc. (Canada) from 2010 to 2013 • Vice Chairman, MB Remittance Center Ltd. (Hawaii) from 2010 to 2013 • Vice Chairman, PSBank* from 2009 to 2011 • Director, Asia Pacific Top Mgt., Int'l., Resources Corp. from 2008 to 2013 • Adviser, FMIIC-HK from 2006 to 2008 • Director, SMBC Metro Investment Corp. from 2006 to 2009 • Vice - President, Citibank Manila from 1995 to 2006 <p><u>Academic Qualifications</u></p> <ul style="list-style-type: none"> • Pursued further studies (MBA) at the Ateneo de Manila Graduate School of Business • AB Economics, De La Salle University Manila 	None
Samson C. Lim Independent Director	71	Filipino	<p><u>Present Involvements</u></p> <ul style="list-style-type: none"> • Independent Director, Philippine Savings Bank* since 2008 • Chairman, BLIMS Lifestyle Group (BLG) since 2014 	None

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4 th Civil degree
			<ul style="list-style-type: none"> Chairman, Collins International Trading Corp. since 2002 Chairman, Francorp Philippines since 2002 President, Canadian Tourism & Hospitality Institute since 2010 Chairman Emeritus/ International Relation, Philippine Franchise Association since 2005 Chairman Emeritus, Philippine Retailers Association since 2000 Director for Tourism, Retail and Franchise, Philippine Chamber of Commerce and Industry since 2018 <p><u>Past Experiences/ Positions Held</u></p> <ul style="list-style-type: none"> President, LG Collins Electronics Philippines, Inc. from 1988 to 1999 Vice Chairman for Asia, World Franchise Council from 2001 to 2002 Chairman, Federation of Asian Retailers Association (FARA) from 1992 to 1993 Founding Member, Institute of Corporate Governance in 1999 President and Adviser, Philippines - Korea Economic Council from 1987 to 1999 Director, USAID - Trade and Investment Policy Analysis and Advocacy in 1992 Director, Chamber of Furniture Industries of the Philippines in 2001 <p><u>Past experiences/ Positions held in Government Service</u></p> <ul style="list-style-type: none"> Undersecretary and General Manager, Department of Trade and Industry- National Dev't Company (NDC) from 1999 to 2000 Chairman, First Cavite Industrial Estate from 1999 to 2000 Philippine Representative, ASEAN Fertilizer Corp (Ventulu) from 1999 to 2000 <p><u>Academic Qualifications</u></p> <ul style="list-style-type: none"> Master in Business Economics (MBE), University of Asia and the Pacific Exchange Student, Sophia University, Tokyo, Japan Special Training on International Business, Institute of International Studies and Training, Fujinomia, Japan Top Management Program, Asian Institute of Management BS Liberal Arts, Cum Laude, Ateneo de Manila University 	
Benedicto Jose R. Arcinas Independent Director	63	Filipino	<p><u>Present Involvements</u></p> <ul style="list-style-type: none"> Independent Director, Philippine Savings Bank* since 2012 Director & General Manager, Arcinas Freres, Inc. since 1989 Independent Director, Metrobank Card Corporation from 2018 to 2019 	None

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4 th Civil degree
			<p><u>Past Experiences/ Positions Held</u></p> <ul style="list-style-type: none"> Executive Vice President and Chief Investment Officer, Government Service Insurance System (GSIS) from 2010 to 2011 Director and Risk Oversight Committee Chairman, GSIS Family Bank from 2010 to 2011 Consultant for Philippine Consumer Credit, Veda Advantage, Australia in 2012 EVP and Treasurer, Export & Industry Bank from 2007 to 2010 Director (ex-officio), Valuegen Financial Insurance Co., Inc. from 2009 to 2011 Director (ex-officio), EIB Securities Inc. from 2009 to 2012 Director, Asia Pacific Recoveries (SPV-AMC) Corporation from 2005 to 2010 Director, Asia Special Situations M3P2 (SPV-AMC), Inc., from 2005 to 2011 Managing Director, Structured Solutions, Inc. from 2002 to 2007 Managing Director, ATR-Kim Eng Fixed Income, Inc. from 1998 to 2002 <p><u>Academic Qualifications</u></p> <ul style="list-style-type: none"> Master of Science in Management, Arthur D. Little Management Education Institute (now Hult International Business School), Cambridge, Massachusetts Certificate Courses in: Small Enterprise Mgt., Operations Research, Economics, Basic +, COBOL Programming, Harvard University, Cambridge, Massachusetts Bachelor of Science in Business Economics, University of the Philippines, Diliman, Quezon City 	
Jose Vicente L. Alde Director/President	53	Filipino	<p><u>Present Involvements</u></p> <ul style="list-style-type: none"> President since April 2018, Philippine Savings Bank* Director since 2016, Philippine Savings Bank* Chairman/Director, Sumisho Motor Finance Corporation since 2016 ELECOM Member, Chamber of Thrift Banks since 2018 <p><u>Past Experiences/ Positions Held</u></p> <ul style="list-style-type: none"> Executive Vice President from July 2010-April 2018, Philippine Savings Bank* Senior Vice President from 2007 – June 2010, Philippine Savings Bank* Director, Metrobank Card Corporation from 2015 to 2016 Vice President, ABN AMRO BANK from 1999 to 2007 Assistant Vice President, ABN AMRO BANK from 1995 to 1999 Business Development Manager, Household Development from 1993 to 1994 	None

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4 th Civil degree
			<ul style="list-style-type: none"> • Key Account Manager, Johnson and Johnson from 1992 to 1993 • Computer Programmer, World Health Organization from 1988 to 1990 <p><u>Academic Qualifications</u></p> <ul style="list-style-type: none"> • Master in Business Management, Asian Institute of Management • Bachelor of Computer Science, University of the Philippines, Diliman, Quezon City 	
Ma. Soledad D.S. De Leon Director	61	Filipino	<p><u>Present Involvements</u></p> <ul style="list-style-type: none"> • Director, Philippine Savings Bank* since 2016 • Chairman/ Treasurer, Casa Medica Inc. since 1995 • Chairman/ Treasurer, SODEL Milling Corp. since 1995 • President/ Treasurer, SODEL Realty, Inc. since 1995 • Director, Candelaria Rural Bank since 2017 • Director, St. Patrick College since 2002 • Director, Yaman Lahi Foundation Inc. (Emilio Aguinaldo College) since 1993 • Director, University Physician Services Inc. since 1993 • Director, Property Holdings, Inc. since 1993 • Director, Hospital Management Services Inc. (Medical Center Manila) since 1993 • Director, The Pearl Manila Pearl of the Orient & Seas Hotel & Recreational Resort, Inc. since 1993 • Vice President /Treasurer, Fil - Homes Realty Development Corp. since 1993 • Vice President, Lipa Golden Land Development Inc. since 1994 <p><u>Past Experiences/ Positions Held</u></p> <ul style="list-style-type: none"> • Consultant, Candelaria Rural Bank from 2016 to 2017 • Vice President/ Treasurer, Candelaria Rural Bank since 1998 to 2016 <p><u>Academic Qualifications</u></p> <ul style="list-style-type: none"> • International Management Studies, University of California, Los Angeles, USA • BS in Business Administration Major in Business Management, St. Paul College of Manila 	None
Eduardo A. Sahagun Independent Director	62	Filipino	<p><u>Present Involvements</u></p> <ul style="list-style-type: none"> • Independent Director, Philippine Savings Bank* since 2017 • Chairman, Edcommerce Corporation since 2017 • President & CEO, Union Galvasteel Corporation since 2017 • Director, Union Galvasteel Corporation since 2011 	None

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4 th Civil degree
			<ul style="list-style-type: none"> • President & CEO, Phinma Solar Energy Corporation since 2017 • President & CEO, Philcement Corporation since 2017 • Board of Trustees, Phinma Foundation Inc. since 2017 • Director, Phinma Renewable Energy Corporation since 2017 • Director, Phinma Property Holdings Corporation since 2016 • Director, T-O Insurance Brokers, Inc. since 2019 <p><u>Past Experiences/ Positions Held</u></p> <ul style="list-style-type: none"> • Director, Holcim Philippines, Inc.* from 2010 to 2017 • President, Holcim Philippines, Inc.* from 2013 to 2017 • Chief Executive Officer, Holcim Philippines Inc.* from 2013 to 2016 • Senior Vice President –Sales, Marketing, Technical Services & Commercial, Holcim Philippines, Inc.* from 2007 - 2012 • Chief Financial Officer, Holcim Philippines, Inc.* from 2002 - 2007 • Senior Vice President –Treasurer, Bacnotan Consolidated Industries, Inc. (part of Phinma Group’s Cement Division, which was acquired by Holcim) from 1995 to 2002 • Chairman, Holcim Mining and Development Corporation from 2013 to 2017 • Director, Holcim Philippines Manufacturing Corporation from 2013 to 2017 • Member, Board of Trustees, Cement Manufacturers Association of the Philippines from 2013 to 2016 • Member, Board of Trustees, Philippine Business for the Environment, Inc. from 2014 to 2016 • Treasurer, Phinma Cement Group (Central Cement Corporation, Davao Union Cement Corporation and Hi Cement Corporation since 1995 to 2002 <p><u>Academic Qualifications</u></p> <ul style="list-style-type: none"> • Masters in Management Science, Arthur D. Little Management Education Institute, (now Hult International Business School) Boston, USA • Masters in Business Administration, Ateneo Graduate School of Business • BS Commerce , Major in Accounting, Holy Angel University • Senior Management Program, Senior Leadership Program, Managing Change Program, IMD, Switzerland 	

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4 th Civil degree
Rosanna F. De Vera Director	51	Filipino	<p><u>Present Involvements</u></p> <ul style="list-style-type: none"> • Director, Philippine Savings Bank* since 2018 • First Vice President & Credit Group Division Head, Metropolitan Bank & Trust Company* since 2008 <p><u>Past Experiences/ Positions Held</u></p> <ul style="list-style-type: none"> • Vice President – Team Head, Commercial Banking Group, Banco de Oro* from 2007 to 2008 • Vice President - Head of Small Business, Equitable PCI Bank from 2006 to 2007 • Assistant Vice President – Corporate Banking Group, Equitable PCI Bank from 2003 to 2006 • Senior Manager – Corporate Banking Group, Equitable PCI Bank from 2001 to 2002 • Manager – Corporate Banking Group , PCI Bank from 1999 to 2000 <p><u>Academic Qualifications</u></p> <ul style="list-style-type: none"> • MBA (36 Units), Ateneo Graduate School of Business • BSC-Accounting , University of Sto. Tomas 	Antonell S. Interino Vice President 2 nd degree relative by affinity

*Company listed at The Philippine Stock Exchange, Inc.

b) Executive Officers

Name/ Position	Age	Citizenship	Experience	Relatives up to 4th Civil degree
Jose Vicente L. Alde President/Director	53	Filipino	<u>Present Involvements</u> <ul style="list-style-type: none"> President since April 2018, Philippine Savings Bank* Director since 2016, Philippine Savings Bank* Chairman/Director, Sumisho Motor Finance Corporation since 2016 ELECOM Member, Chamber of Thrift Banks since 2018 <u>Past Experiences/ Positions Held</u> <ul style="list-style-type: none"> Executive Vice President from July 2010- April 2018, Philippine Savings Bank* Senior Vice President from 2007 – June 2010, Philippine Savings Bank* Director, Metrobank Card Corporation from 2015 to 2016 Vice President, ABN AMRO BANK from 1999 to 2007 Assistant Vice President, ABN AMRO BANK from 1995 to 1999 Business Development Manager, Household Development from 1993 to 1994 Key Account Manager, Johnson and Johnson from 1992 to 1993 Computer Programmer, World Health Organization from 1988 to 1990 	None
Noli S. Gomez Executive Vice President	54	Filipino	<u>Present Involvements</u> <ul style="list-style-type: none"> EVP and Head since March 2018 at PSBank's* Operations Group Director, Sumisho Motor Finance Corporation since June 2018 <u>Past Involvements</u> <ul style="list-style-type: none"> SVP and Head of PSBank's* Operations Group from January 2006 – February 2018 Chief Finance Officer, from October 2001 to December 2005 at PSBank* Head of Systems and Methods and Chief Risk Officer SAVP and VP, from September 1998 to October 2001 at DBS Bank Phils., Inc. SAVP from February 1997 to August 1998 at Bank of Southeast Asia System Management Officer of the AVP at Bank of the Philippine Islands* from August 1996 to January 1997 Citytrust Banking Corporation from November 1992 to July 1996 	None

Perfecto Ramon Z. Dimayuga, Jr. Senior Vice President/Treasurer	58	Filipino	<u>Present Involvements</u> <ul style="list-style-type: none"> Treasurer since January 2017 and Head of Corporate Services Office since April 2019. Corporate Secretary, Sumisho Motor Finance Corp. since December 2009 <u>Past Involvements</u> <ul style="list-style-type: none"> SVP, Chief Finance Officer and Finance Group Head, PSBank* from March 2008 to December 2016 FVP, Chief Finance Officer and Finance Group Head, PSBank* from Jan 2006 – March 2008 Treasurer, PSBank* from June 2002 to June 2004 Held various treasury positions in Development Bank of Singapore (DBS) Phils., Inc., Bank of the Philippine Islands*, Mindanao Development Bank, Citytrust Banking Corp. and Rizal Commercial Banking Corp.* from 1988 to 2002 	None
Emmanuel A. Tuazon Senior Vice President	56	Filipino	<u>Present Involvement</u> <ul style="list-style-type: none"> SVP and Head of PSBank's* Marketing Group since June 2016 <u>Past Involvements</u> <ul style="list-style-type: none"> SVP and Head of PSBank's* Marketing and Customer Experience Group from July 2014 – June 2016 Senior Vice President and Chief Marketing Officer, Philippine National Bank and Allied Bank Savings from January 2008 to July 2014 Vice President for Marketing at Security Bank from 2005 – 2008 Vice President for Marketing, Consumer Sales and Marketing at Robinsons Bank from 2002 - 2005 Vice President for Sales Marketing at ABN AMRO Bank from 1999 to 2002 Vice President for Marketing at Jardine Pacific Finance from 1997 to 1999 	None

Neil C. Estrellado Senior Vice President	48	Filipino	<u>Present Involvement</u> <ul style="list-style-type: none"> SVP since 2015 and Head of PSBank's* IT Group since 2002 <u>Past Involvements</u> <ul style="list-style-type: none"> Held various positions in the following Banks: <ul style="list-style-type: none"> Project Leader, Overseas Chinese Banking Corporation (OCBC), Singapore from 2001 - 2002 Lead IT Analyst, Development Bank of Singapore from 2000 - 2001 Manager, DBS Philippines Inc. (formerly Bank of Southeast Asia) from 1997 - 2000 Assistant Manager, BPI* (formerly Citytrust Banking Corporation) from 1992 - 1996 Systems Analyst, Bank of the Philippine Islands - 	None
Francis C. Llanera Senior Vice President	48	Filipino	<u>Present Involvement</u> <ul style="list-style-type: none"> SVP since October 2016 and Head of Branch Banking Group since October 2012. <u>Past Involvements</u> <ul style="list-style-type: none"> FVP and Head of PSBank Loans Operations Group from January 2011 to October 2012. Remedial Management Division Head from December 2007 to December 2010 Held various positions in the following Banks: <ul style="list-style-type: none"> Senior Manager and Credit Card Collections Head at Union Bank from May 2001 – November 2007 Assistant Manager, Credit Risk at AIG from May 2000 – April 2001 Assistant Cashier, Credit Card Department at Far East Bank & Trust Co from July 1993 – April 2000 	None
Jose Jesus B. Custodio Senior Vice President	60	Filipino	<u>Present Involvement</u> <ul style="list-style-type: none"> SVP since Oct 2013 and Head PSBank*-Indirect Sales Channel Group <u>Past Involvements</u> <ul style="list-style-type: none"> FVP and Group Head of PSBank*-Indirect Sales Channel Group from 2010 to 2013 Vice President and Division Head of Dealer Sales from 2004 to 2010 AVP and Department Head of Dealer Sales from 2003 to 2004 Senior Manager and Department Head of Dealer Sales from 2001 to 2003 Head of Auto Loans-Retail Sales at Citytrust Banking Corp. Head of Fleet and Floor Stock Department at BPI Family Savings Bank 	None

* Company listed at The Philippine Stock Exchange, Inc.

None of the Bank's directors and officers works with the government. All of the above-mentioned officers have been involved in the banking industry for more than five years.

c. Significant Employees

Except for the above-mentioned executives, there are no other significant employees as contemplated under the Securities Regulations Code.

Nomination Procedures

1. A stockholder may submit nominations for directorial positions to the Corporate Governance Committee.
2. The nominating stockholder shall submit his proposed nomination in writing to the Corporate Governance Committee together with the biodata, acceptance and conformity by the would-be nominee. In case of a nominee for the position of an independent director, the would-be nominee is also required to submit a Certification that he/she has all the qualifications and none of the disqualifications to become an independent auditor.
3. The Corporate Governance Committee shall screen the nomination of directors prior to the submission of the Definitive Information Statement and come up with the Final List of Candidates.
4. Only nominees whose names appear in the Final List of Candidates shall be eligible for election as director.
5. The nomination process of the Bank is incorporated in the company's amended Code of By-Laws duly approved by the Securities and Exchange Commission as early as September 27, 2006 and also in the Bank's annually updated and Board-approved Corporate Governance Manual.

The following are the members of the Bank's Corporate Governance Committee:

Name	Position
Jose T. Pardo, Independent Director	Chairperson
Samson C. Lim, Independent Director	Member
Eduardo A. Sahagun, Independent Director	Member
Gilbert L. Nunag, Chief Compliance Officer	Secretary

Nominee Directors

The following have been duly nominated to become members of the Bank's 2020-2021 Board of Directors:

Incumbent Directors:*

Jose T. Pardo
Arthur V. Ty
Samson C. Lim
Benedicto Jose R. Arcinas
Eduardo A. Sahagun
Vicente R. Cuna, Jr.
Ma. Soledad D.S. De Leon
Jose Vicente L. Alde
Rosanna F. De Vera

*Please refer to Item 5. Directors and Executive Officers (a) Directors for brief professional background.

All nominations were submitted, evaluated and approved by the Bank's Corporate Governance Committee. As such, all nominees possess the qualifications and none of the disqualifications to become directors of the Bank for 2020-2021.

Of the above-named nominees, Messrs. Jose T. Pardo, Samson C. Lim, Benedicto Jose R. Arcinas and Eduardo Sahagun have been nominated as Independent Directors by Mr. Joaquin Aligguy, Ms. Yolanda L. dela Paz, Ms. Maria Theresa G. Barretto and Ms. Jeanne Frances T. Chua, respectively, with whom they are not related. Based on the Bank's Manual of Corporate Governance and as required by existing laws and regulations, the stockholders must elect at least three (3) members of the Board or such number as may constitute one-third (1/3) of the members of the Board, whichever is higher, as Independent Directors.

Messrs. Pardo, Lim, Arcinas and Sahagun possess the qualifications and none of the disqualifications to become independent directors.

Legal Proceedings

To the knowledge and information of the Bank, none of its directors and executive officers are involved or have been involved for the past five (5) years in any legal proceeding which will have material or substantial effect to the Bank, its operation, reputation, or financial condition.

To the knowledge and information of the Bank, none of its directors and executive officers have been involved or subject of the following legal proceedings during the past five (5) years up to latest date that are material to an evaluation of their ability or integrity:

- (a) Any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- (b) Any conviction by final judgment, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign;
- (c) Being subject to any 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
- (d) Being found by 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, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

Certain Relationships and Related Transactions

As required under existing BSP rules and regulations, the Bank discloses loans and other credit accommodations granted to its DOSRI. These loans and other credit accommodations were made substantially on the same terms as with other individuals and businesses of comparable risks and were subject of prior BOD approval and entailing BSP reportorial requirements.

Existing banking regulations also limit the total amount of credit exposure to each of the Bank's DOSRIs, at least 70.00% of which must be secured, to the total of their respective deposits and book value of their respective unencumbered deposits and, if any, book value of their respective paid-in capital contribution in the Bank. In the aggregate, the Bank's total credit exposure to all its DOSRIs should not exceed its net worth or 15.00% of its total loan portfolio, whichever is lower, with any unsecured portion thereof not exceeding the lower between 30.00% of the aggregate limit or of the total actual exposure. However, loans and other credit accommodations to DOSRIs that are secured by assets considered by the BSP as non-risk are exempt from these ceilings. As of December 31, 2019 and 2018, the Bank's credit exposures to DOSRI are within the said regulatory limits.

BSP Circular No. 423 dated March 15, 2004, as amended by BSP Circular No. 914 dated June 23, 2016, provide the rules and regulations governing credit exposures to DOSRI. The following table shows information relating to the loans, other credit accommodations and guarantees classified as

DOSRI accounts under regulations existing prior to BSP Circular No. 423 and new DOSRI loans and other credit accommodations granted under said circular as of December 31, 2019 and 2018 (in thousands):

	2019		2018	
	DOSRI Loans	Related Party Loans	DOSRI Loans	Related Party Loans
Total outstanding loans	₱236,494	₱1,349,467	₱234,161	₱1,378,978
Percent of DOSRI/Related Party loans to total loan portfolio	0.1%	0.8%	0.1%	0.9%
Percent of unsecured DOSRI/Related Party loans to total DOSRI/Related Party loans	94.8%	89.7%	96.3%	88.8%
Percent of past-due DOSRI /Related Party loans to total DOSRI/Related Party loans	0.00%	0.00%	0.00%	0.00%
Percent of non-performing DOSRI/Related Party loans to total DOSRI /Related Party loans	0.00%	0.00%	0.00%	0.00%

Total interest income from DOSRI loans amounted to ₱5.7 million in 2019, and ₱5.8 million in 2018 and 2017.

Further discussion on transactions with related parties are found in Note 29 of the Audited Financial Statements.

Others

No director has resigned or declined to stand for re-election because of any disagreement with the Bank on any matter relating to the Bank's operations, policies or practices.

No director has informed the Bank in writing that he intends to oppose any action to be taken by the Bank at the Annual Stockholders' Meeting.

Item 6. Compensation of Directors and Executive Officers

Name and Principal Position	2020 (estimate)	
	Salary	Bonus
Jose Vicente L. Alde – President		
Noli S. Gomez – Executive Vice President		
Jose Jesus B. Custodio – Senior Vice President		
Perfecto Ramon Z. Dimayuga, Jr. – Senior Vice President		
Emmanuel A. Tuazon – Senior Vice President		
Total	P54.89 million	P32.27 million
All Officers (AVP up) and Directors	P166.76 million	P78.79 million

Name and Principal Position	2019	
	Salary	Bonus
Jose Vicente L. Alde – President		
Noli S. Gomez – Executive Vice President		
Jose Jesus B. Custodio – Senior Vice President		
Perfecto Ramon Z. Dimayuga, Jr. – Senior Vice President		
Emmanuel A. Tuazon – Senior Vice President		
Total	P51.30 million	P30.16 million
All Officers (AVP up) and Directors	P155.85 million	P73.64 million

Name and Principal Position	2018	
	Salary	Bonus
Vicente R. Cuna, Jr. – President*		
Jose Vicente L. Alde –President**		
Noli S. Gomez – Executive Vice President***		
Perfecto Ramon Z. Dimayuga, Jr. – Senior Vice President		
Jose Jesus B. Custodio, Senior Vice President		
Total	P54.78 million	P24.76 million
All Officers (AVP up) and Directors	P169.16 million	P75.35 million

*President from January 2018 to April 2018

**President from April 2018 to present

*** Executive Vice President from April 2018 to present

The directors receive fees, bonuses and allowances that are already included in the amounts stated above. Aside from said amounts, they have no other compensation plan or arrangement with the bank. The executive officers receive salaries, bonuses and other usual bank benefits that are also included in the amounts stated above. Aside from these, they have no other compensation plan or arrangement with the bank.

There are no warrants or options held by the Bank's officers and directors.

Each director receives a monthly professional fee for attending Board and committee meetings. This is also in consideration of their valuable contributions in the formulation of the Bank's overall strategy. The total per diem and transportation allowance paid to directors for their attendance in Board meetings amounted to P19.0 million, P19.3 million and P19.4 million in 2019, 2018 and 2017, respectively. This translates to an average of P145,046, P145,181 and P139,120, per month/per director in 2019, 2018 and 2017, respectively. Aside from said amounts, they have no other compensation plan or arrangement with the Bank.

Item 7. Independent Public Accountants

SGV & Co. has acted as the Bank's external auditors since 1979. Ms. Veronica Mae A. Arce has been the certifying partner from SGV and Co. since 2019, in compliance with the 7-year rotation requirement.

The Bank has no disagreements on accounting and financial disclosures with its current external auditors for the same periods or any subsequent interim period.

The same group of independent public accountants has been recommended by the Audit Committee to be re-appointed as the external auditors of the company for the year 2020. The re-appointment of SGV complies with the requirement of SEC under SRC Rule 68 (3) (b) (IV).

Representatives of SGV are expected to be present at the Annual Stockholders' Meeting and will have the opportunity to make a statement if they desire to do so and will be available to answer appropriate questions.

Item 8. Financial and Other Information

The Audited Financial Statements of PSBank is attached as **Annex "A"**.

C. ISSUANCE AND EXCHANGE OF SECURITIES

Item 9. Authorization or Issuance of Securities Other than for Exchange

On November 28, 2018, the PSE approved the application of the Bank for the listing of additional 142,856,925 common shares to cover the Bank's 1:1.68177 stock rights offering at an offer price of ₱56.0 per share or additional capital of ₱8.0 billion. The Bank successfully completed ₱8.0 billion stock rights offer and shares were listed on January 18, 2019 in the PSE. Capital paid in excess of par related to the offering amounted to ₱6.5 billion, net of transactions costs of ₱101.5 million.

On April 15, 2019, by majority vote of the Board of Directors and by stockholders representing at least two-thirds of the outstanding capital stock, the amendment of Article VII of the Bank's Articles of Incorporation increasing its authorized capital stock from ₱4,250,000,000.00 divided into 425,000,000 common shares with a par value of ₱10.00 per share to ₱6,000,000,000.00 divided into 600,000,000 common shares with a par value of ₱10.00 per share has been approved.

D. OTHER MATTERS

Item 10. Proposed Actions with Respect to Reports

- a. Approval of the Minutes of the Annual Stockholders' Meeting held on April 15, 2019 at 3:00 p.m. at 19th Floor, PSBank Center.

Stockholders Present and Represented

NAMES	No. of Shares Held	Percentage of Equity
Metropolitan Bank & Trust Company (parent company) represented by Arthur Ty	338,610,090	88.38470%
Chairman Jose T. Pardo	1,852	0.00048%
Vice Chairman Arthur Ty	117	0.00003%
Director Vicente R. Cuna Jr.	100	0.00003%
Director Ma. Soledad D.S. De Leon	4,000,000	1.04409%
Director Jose Vicente L. Alde	100	0.00003%
Director Samson C. Lim	100	0.00003%
Director Benedicto Jose R. Arcinas	100	0.00003%

Director Eduardo A. Sahagun	100	0.00003%
Director Rosanna F. De Vera	100	0.00003%
Various PSBank stockholders	21,561	0.00563%
TOTAL	342,634,220	89.43508%

1. CALL TO ORDER

The Chairman of the Board, Mr. Jose T. Pardo, presided over the meeting which he called to order. The minutes were taken down by the Corporate Secretary, Mr. Pocholo V. Dela Peña.

2. CERTIFICATION OF NOTICE AND QUORUM

The Corporate Secretary, Mr. Pocholo V. Dela Pena, certified that copies of the Notice of Meeting were duly sent as required by the By-laws and that there was a required quorum of stockholders actually present in person or by proxy, representing more than two-thirds (2/3) of the outstanding capital stock or 89% of the 383,109,416 common shares outstanding. The Chairman of the Board, Mr. Jose T. Pardo, acknowledged that, there being a quorum, the meeting was duly constituted for the transactions of the business in the agenda. Applicable voting and nomination procedures were indicated in the Information Statement for the reference and guidance of the stockholders.

3. APPROVAL OF MINUTES FOR THE ANNUAL STOCKHOLDERS MEETING HELD ON 23 APRIL 2018

Upon motion duly made and seconded, the Minutes of the Annual Stockholders' Meeting held on April 23, 2018 were approved via the following resolution:

RESOLUTION NO. PSB-ASM-2019-01

"RESOLVED, that the Minutes of the Annual Stockholders' Meeting of the Philippine Savings Bank held on April 23, 2018 are hereby approved as recorded."

(Voting results: 89% voted in favor, 0.00% abstained and 0.00% voted against)

4. PRESENTATION AND APPROVAL OF THE PRESIDENT'S REPORT AND THE AUDITED FINANCIAL STATEMENTS FOR 2018

The President, Jose Vicente L. Alde, rendered to the stockholders his annual report for 2018 including the audited financial statements. The Chairman opened the floor for an open forum to give opportunity to stockholders to raise any relevant questions or express an appropriate comment.

Upon motion duly made and seconded, the President's Report to the stockholders and the Audited Financial Statements for 2018 were noted and approved via the following resolution:

RESOLUTION NO. PSB-ASM-2019-02

"RESOLVED, that the President's Annual Report and the 2018 Audited Financial Statements of the Philippine Savings Bank are hereby noted and approved."

(Voting results: 89% voted in favor, 0.00% abstained and 0.00% voted against)

5. CONFIRMATION OF ALL CORPORATE ACTS OF THE BOARD OF DIRECTORS, MANAGEMENT AND ALL COMMITTEES DURING THE YEAR 2018

Upon motion duly made and seconded, all corporate acts, transactions and resolutions of the Board of Directors, Management and all Committees during the year 2018, including

significant transactions with the Bank's DOSRI and other related parties as shown in the 2018 Annual Report, were confirmed via the following resolution:

RESOLUTION NO. PSB-ASM-2019-03

"RESOLVED, that all acts, transactions and resolutions of the Philippine Savings Bank's Board of Directors, Management and all Committees done in the ordinary course of business during the year 2018 including, among others, the approval of loans/credit transactions, investments, Bank products and services, and significant transactions with the Bank's DOSRI and other related parties, are hereby confirmed."

(Voting results: 89% voted in favor, 0.00% abstained and 0.00% voted against)

6. ELECTION OF THE MEMBERS OF THE BOARD OF DIRECTORS

In compliance with the regulatory requirements of the Bangko Sentral ng Pilipinas and the Securities and Exchange Commission on the nomination of directors, the Bank's Corporate Governance Committee consisting of Directors Samson C. Lim and Eduardo A. Sahagun as members, and Director Jose T. Pardo as the Chairman, reviewed and evaluated the qualifications of all persons nominated to the Board, and certified that, based on the records, the nominees possess all the qualifications and none of the disqualifications prescribed by law and the regulations.

In this regard, the stockholders elected the nine (9) nominees, with four (4) of them as Independent Directors (ID), to serve on the Board for 2019-2020 via the following resolution:

RESOLUTION NO. PSB-ASM-2019-04

"RESOLVED, that the following are hereby elected as Directors of the Philippine Savings Bank for the year 2019-2020 and until their successors are duly elected and qualified:

- 1) Jose T. Pardo (Independent Director)
- 2) Arthur V. Ty
- 3) Vicente R. Cuna, Jr.
- 4) Jose Vicente L. Alde
- 5) Samson C. Lim (Independent Director)
- 6) Benedicto Jose R. Arcinas (Independent Director)
- 7) Eduardo A. Sahagun (Independent Director)
- 8) Ma. Soledad D.S. De Leon
- 9) Rosanna F. De Vera

(Voting results: 89% voted in favor, 0.00% abstained and 0.00% voted against)

7. APPOINTMENT OF THE EXTERNAL AUDITOR FOR THE YEAR 2019-2020

Upon the recommendation of the Audit Committee and approval by the Board of Directors, with a motion duly made and seconded, Sycip Gorres Velayo & Co. was re-appointed as the Bank's external auditor for 2019-2020 via the following resolution:

RESOLUTION NO. PSB-ASM-2019-05

"RESOLVED, that as recommended by the Audit Committee and approved by the Board of Directors, Sycip Gorres Velayo & Co. (or "SGV & Co.") is hereby re-appointed as the Philippine Savings Bank's External Auditors for the year 2019-2020."

(Voting results: 89% voted in favor, 0.00% abstained and 0.00% voted against)

8. INCREASE IN AUTHORIZED CAPITAL STOCK WITH CORRESPONDING AMENDMENT OF ARTICLE VII OF THE ARTICLES OF INCORPORATION OF THE BANK AND ITS RELATED DECLARATION OF STOCK DIVIDENDS

Upon motion duly made and seconded, the increase in authorized capital stock coupled with its corresponding amendment of Article VII of the Bank's Articles of Incorporation and its related declaration of stock dividend were approved via the following resolution:

RESOLUTION NO. PSB-ASM-2019-06

"RESOLVED, that the stockholders actually present in person or by proxy representing more than two-thirds (2/3) of the outstanding capital stock or 89% of the 383,109,416 common shares outstanding, approved the following:

- a) Increase in the Philippine Savings Bank's authorized capital stock from ₱4,250,000,000.00 divided into 425,000,000 common shares with a par value of ₱10.00 per share to ₱6,000,000,000.00 divided into 600,000,000 common shares with a par value of ₱10.00 per share;

- b) Corresponding amendment of Article VII of the Bank's Articles of Incorporation, as follows:

"SEVENTH: THAT THE CAPITAL STOCK OF THE CORPORATION SHALL BE SIX BILLION (6,000,000,000.00), PHILIPPINE CURRENCY, DIVIDED INTO SIX HUNDRED MILLION (600,000,000) COMMON SHARES OF THE PAR VALUE OF TEN PESOS (₱10.00) PER SHARE."

- c) Declaration of stock dividends in the amount of ₱437.5 million or approximately a stock dividend rate of 11.4% equivalent to 43,750,000 common shares with par value of ₱10 per share, in compliance with the 25% subscription requirement on the aforementioned increase in authorized capital stock, in favor of all stockholders of record in proportion to their respective shareholdings and payable on a record date to be set by the President after approval by the Securities and Exchange Commission.

(Voting results: 89% voted in favor, 0.00% abstained and 0.00% voted against)

9. OTHER MATTERS

There were no other matters taken up in the agenda.

10. ADJOURNMENT

There being no other business to transact, the meeting was, upon motion duly made and seconded, adjourned.

- b. Presentation and Approval of the President's Annual Report and the Bank's Audited Financial Statements as of December 31, 2019.

The President's Annual Report on the Bank's activities, business and financial performance for year-end 2019, including the Bank's Audited Financial Statements as of December 31, 2019, will be presented for notation and approval of the stockholders. Please refer to Item 8. "Financial and Other Information".

- c. Confirmation of All Acts of the Board of Directors, Management and All Committees

All acts, transactions and resolutions of the Board of Directors, Management and all Committees done in the ordinary course of business during the year 2019 including, among others, the approval of loans/credit transactions, investments, Bank products and services, and transactions with the Bank's DOSRI and other related parties, will be presented for confirmation of the stockholders.

d. Election of the Members of the Board of Directors

The Members of the Board of Directors of the Bank for the year 2020-2021 are to be elected to hold office until the next succeeding annual meeting, and/or until their respective successors have been duly elected and qualified. Please refer to the list of nominees under Item 5. “Directors and Executive Officers - Nominee Directors” for details.

e. Appointment of the External Auditor

The re-appointment of SGV & Co. as independent external auditor of the Bank for 2020-2021 will be presented for approval of the stockholders. Please refer to the Item 7. “Independent Public Accountants” for details.

Item 11. Voting Procedures

a. Majority vote is required for the following:

- i. Approval of the Minutes of the Annual Meeting of Stockholders
- ii. Confirmation of all corporate acts of the Board of Directors, the Management and all committees including significant transactions with the Bank's Directors, Officers, Stockholders & their Related Interests (DOSRI) and other related parties
- iii. Appointment of External Auditors

b. Majority vote is required for the election of members of the Board of Directors. Nominees receiving the highest number of votes shall be declared elected following the provisions of the Corporation Code.

c. Every stockholder entitled to vote on the particular question or matter involved shall be entitled to one vote (1) vote for each share of stock in his name. Cumulative voting is allowed provided that the total votes cast by a stockholder shall not exceed the number of shares registered in his name in the books of the bank as of the record date multiplied by the whole number of directors to be elected. Matters submitted to stockholders for ratification shall be decided by the required vote of stockholders present, in person or by proxy.

d. A stockholder can exercise his vote at the meeting or remotely (in absentia or through proxy).

Pursuant to applicable regulations of the Revised Corporation Code which allow voting in absentia by the stockholders, an online link may be accessed by the stockholders to register and/or vote in absentia on the matters for resolution at the meeting. A stockholder who votes in absentia shall be deemed present for purposes of quorum. Please refer to Item 12-Participation of Shareholders by Remote Communication for the applicable instructions for voting in absentia or through proxy.

e. All votes will be counted by the Office of the Corporate Secretary, to be assisted by the Bank's stock transfer agent, Metrobank Trust Banking Group, and validated by SGV & Co.

Item 12. Participation of Shareholders by Remote Communication

To comply with applicable regulations prohibiting mass gatherings, identifying authorized persons outside residence, and/or requiring social distancing to prevent the spread of COVID-19 pandemic and to ensure the safety and welfare of our stockholders, the Bank shall allow attendance by remote communication and by voting in absentia or through proxy. The following are the corresponding requirements and procedures for participation by remote communication, voting in absentia and through proxy:

**REQUIREMENTS AND PROCEDURES FOR
PARTICIPATION BY REMOTE COMMUNICATION, VOTING
IN ABSENTIA AND THROUGH PROXY**

A. Attendance by Remote Communication and Voting in Absentia

1. Stockholders intending to participate by remote communication and/or voting in absentia should notify the Office of the Corporate Secretary through a Letter of Intent (LOI) to be sent via e-mail to psbas2020@psbank.com.ph on or before May 12, 2020, complete with the following requirements for validation purposes:

1.1 Indicate the following required information:

- 1.1.1 Complete Registered Name
- 1.1.2 Complete Registered Residential/Mailing Address
- 1.1.3 Active e-Mail Address
- 1.1.4 Active Mobile #
- 1.1.5 Active Landline #

1.2 Attach the following documents (e- copy/scanned copy):

- 1.2.1 Valid government-issued ID with photo and signature (scanned front and back)
- 1.2.2 Proof of Ownership, such as, but not limited to, the following:
 - a) Stockholder's certificate (for certificated shares); or
 - b) Broker's certification (for scripless or uncertificated shares); or
 - c) Secretary's certificate for authorized representative (for corporate)
- 1.2.3 Other supporting document, as applicable

2. The Office of the Corporate Secretary shall forward the email containing the LOI and its attachments to the Bank's stock transfer agent, Metrobank Trust Banking Group. The validation process will be completed by the stock transfer agent no later than three (3) business days from its receipt of the LOI. The Bank's stock transfer agent reserves the right to request for additional information and documents, as needed/necessary. Moreover, electronic signature for the required documents shall be allowed while notarization requirement shall not be considered for the meantime, as applicable, given the current situation.

3. Once validated/verified, a stockholder shall be provided a confirmation correspondence with secure links for virtual meeting registration and voting in absentia. For security purposes, the confirmation correspondence which include access credentials, links and instructions for participation through remote communication and voting in absentia shall only be sent to the stockholder's email address, and if necessary, notification shall be sent to the stockholder's mobile number provided.

3.1 A verified stockholder shall have to access the corresponding link in order to be able to join the virtual meeting on the ASM day.

3.2 A verified stockholder may cast his vote on each of the agenda items as contained in the link included in the confirmation correspondence. Deadline to vote in absentia through its corresponding link is on May 20, 2020. Beyond this date, stockholders may no longer avail of the option to vote in absentia. The Office of the Corporate Secretary shall then tabulate all votes, including those cast in absentia and by proxy, to be assisted by the Bank's stock transfer agent, Metrobank Trust Banking Group,

and validated by SGV & Co. The Corporate Secretary shall report the results of voting during the meeting. For information on counting and tabulation of votes, please refer to “Item 11. Voting Procedures” of this Information Statement.

B. Attendance by Proxy

1. In case a stockholder cannot attend the virtual meeting and wishes to be represented, said stockholder shall designate an authorized representative (“Proxy”) by submitting a duly-accomplished proxy instrument on or before May 12, 2020 via email to psbas2020@psbank.com.ph, complete with the following requirements for validation purposes:

1.1 For the stockholder, attach the following documents (e- copy):

1.1.1 Valid government-issued ID (with photo)

1.1.2 Proof of Ownership, such as, but not limited to, the following:

- a) Stockholder’s certificate (for certificated shares); or
- b) Broker’s certification (for scripless or uncertificated shares); or
- c) Secretary’s certificate for authorized representative (for corporate)

1.1.3 Other supporting document, as applicable

1.2 For the Proxy, attach the following document (e- copy):

1.2.1 Valid government-issued ID (with photo)

1.3 A stockholder may designate the Chairman of the Meeting as Proxy. Likewise, if no name is indicated, the Chairman of the Meeting will act as the Proxy.

2. The Office of the Corporate Secretary shall forward the email containing the duly-accomplished proxy instrument and its attachments to the Bank’s stock transfer agent, Metrobank Trust Banking Group. The validation process will be completed by the stock transfer agent no later than three (3) business days from its receipt of the duly-accomplished proxy instrument. The Bank’s stock transfer agent reserves the right to request for additional information and documents, as needed/necessary. Moreover, electronic signature for the required documents shall be allowed while notarization requirement shall not be considered for the meantime, as applicable, given the current situation.

3. Once validated/verified, a stockholder shall be provided a confirmation correspondence with secure links for virtual meeting registration. For security purposes, the confirmation correspondence which include access credentials, links and instructions for participation through remote communication shall only be sent to the stockholder’s email address, and if necessary, notification shall be sent to the stockholder’s mobile number provided. It is the duty of the stockholder to securely provide the information on access credentials and instructions to the Proxy.

C. Participation and Determination of Quorum and Votes

1. Only those shareholders who have notified the Company of their intention to participate in the Meeting by remote communication, together with the stockholders who voted in absentia and by proxy, will be included in the determination of quorum at the meeting. By participating remotely and by proxy, a stockholder shall be deemed present for purposes of quorum.

2. Due to logistical limitations of the meeting conducted virtually, voting and open forum/discussion will not be possible during the virtual meeting. However, a stockholder, once verified/ registered, will be given an opportunity to raise any relevant questions or express an appropriate comment limited to the agenda items by sending an email to psbas2020@psbank.com.ph not later than May 22, 2020 to be properly noted and addressed accordingly. Any relevant questions or comments received by the Office of the Secretary via email within the prescribed period given to registered stockholders shall be properly acknowledged, noted and addressed accordingly.
3. The Office of the Corporate Secretary shall take down minutes of the meeting accordingly and shall note all comments and other relevant matters discussed covering the agenda of the meeting. The meeting proceedings shall be recorded in audio and video format to be safekept by the Office of the Corporate Secretary and shall be made available in a secured manner to stockholders upon request by sending an email to psbas2020@psbank.com.ph.
4. The Office of the Corporate Secretary shall ensure confidentiality of all votes for tabulation, including those cast in absentia and by proxy, with assistance from the Bank's stock transfer agent, Metrobank Trust Banking Group, and for validation by SGV & Co. The Corporate Secretary shall report the results of voting during the meeting. For information on counting and tabulation of votes, please refer to "Item 11. Voting Procedures" of this Information Statement.

** All participants are requested to adhere to the Bank's Confidentiality and Data Privacy guidelines for the meeting which shall be posted in the ASM-related page of the corporate website.

For ASM-related matters, please go to <https://www.psbank.com.ph/about-psbank/annual-stockholders-meeting/> or visit the PSBank 2020 ASM webpage at <https://www.psbank.com.ph>. For ASM-related queries, please send an email to psbas2020@psbank.com.ph or contact the Office of the Corporate Secretary at 8885-8208 local 8180/8535. For account updating/validation concerns, please get in touch with PSBank's Stock Transfer Agent, Metrobank Trust Banking Group (Attention: Walter R. Briones or Ma. Annette Valene A. Bautista), through 857-5694 to 95 or via email to walter.briones@metrobank.com.ph or annette.bautista@metrobank.com.ph.

**THE BANK SHALL PROVIDE EACH STOCKHOLDER WITHOUT CHARGE A
COPY OF SEC FORM 17-A (ANNUAL REPORT) UPON WRITTEN REQUEST
ADDRESSED TO:**

**Mr. Pocholo V. dela Pena
Corporate Secretary
3rd Floor, PSBank Center,
777 Paseo de Roxas cor. Sedeño St., Makati City 1226**

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct.

PHILIPPINE SAVINGS BANK


Pocholo V. dela Pena
Corporate Secretary

Date: May 6, 2020

PART II. MANAGEMENT REPORT

Brief Description and General Nature and Scope of Business of Registrant

Philippine Savings Bank (the Bank) was incorporated in the Philippines primarily to engage in savings and mortgage banking. The Bank's shares are listed in the Philippine Stock Exchange (PSE). The Bank offers a wide range of products and services such as deposit products, loans, treasury and trust functions that mainly serve the retail and consumer markets. On September 6, 1991, the Bank was authorized to perform trust functions.

As of December 31, 2019 and 2018, the Bank had 250 branches. In 2019, the Bank had 288 Automated Telling Machines (ATMs) in Metro Manila and 269 in provincial locations, bringing its total number of ATMs to 557 as of December 31, 2019 and 575 as of December 31, 2018.

The Bank's original Certificate of Incorporation was issued by the Securities and Exchange Commission (SEC) on June 30, 1959. On March 28, 2006, the Board of Directors (BOD) of the Bank approved the amendment of Article IV of its Amended Articles of Incorporation to extend the corporate term of the Bank, which expired on June 30, 2009, for another 50 years or up to June 30, 2059. This was subsequently approved by stockholders representing at least two-thirds of the outstanding capital stock of the Bank on April 25, 2006. The Amended Articles of Incorporation was approved by the SEC on September 27, 2006.

On April 27, 2010, by majority vote of the BOD and by stockholders representing two-thirds of the outstanding capital stock, the amendment of Article VI of its Amended Articles of Incorporation reducing the number of directors from a maximum of eleven (11) to a maximum of nine (9) has been approved. This was approved by the SEC on August 26, 2010.

On March 24, 2014, the BOD approved Article III of Articles of Incorporation to specify its principal address from Makati City to PSBank Center, 777 Paseo de Roxas corner Sedeño Street, Makati City 1226. The Amended Articles of Incorporation was approved by the SEC on December 22, 2014.

As of December 31, 2019 and 2018, Metropolitan Bank & Trust Company (MBTC), the Bank's ultimate parent, owned eighty-eight percent (88%) and eighty-three percent (83%) of the Bank, respectively. The increase was due to the stock rights offering of the Bank last January 11, 2019.

Market Price Information

PSBank common shares were listed in the Philippine Stock Exchange (PSE) in 1994. The shares are traded under the symbol "PSB".

The high and low sales prices of the Shares as reported in the PSE for each quarter in the years ending December 31, 2019 and 2018 and subsequent interim periods were as follows:

	Highest	Lowest
2020:		
January	60.05	53.30
February	54.10	50.00
March	51.40	34.20
2019:		
First quarter	61.00	57.50
Second quarter	58.95	57.00
Third quarter	60.70	57.00
Fourth quarter	63.50	57.00
2018:		
First quarter	89.50	85.05
Second quarter	87.90	81.00
Third quarter	88.50	80.00
Fourth quarter	86.90	61.80

Closing price as of May 5, 2020 was at ₱43.45 per share.

Dividends and Dividend Policy

Dividends to be paid in cash are subject to the approval by a majority of the Board of Directors. Dividends to be paid in the form of stocks require the approval of a majority of the Board and the approval of shareholders representing no less than two-thirds of the Bank's outstanding capital stock. The Dividend Policy of the Bank is presented in Part II. Management Report on Compliance with Leading Practices on Corporate Governance.

Dividends Paid and Proposed

Details of the Bank's dividend distributions as approved by the Bank's BOD and the BSP follow:

Cash Dividends				
Date of declaration	Per share	Total amount	Record date	Payment date
January 24, 2017	0.75	₱180,189,368.3	February 10, 2017	February 24, 2017
April 24, 2017	0.75	180,189,368.3	May 10, 2017	May 24, 2017
July 27, 2017	0.75	180,189,368.3	August 11, 2017	August 29, 2017
October 26, 2017	0.75	180,189,368.3	November 14, 2017	November 24, 2017
January 18, 2018	0.75	180,189,368.3	February 02, 2018	February 19, 2018
April 23, 2018	0.75	180,189,368.3	May 9, 2018	May 23, 2018
July 20, 2018	0.75	180,189,368.3	August 6, 2018	August 20, 2018
October 15, 2018	0.75	180,189,368.3	October 30, 2018	November 14, 2018
January 17, 2019	0.75	287,332,062.0	February 1, 2019	February 18, 2019
April 15, 2019	0.75	287,332,062.0	May 3, 2019	May 15, 2019
July 19, 2019	0.75	287,332,062.0	August 5, 2019	August 19, 2019
October 14, 2019	0.75	287,332,062.0	October 29, 2019	November 13, 2019

No unregistered securities were sold or offered for sale by the Bank for the year 2019.

Cash Dividend Declaration

On January 16, 2020, the BOD of the Bank approved the declaration of a 7.50% regular cash dividend for the fourth quarter of 2019 for stockholders on record as of January 31, 2020 amounting to ₱287.3 million or ₱0.75 per share to be paid on February 17, 2020.

On April 21, 2020, the BOD of the Bank approved the declaration of a 7.50% regular cash dividend for the first quarter of 2020 for stockholders on record as of May 7, 2020 amounting to ₱320.14 million or ₱0.75 per share to be paid on May 21, 2020.

Stock Dividend Declaration

On November 20, 2019, the SEC approved the amendment to the Articles of Incorporation on the increase in authorized capital stock of the Bank.

On January 16, 2020, the Bank received the SEC Order fixing the Record Date of the 11.42% Stock Dividend involving 43,750,000 shares on January 31, 2020. Payment date of February 21, 2020 was set in accordance with the Board of Directors approval and the rules of the PSE.

Holders

As of March 31, 2020, the Bank has 1,455 stockholders.

Top 20 Stockholders as of March 31, 2020

	Name of Stockholders	No. of Shares	% to Total
1	Metropolitan Bank & Trust Co. *	377,279,068	88.3849%
2	Dolor, Danilo L.	14,051,043	3.2917%
3	Dolor, Erlinda L.	8,474,411	1.9853%
4	PCD Nominee Corp. (Filipino) **	5,192,347	1.2164%
5	De Leon, Maria Soledad S.	4,456,795	1.0441%
6	De Leon, Gian Carlo S.	3,054,440	0.7156%

7	De Leon, Leonard Frederick S.	2,895,061	0.6782%
8	De Leon, Alvin Benjamin S.	2,716,290	0.6363%
9	De Leon, Kevin Anthony S.	2,682,950	0.6285%
10	Pcd Nominee Corp. (Non-Filipin	2,617,665	0.6132%
11	Go, James (c/o Mr. Olayer)	332,947	0.0780%
12	Grand Asia Realty Investment	325,958	0.0764%
13	Que, Liong H.	75,834	0.0178%
14	Choa, Johnny K.	72,247	0.0169%
15	Choa, Victoria K.	68,940	0.0162%
16	Ty, Alejandro	63,893	0.0150%
17	Cheng, Berck Y.	50,138	0.0117%
18	Sy, Victor Gan	45,654	0.0107%
19	Perez, Ma. Georgina V.	44,418	0.0104%
20	Dy Buncio, Anjanette Ty	42,710	0.0100%

* Includes 206,331,982 shares lodged with PCD Nominee Corp.

** Net of 206,331,982 shares owned by Metropolitan Bank & Trust Company and 18 shares owned by Arthur Ty

As of March 31, 2020, public ownership of the Bank was at 10.57%. Of the total shares issued, 2,652,530 shares or 0.62% represents foreign ownership.

Compliance with Leading Practices on Corporate Governance

OUR CORPORATE GOVERNANCE CULTURE

We see our compliance with applicable laws, rules, and regulations as a minimum requirement. Going beyond such minimum is the true essence of good corporate governance. We always aim to continually build the trust and confidence of our stakeholders by running our business in a prudent and sound manner, being fair and transparent in all our dealings, providing reliable and better service in response to the ever-growing expectations of our customers, and working with integrity and accountability.

OUR CORE GOVERNANCE POLICIES

The policies and guidelines embodied in our updated Corporate Governance Manual are posted in our website, www.psbank.com.ph, and in our intranet site, InfoChannel, for the guidance of all our stakeholders. These primarily revolve around the following three (3) basic values that we observe:

Fairness

We see to it that all dealings with counterparties and other stakeholders are fairly conducted. We ensure that such dealings, especially with our related parties, are made in the regular course of our business, and upon terms not less favorable to us than those offered to others. Our Board-level Related Party Transactions Committee (RPTC), entirely composed of non-executive directors, and Management-level Related Party Transactions Management Committee (RPTMC) help ensure that our transactions with related parties are conducted at arm's length, and that our resources are not misappropriated, in accordance with our Board-approved Related Party Transactions (RPT) policy and its specific guidelines and handling procedures, vis-à-vis set transaction materiality thresholds and exposure limits.

Our transaction materiality thresholds for RPTs were set on a per transaction type basis considering the high-end of their historical ticket sizes, their nature and the Bank's risk appetite. These thresholds are applied on a per single transaction basis for one-time/non-recurring transactions or the aggregate amount of multiple transactions expected in a year's time for some arrangements with recurring/continuing transactions. Except for loan transactions to Directors, Officers, Stockholders, and Related Interests (DOSRI) as well as to subsidiaries and affiliates requiring prior approval of the Board of Directors under existing Bangko Sentral ng Pilipinas (BSP) rules regardless of their amounts, RPTs amounting within said thresholds are subject to the review and approval of the Management-level RPTMC and endorsement of the Board-level RPTC for the Board of Directors' confirmation. On the other hand, those beyond such thresholds are considered "material" and shall pass through the Board - level RPTC for review and endorsement for the Board of Directors' approval prior to their consummation and then Stockholders' confirmation in the Annual Stockholders' Meeting. In 2019, the

following “material” RPTs were entered into between the Bank and its related parties (see also Note 29 of the Audited Financial Statements section):

MATERIAL RELATED PARTY TRANSACTIONS

				In Millions of PhP	
Related Parties	Relationship	Nature of Transaction	Terms & Conditions	Original Amount	Dec. 31, 2019 Balance
INSURANCE					
Charter Ping An Insurance Corporation (CPAIC)	Affiliate	Annual Renewal of Bank’s Money, Securities, Payroll & Robbery Insurance Coverage	Total sum insured is PhP425 Million with a net annual premium rate of 1.67% thereof	8.30	N/A
		Annual Renewal of the Bank’s Fire Insurance Coverage for ROPA-Real Estate Properties	Total sum insured is PhP4.259 Billion with a net annual premium rate of 0.1500% thereof	8.24	N/A
INTERCOMPANY COUNTERPARTY LINES					
Metropolitan Bank & Trust Company (MBTC)	Parent-Bank	Annual Renewal of Related Intercompany Counterparty Lines of Treasury Group	Clean/unsecured lines for Interbank Call Loan (IBCL) only; secured lines are collateralized by non-risk assets i.e. Government Securities (GS)	Clean – 2,000.00; Secured - 16,000.00; Settlement – 1,500.00 & Pre-Settlement - 750.00	N/A
First Metro Investment Corporation (FMIC)	Affiliate		Clean/unsecured lines for Interbank Call Loan (IBCL) only; secured lines are collateralized by non-risk assets i.e. Government Securities (GS)	Clean –1,000.00; Secured - 4,000.00 & Pre-Settlement – 85.00	N/A
ORIX Metro Leasing & Financing Corporation (OMLFC)	Affiliate		Clean/unsecured lines for Interbank Call Loan (IBCL) only	Clean –1,000.00	N/A
Metrobank Card Corporation (MCC)	Affiliate		Clean/unsecured lines for IBCL only; secured lines are collateralized by non-risk assets i.e. GS	Clean –1,000.00 & Secured - 500.00	N/A
Metropolitan Bank & Trust Company (MBTC)	Parent-Bank	Annual Renewal of Related Intercompany Counterparty Lines of Trust Division	Counterparty line for fixed income securities (i.e., Corporate Bonds, Government Securities)	Pre-Settlement – 5.00 & Settlement – 50.00	N/A
First Metro Investment Corporation (FMIC)	Affiliate		Counterparty line for fixed income securities (i.e., Corporate Bonds, Government Securities)	Pre-Settlement – 20.00 & Settlement – 200.00	N/A
First Metro Securities & Brokerage Corporation (FMSBC)	Affiliate		Counterparty line for equity transactions of various trust accounts	Pre-Settlement – 500.00 & Settlement – 500.00	N/A
LOANS AND OTHER CREDIT ACCOMMODATIONS					
Director of parent-MBTC	Corresponding Persons of Affiliated Companies	Home Loan	Five (5)-year loan with interest rate of 7.25% p.a. fixed for two (2) years subject to 2-year re-pricing cycle	18.00	17.25 (aggregate balance inclusive of other outstanding loans: 19.19, all in current

					status)
First Metro Securities & Brokerage Corporation (FMSBC)	Affiliate	Credit /Domestic Bill Purchase Lines	Availability via 30 to 360-day PN; not to exceed line expiry; renewable for an agreed period; interest rate is at the prevailing regular lending rate at the time of loan availment and re-pricing; interest is payable monthly in arrears and principal payable upon maturity	600.00	-
Director of parent-MBTC	Corresponding Persons of Affiliated Companies	Renewal and increase of Business Credit Line	One (1) year credit line subject to annual renewal with interest rate of 7.00% p.a.	30.00	21.84 (aggregate balance inclusive of other outstanding loans: 37.72, all in current status)
OTHERS					
Toyota Manila Bay Corporation (TMBC)	Affiliate	Renewal of Stand-by booking line facility	Booking arrangement for auto loan accounts via Online Dealer System Standby Line Facility terminal	30.00	N/A
Parent-MBTC	Parent-Bank	Provision of Services - Amendments to the existing Collections Services Agreement	Increase in service fees and higher collection efficiency targets	Total recurring service fees to be received in a year's time could exceed the Bank's materiality threshold	N/A
		Provision of Services - Amended service fee rate under the existing IT Services Agreement on the use of various Bank's systems	Increase in service fee rates for project management and system implementation; development, maintenance and enhancement; back-office facility; etc.		
		Provision of Services –New field credit verification services through the Bank's accredited agencies	New in-sourcing arrangement on residence, employment and business verification for the parent-Bank's consumer loan applications with acceptable service fee per account for supervision and administration	Total recurring service fees to be paid in a year's time could exceed the Bank's materiality threshold	
		Receipt of Services - Amendments to the existing Deposit Pick-up and Cash Delivery Services Agreement	Increase in service fee rate per trip and expansion of currency coverage		
First Metro Investment Corporation (FMIC)	Affiliate	Receipt of Services – FMIC as the Bank's underwriter for its Stock Rights Offer (SRO) and arranger for its Medium Term Note issuance	Subject to the agreed rates of underwriting and arranger's fees	73.83	N/A
Sumisho Motor Finance Corporation (SMFC)	Affiliate	Renewal of existing Multi-Purpose Loan (MPL) Accreditation for SMFC employees' MPL accounts	Automatic debit-credit arrangement for the MPL accounts of their employees; subject to the same handling fee payable to PSBank and penalty rate per month in case of late remittance; accredited company does not act as co-maker, guarantor or surety thereof	7.00	N/A
ORIX Metro Leasing & Finance Corporation (OMLFC)	Affiliate	Renewal of existing Multi-Purpose Loan Accreditation for OMLFC employees' MPL accounts		11.00	N/A
First Metro Asset Management, Inc. (FAMI)	Affiliate	Lease Arrangement - Renewal of existing lease agreement with PSBank as lessor	One (1)-year lease term for an office space with six (6) parking slots	8.85	N/A
Metropolitan Bank & Trust	Parent-Bank	Lease Arrangement - Renewal of existing lease	Five (5)-year lease term for a branch office space with two (2)	7.70	N/A

Company (MBTC)		agreement with PSBank as lessor	parking slots with monthly rental rate subject to 5% annual escalation rate		
PSBank Officer	Bank Officer	Sale of ROPA-Real Estate Property	ROPA sale in accordance with the Bank's standard pricing and bidding process	12.75	N/A
Federal Land, Inc. (FLI)	Affiliate	Accredited real estate developer-FLI's buy-back of past due Home Loan accounts	Settlement of fourteen (14) past due home loan accounts	55.93	N/A

Our RPT policy likewise requires our directors and officers with personal interest in the Bank's transaction (e.g. they themselves or any of their close family members acting as the Bank's counterparty) to inhibit/abstain from the discussion, approval and management of such transaction except in order to provide material information to the RPTC/Board about the transaction. Provisions against conflict of interest situations are likewise stipulated in the Bank's Board-approved "Code of Conduct" such as the prohibition of self-dealing transactions.

Pursuant to Memorandum Circular No. 10 s2019 of the Securities and Exchange Commission (SEC) re: "Rules on Material Related Party Transactions for Publicly-Listed Companies," the Bank also adopted since August 2019 a Board-approved Material Related Party Transactions (MRPT) policy that exclusively applies to related party transaction(s) amounting to at least ten percent (10%) of the Bank's Total Assets based on its latest Audited Financial Statement (AFS), either individually or in aggregate over a twelve (12)-month period with the same related party. Save for a few differences in terms of scope, approval, reportorial and disclosure requirements, this separate policy espouses the same key principles in handling related party transactions and is likewise posted in the Bank's corporate website.

We also ensure that our stockholders are treated equally and without discrimination by preserving stockholders' rights and protecting our minority stockholders' interests, including the latter's right to nominate candidates to our Board of Directors.

Integrity and Accountability

We uphold at all times the value of honesty as the best policy. We believe that our reputation precedes us in the business of trust and confidence. We continue to enhance a working culture of integrity, guided by a Code of Conduct that defines the standards that we must follow in our business dealings and relationships.

Code of Conduct

Our Code of Conduct is our guide in defining the norms, rules, and responsibilities of each and every PSBanker. It includes provisions on:

- Disciplinary process;
- General policies to establish a professional working environment and secure a favorable reputation for our Bank;
- Corrective measures for unacceptable behavior or failure to comply with our rules, such as on Financial Consumer Protection and on Anti-Money Laundering/Terrorism Financing, policies and procedures;
- Schedule of penalties for attendance and punctuality, required corporate attire, conduct and behavior, dishonesty, health, safety and security, reporting of violations, and information security; and
- Provisions on management of personal finances, conflict of interest, anti-sexual harassment, non-disclosure of information and insider information.

Insider Trading

Under our Policy Against Insider Trading, reporting insiders are required to disclose their and their associates' initial beneficial ownership in PSBank shares and any changes thereof within two (2) trading days after their election/appointment in office and from the date of said changes, respectively. They are likewise prohibited from selling or buying PSBank shares during "blackout periods," i.e., upon obtaining material on non-public information up to two (2) trading days after such information is disclosed. The Bank did not have any trading transactions with reporting insiders and/or their associates in 2019. Directors' level of share ownership and movements from beginning to end of the year 2019 are summarized as follows:

#	Name of Director	Position	Rollforward of Common Shares					
			Beginning		Movements		End	
			12/31/2018	%	Additions	Deductions	12/31/2019	%
1	Jose T. Pardo	Chairman and Independent Director	1,852	0.000771	-	-	1,852	0.000483
2	Arthur V. Ty	Vice-Chairman	117	0.000049	-	-	117	0.000031
3	Vicente R. Cuna, Jr.	Vice-Chairman	100	0.000042	-	-	100	0.000026
4	Samson C. Lim	Independent Director	100	0.000042	-	-	100	0.000026
5	Benedicto Jose R. Arcinas	Independent Director	100	0.000042	-	-	100	0.000026
6	Eduardo A. Sahagun	Independent Director	100	0.000042	-	-	100	0.000026
7	Jose Vicente L. Alde	President and Director	100	0.000042	-	-	100	0.000026
8	Ma. Soledad D.S. De Leon	Director	4,000,000	1.664915	-	-	4,000,000	1.044088
9	Rosanna F. De Vera	Director	100	0.000042	-	-	100	0.000026
	Total		4,002,569	1.665987	-	-	4,002,569	1.044758

Whistleblowing

PSBank's whistleblower policy requires our employees to report any impropriety or malpractice committed by co-employee/s or third party or parties to their Group Heads or to the Human Resources Group Head, the Fraud Management Group Head/ Division Heads, or the Chief Audit Executive/ Internal Audit Group Head for evaluation if it would warrant an investigation. Under the Code of Conduct, concealment or non-reporting is considered as an impropriety or malpractice in itself. The whistleblower is protected from any form of harassment as a result of any disclosure which was made in good faith believing the disclosure to be true and was not made maliciously or for personal gain. The policy considers any attempt to determine the whistleblower's identities as a breach of confidentiality which is subject to disciplinary sanctions.

Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT)

PSBank subscribes to and adopts the State's policy to protect the: (1) integrity and confidentiality of accounts and to ensure that it shall not be used as a money laundering/terrorism financing site and/or conduit for the proceeds of unlawful activities; and (2) life, liberty and property from acts of terrorism by condemning such acts and those who support and finance it as a crime against the Filipino people, against humanity and against the law of nations.

We ensure that we execute transactions with our customers in accordance with the AML/CFT policy guidelines, procedures, tools, and controls set forth in our regularly updated Money Laundering & Terrorism Financing Prevention Program (MLTFPP). Our MLTFPP, as posted in our intranet site for the guidance of all our implementing personnel, primarily revolves around the basic AML/CFT controls required under existing AML/CFT laws, rules and regulations, namely:

1. Know Your Customer (KYC)/Customer Due Diligence (CDD) and Know Your Employee (KYE);
2. Ongoing Monitoring of Customers and their Transactions;
3. Covered and Suspicious Transactions Reporting;
4. Records Keeping and Retention; and
5. Employee Training and Continuing Education.

The Bank's MLTFPP was updated in April 2019 to incorporate the amendments effected to the AML rules and regulations per BSP Circular No. 1022, the Anti-Money Laundering Council's (AMLC) Revised AML Implementing Rules & Regulations and related AMLC issuances; to adopt the recommendations of the BSP in its last general examination; and to reflect certain functionalities of the Bank's new electronic AML monitoring and reporting system. Compliance with the requirements of this MLTFPP is continuously monitored by our Board-designated AML Compliance Officer (AMLCO) under the Compliance Office as lead implementer.

Transparency and Open Communication

We abide by the various disclosure requirements of the Bangko Sentral ng Pilipinas (BSP), the Securities and Exchange Commission (SEC), and the Philippine Stock Exchange (PSE) -- PSBank being a publicly listed company. We ensure that we are transparent to our stakeholders by posting the latest public disclosures on the Investor Relations section of our website and in our press releases. In compliance with SEC Memorandum Circular No. 11 s2014, we regularly update our website to include all required disclosures in accordance with the SEC-prescribed web template for our stakeholders to readily check our corporate governance practices.

We also maintain an open communication line and use feedback from our stakeholders to develop better policies, products, and services. We likewise accommodate requests for information on the management of our Bank, stockholders rights, or any other Bank-related matters, while remaining mindful of disclosure limitations under existing laws on the secrecy of bank deposits and data privacy.

Our Corporate Governance Manual (CGM) serves as a valuable guide and reference in our implementation of corporate governance rules and regulations, and standards of both the BSP and the SEC.

Financial Consumer Protection

With customers at the forefront of our priorities and in compliance with BSP Circular No. 857 (BSP Regulations on Financial Consumer Protection), our corporate governance system/culture includes a Financial Consumer Protection (FCP) Framework to ensure that consumer protection standards and practices are duly observed and embedded in our business operations.

This framework is comprised of FCP Policies and Procedures, FCP Code of Conduct, Consumer Assistance

Management System, FCP Training Program, FCP Risk Management System, FCP Compliance Program, FCP Audit Program, and Financial Consumer Education and Awareness Program. The framework revolves around the core principles of consumer protection, namely:

1. Disclosure and transparency;
2. Protection of client information;
3. Fair treatment;
4. Effective recourse; and
5. Financial education and awareness.

This FCP Framework is currently undergoing review and revision to incorporate the amendments effected to the FCP rules & regulations per BSP Circular No. 1048 in order to achieve full compliance therewith not later than September 2020.

The Board of Directors, jointly with the Senior Management, is ultimately responsible in establishing an effective oversight over the Bank's consumer protection programs as well as in ensuring that consumer protection practices are embedded in the Bank's business operations.

As part of the Bank's corporate-wide risk management system spearheaded by its Risk Management Office (RMO), an FCP Risk Management System (FCPRMS) is instituted to identify, measure, monitor, and control consumer protection risks (both risks to the financial consumers and the Bank) inherent in the Bank's operations.

PSBank aims to differentiate itself from other banks by providing excellent customer experience. Being attentive and proactive to all customer feedback is one of the more powerful means of doing so. While positive feedback is welcome, we are more vigilant about negative feedback or complaints as they cover areas for improvement. Complaints received from clients are lodged in an automated tracking system in order to manage our defined TAT in resolving them and to serve as a database of all customer complaints including the record of actions taken thereon for analytics purposes. This process is implemented in four (4) steps, namely: (1) Acknowledgement, (2) Decision/Disposition by Designated Senior Officers, (3) Investigation and Communicating Feedback to the Customer, and (4) Closing of Complaint.

While all personnel are given access to the said system for the reporting of customer complaints and feedback, the investigation and resolution shall be handled by the following:

- **Service Recovery Team (SRT)** - consists of the Consumer Assistance Management Department. The Team is responsible for investigation, resolution, and documentation of all customer complaints and feedback received across all channels. The SRT also works with other Departments, Divisions, or Groups in the implementation of interim and long-term resolution (i.e. process improvement efforts, policy revision, system enhancement, personnel training, etc.).
- **Designated Senior Officers** - consists of Senior Officers or Group Heads who are tasked to provide decision/disposition to the customer complaint.
- **Emergency Recovery Team (ERT)** - All complaints/feedback that are qualified under fraud or those that may be classified as high risk are immediately escalated to the ERT which consists of the Executive Vice President (EVP), the Customer Experience Head, and the Process Owner Representative. Issues requiring PR solution or those with media impact are also submitted to the PR and Corporate Communications Head.
- **Process Owner Representative** - are the respondents to the complaint. They can also be subject matter experts who may provide valuable inputs in the immediate resolution of the complaint.
- **Customer Experience (CX) Council** - The CX Council is a top-level advisory and action group of Senior Officers. The Council is composed of holistic organizational leaders who review the biggest issues and recommends actions that will lead to continuous structural improvements.

At the end of each day, all customer issues received are reported to a pool of Senior Officers including the President and the EVP. The consolidated report is likewise submitted to the RMO on a monthly basis as part of the Key Risk Indicator (KRI) reports. Each valid complaint arising from a service/process lapse shall have a corresponding one (1) demerit point against the responsible personnel's performance rating.

CUSTOMER INTERACTION: Aside from the branches, the Bank offers other channels for customer-interaction. The Customer Experience Group (CXG) handles loan and deposit inquiries, requests and complaints coursed through the Direct Banking, Call Banking, email, LiveChat, SMS, website, PSBank Online, PSBank Mobile and social media. All these channels are managed 24/7, except for Direct Banking which caters to walk-in clients.

BOARD OVERSIGHT

The Board of Directors sets the Corporate Governance tone in our organization by ensuring adherence to principles and standards. It is accountable to our stakeholders in running our Bank in a prudent and sound manner to ensure long-term sustainability and success. It is primarily responsible for developing, reviewing and approving our strategic objectives annually and thereafter monitoring and overseeing the effective implementation with due consideration of our risk strategies, corporate governance and corporate values. It monitors Management's performance against set targets and

makes sure that appropriate controls and systems of checks and balances are in place and operating effectively.

At the end of 2019, there are nine (9) directors in our Board, four (4) of whom are independent directors, four (4) are non-executive directors and one (1) is an executive director, who is also the President of the Bank. They are all qualified business professionals with the required expertise and experience in directing our strategic path. These directors were selected based on their qualifications (i.e., integrity/probity, physical/mental fitness, competence, relevant education/financial literacy/training, diligence and knowledge/experience) without discrimination on gender, age, and ethnic, political, religious, or cultural backgrounds, hence, achieving diversity in the Board.

In accordance with the Bank's By-Laws, directors are elected by the vote of the holders of common stock of the Bank in accordance with Section 23 of the Revised Corporation Code of the Philippines and other pertinent applicable laws. Any stockholder may submit nominations for directorial positions to the Corporate Governance Committee. The Committee then screens the qualifications of the nominees in accordance with screening policies and procedures, and parameters, including alignment with the Bank's strategic directions by attaining an optimal mix of skills and talents and balanced Board membership. In identifying or screening potential candidates, the Committee may consult whatever resources it deems appropriate, including but not limited to, referrals from existing directors and officers, recommendations from a third party search firm or suggestions from stockholders or by checking on the external databases of the Institute of Corporate Directors or other professional search firms. Only nominees whose names appear in the final list of candidates are considered for election as directors at the annual meeting of the stockholders.

We have consistently maintained independent directors who provide independent judgment, outside experience, and objectivity. Of our nine (9)-seat Board, we have four (4) independent directors, including our Board Chairman. This is more than the required minimum number of independent directors. We do not have any non-executive director holding a total of more than five (5) board seats in publicly listed companies. Non-executive directors, including independent directors, meet regularly on an annual basis, other than in meetings of the Audit, Risk Oversight, Corporate Governance and other Board-level committees in the absence of any executive director and Senior Management, with the external auditor and the heads of internal audit, compliance and risk management functions to scrutinize Management's performance particularly in meeting the Bank's goals and objectives and to determine the integrity of the Bank's internal controls and effectiveness of risk management systems. Further, the Board of Directors also meets annually with the Audit Committee without the presence of the President/Chief Executive Officer (CEO) and any other Management team members to discuss and resolve any significant issues.

Our Board Chairman provides active leadership by ensuring that our Board and its various committees function effectively, including maintaining a relationship of trust among Board members. Our Chairman also ensures that our Board follows a sound decision-making process.

Individual directors are tasked to observe the fit and proper rule. They are expected to conduct fair business dealings, avoid conflict of interest, and observe confidentiality. They must act honestly, judiciously and in good faith, and uphold the best interest of our Bank and its stakeholders. They must also devote time and attention to their duties and responsibilities and contribute to our Board's decision-making process. They must exercise independent judgment and have a working knowledge of laws, rules and regulations applicable to our Bank.

All new members of the Board of Directors are furnished with a copy of their duties and responsibilities and are provided with a comprehensive training on corporate governance, as part of the BSP's requirements in confirming elected bank directors. Together with our principal officers, our directors attended in 2019 an annual refresher program on Corporate Governance pursuant to SEC Memorandum Circular No. 20 s2013, including Anti-Money Laundering (AML) and Data Privacy, as conducted by the Institute of Corporate Governance (ICD), a SEC-accredited training provider.

Our Board has access to our Corporate Secretary who manages the flow of information to the Board prior to the meetings. The Office of the Corporate Secretary plays a significant role in supporting the Board in discharging its responsibilities. It administers, attends, prepares the agenda and minutes of Board meetings, and ensures that notices required under the By-Laws are given to all directors and

stockholders. Beginning 2020, regular Board meetings have already been scheduled in advance as set every third Thursday of the month.

Our Board also reviews and approves all policy manuals to ensure that regulatory changes and best practices are included. They have access to a permanent compilation of documents related to past Board activities. They can readily seek clarification from Senior Management should they have concerns about our Bank or any item submitted for their consideration.

Board Committees. A number of Board-level committees were created to aid our Board in its various tasks to ensure efficiency and provide greater focus. Four of these committees are in charge of governance oversight functions, as follows:

The **Corporate Governance Committee (CGC)** is tasked to assist our Board in fulfilling its duties and responsibilities and monitoring our adherence to the corporate governance principles and guidelines set forth in our Corporate Governance Manual including the functions formerly assigned to the Nomination Committee and Compensation and Remuneration Committee which were both dissolved and integrated into this committee since 2017. It also oversees the development and effective implementation of our compliance system. The Committee is composed of three (3) Directors, all of whom are independent directors, including the committee chairperson. The Committee meets monthly and is supported by our Compliance Office (CO).

CORPORATE GOVERNANCE COMMITTEE			
Members	Position	2019 Attendance	%
JOSE T. PARDO, <i>Independent Director</i>	Chairperson	12/12	100%
EDUARDO A. SAHAGUN, <i>Independent Director</i>	Member	9/12	75%
SAMSON C. LIM, <i>Independent Director</i>	Member	11/12	92%
GILBERT L. NUNAG, <i>Chief Compliance Officer</i>	Secretary	12/12	100%

The **Risk Oversight Committee (ROC)** is responsible for the development and oversight of our risk management program. The Committee is currently composed of three (3) members of the Board of Directors and one (1) non-voting member appointed as advisor. Two (2) or majority of its voting members are independent directors, including its Chairperson, who is not the Chairman of the Board of Directors or of any other Board-level committee. The ROC members possess a range of expertise and adequate knowledge of our risk exposures, which is needed to develop appropriate strategies for preventing or minimizing losses. The Committee meets monthly and is supported by our Risk Management Office (RMO).

RISK OVERSIGHT COMMITTEE			
Members	Position	2019 Attendance	%
BENEDICTO JOSE R. ARCINAS, <i>Independent Director</i>	Chairman	10/12	83%
EDMUND A. GO, <i>Independent Professional</i>	Adviser	11/12	92%
JOSE VICENTE L. ALDE, <i>President</i>	Member	12/12	100%
EDUARDO A. SAHAGUN, <i>Independent Director</i>	Member	11/12	92%

The **AML Oversight Committee** is tasked to assist our Board in fulfilling its oversight responsibility over our AML compliance management. It ensures that we comply with the provisions of the Anti-Money Laundering Act (AMLA), as amended, its Revised Implementing Rules and Regulations (RIRRs), and BSP AML regulations to the end that the Bank shall not be used as a vehicle to legitimize the proceeds of unlawful activity or to facilitate or finance terrorism. This committee is composed of three (3) Directors – two (2) non-executive directors including the Chairperson and an independent director. The committee meets monthly and is supported by our Compliance Office (CO).

AML OVERSIGHT COMMITTEE			
Members	Position	2019 Attendance	%
VICENTE R. CUNA, JR., <i>Non-executive Director</i>	Chairperson	10/12	83%
BENEDICTO JOSE R. ARCINAS, <i>Independent Director</i>	Member	11/12	92%
ROSANNA F. DE VERA, <i>Non-executive Director</i>	Member	11/12	92%
GILBERT L. NUNAG, <i>Chief Compliance Officer</i>	Secretary	12/12	100%

The **Audit Committee** is designated to provide independent oversight for the Bank's financial reporting process, corporate governance, system of internal control and risk management, internal and external audit as well as fraud management functions, and monitoring of compliance with Bank policies, applicable laws, rules, regulations, and Code of Conduct. It is entirely comprised of three (3) non-executive directors, all of whom now are independent, including the committee Chairperson, who is not the Chairman of the Board of Directors or of any other Board-level committee. The committee members have accounting, auditing, or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the Bank. The committee meets monthly and as needed, and is supported by our Internal Audit Group (IAG) and the Fraud Management Group (FMG).

AUDIT COMMITTEE			
Members	Position	2019 Attendance	%
EDUARDO A. SAHAGUN, <i>Independent Director</i>	Chairperson	12/16	75%
SAMSON C. LIM, <i>Independent Director</i>	Member	12/16	75%
VICENTE R. CUNA, JR., <i>Non-executive Director*</i>	Member	6/6	100%
JOSE T. PARDO, <i>Independent Director**</i>	Member	10/10	100%
ATTY. EMMA B. CO, <i>Chief Audit Executive</i>	Secretary	16/16	100%

* Membership ended in April 2019

** Appointed as member in April 2019

Other Board-level committees are as follows:

The **Executive Committee** is tasked to regularly review and approve credit proposals within its limits. It recommends additional conditions and requirements on loan applications for Board approval. The committee is composed of four (4) Directors, including the President, and our Credit & Collections Sector Head.

EXECUTIVE COMMITTEE			
Members	Position	2019 Attendance	%
ARTHUR V. TY, <i>Non-executive Director</i>	Chairman	11/12	92%
VICENTE R. CUNA, JR., <i>Non-executive Director</i>	Member	6/8	75%
JOSE VICENTE L. ALDE, <i>President</i>	Member	12/12	100%
ROSANNA F. DE VERA, <i>Metrobank Representative</i>	Member	12/12	100%
MARY MYLEEN M. MASANQUE, <i>PSBank Representative</i>	Member	11/12	92%
JOSE M. MANUEL, JR.	Secretary	12/12	100%
EMMELYN B. DE PEDRO**	Alternate		
ARLYN S. MONTEBON***	Secretary		

*Appointed as Member in April 2019

**Designation as Alternate Secretary ended June 2019

***Appointed as Alternate Secretary in June 2019

The **Related Party Transactions Committee (RPTC)** is tasked to assist the Board in ensuring that transactions with related parties are reviewed, appropriate restrictions are followed, and corporate resources are judiciously used. The committee is entirely composed of three (3) Non-executive Directors, two (2) or majority of whom are independent directors, including the committee Chairperson. The committee meets monthly and is supported by our Compliance Office (CO).

RELATED PARTY TRANSACTIONS COMMITTEE			
Members	Position	2019 Attendance	%
SAMSON C. LIM , <i>Independent Director</i>	Chairperson	11/12	92%
JOSE T. PARDO , <i>Independent Director</i>	Member	12/12	100%
MA. SOLEDAD D.S. DE LEON , <i>Non-executive Director</i>	Member	10/12	83%
ATTY. EMMA B. CO , <i>Chief Audit Executive</i>	Resource	12/12	100%
GILBERT L. NUNAG , <i>Chief Compliance Officer</i>	Resource and Secretary	12/12	100%

The **Trust Committee** is a special committee tasked to be primarily responsible for overseeing the fiduciary activities of the Bank. It is composed of five (5) members: the President, the Trust Officer, a non-executive director, an independent director, and an independent professional who is the committee Chairperson. It meets quarterly, and is supported by our Trust Division.

TRUST COMMITTEE			
Members	Position	2019 Attendance	%
EDMUND A. GO , <i>Independent Professional</i>	Chairperson	4/4	100%
JOSE VICENTE L. ALDE , <i>President</i>	Member	4/4	100%
MA. SOLEDAD D.S. DE LEON , <i>Non-executive Director</i>	Member	2/4	50%
BENEDICTO JOSE R. ARCINAS , <i>Independent Director</i>	Member	3/4	75%
REUEL R. JAVIER , <i>Trust Officer</i>	Member	4/4	100%

Board and Board Committee Meetings. In 2019, our Board had 12 regular meetings, in addition to the annual stockholders' and organizational meetings. Our directors logged a 93% attendance rate. Attendance records to Board and Board Committee meetings in 2019 are summarized as follows:

Directors	Position	Attendance	%	ASM
JOSE T. PARDO	Chairman and Independent Director	12/12	100%	Yes
ARTHUR V. TY	Vice Chairman and Non-executive Director	11/12	92%	Yes
VICENTE R. CUNA, JR.	Vice Chairman and Non-executive Director	12/12	100%	Yes
SAMSON C. LIM	Independent Director	11/12	92%	Yes
BENEDICTO JOSE R. ARCINAS	Independent Director	11/12	92%	Yes
EDUARDO A. SAHAGUN	Independent Director	9/12	75%	Yes
JOSE VICENTE L. ALDE	President and Executive Director	12/12	100%	Yes
MA. SOLEDAD D.S. DE LEON	Non-executive Director	10/12	83%	Yes
ROSANNA F. DE VERA	Non-executive Director	12/12	100%	Yes

SENIOR MANAGEMENT OVERSIGHT

Senior Management. Our Senior Management Team, headed by our President as the Chief Executive Officer (CEO), consists of a core group of senior officers who manage our day-to-day operations and business affairs.

They exercise good governance by ensuring that line managers under their respective areas of responsibility, execute their activities in a manner consistent with Board –approved policies and strategic directions. These should be aligned with applicable laws, rules and regulations, as well as standards of good practice.

Management Committees. To achieve efficiency and provide greater focus for our Senior Management in overseeing key areas of banking operations, various Management-level committees were also maintained, as follows:

- The **Assets and Liabilities Committee (ALCO)** is tasked to manage our assets and liabilities consistent with our liquidity, capital adequacy, growth, risk tolerance and appetite, and profitability goals.

- The **Credit Committee (CRECOM)** is tasked to regularly review and approve credit proposals within the authority and limits set by our Board.
- The **Anti-Money Laundering Compliance Committee (AMLCC)** is designated by the Board to receive, evaluate, and decide whether or not a Suspicious Transaction Report (STR) and/or Report on Crimes and Losses (RCL) shall be filed with the Anti-Money Laundering Council Secretariat (AMLC) and/or with the BSP for cases or incidents reported or elevated by various business or operating units of the Bank. It also provides support to the Bank's Compliance Office in terms of AML policy review/development, and in addressing AML deficiencies/adverse findings.
- The **Outsourcing Oversight Committee (OOC)** is tasked to oversee the accreditation of service providers, performance monitoring, post-implementation reviews and contract renewals in accordance with the Bank's Board-approved risk-based Outsourcing Policy Guidelines pursuant to existing BSP rules and regulations on outsourcing.
- The **IT Steering Committee (ITSC)** is tasked to cohesively monitor IT performance and institute appropriate actions to ensure achievement of desired results. It is accountable for designing and implementing our Board-approved Information Technology Risk Management System (ITRMS).
- The **Emergency Committee (EMCOM)** is tasked to manage and monitor the effective implementation of our Business Continuity Plan (BCP). It aims to provide our Bank with the capability to continue its critical functions and processes by identifying, assessing and managing emergency scenarios and other business interruptions.
- The **Policy Committee (POLCOM)** is tasked to resolve policy-related issues that require escalation or cross-functional discussion for resolution.
- The **Personnel Committee (PERCOM)** is tasked to assist our Senior Management in evaluating the performance and career advancement of our employees, deciding on employee offenses/administrative cases, and in maintaining personnel policies and procedures, including the Bank's Code of Conduct.
- The **Retirement Committee (RETCOM)** is exclusively tasked to administer our Gratuity and Retirement Benefit Plan.
- The **Related Party Transactions Management Committee (RPTMC)** is tasked to assist the Board-level RPTC and the Board of Directors in ensuring that transactions with related parties, with respect to those considered as "non-material" (i.e., within the set transaction materiality thresholds) are conducted at arm's length/fair terms and conditions.
- The **Investment Committee (IC)** is tasked to establish investment guidelines and oversee the investment activities of the Bank. It monitors and reports the overall investment results and reviews compliance with investment objectives and guidelines.

OUR GOVERNANCE VANGUARDS

Our compliance, risk management, and internal audit functions are the forerunners in our relentless drive to promote and uphold the noblest tenets and highest standards of good corporate governance across all our business operations.

Compliance

Ensuring our compliance with applicable laws, rules and regulations, as a minimum requirement, is our collective duty and team effort. It begins with our Board and Senior Management at the top, and down the line to our various business and operating units in accordance with our Board- approved compliance system. The design and implementation of this program is administered and annually updated by our Compliance Office, led by our Chief Compliance Officer (CCO) who directly reports to our Corporate Governance Committee and to our Board.

Our Compliance Program adopts a three-pronged, risk-based approach to effectively manage our compliance risks by ensuring compliance with pertinent banking laws, rules and regulations, codes of conduct, policies and standards of good practice. Its priority, focus and compliance testing frequency depends on the pre-assessed level of risk the business/operating units are inherently exposed relative to the number and magnitude or severity of pertinent requirements applicable to them.

This three-pronged strategy is structured to be operated by three (3) key players, namely:

1. The line units as the first line of defense being the risk owners and managers;
2. The Compliance Office (CO) as the second line of defense and the compliance risk overseers;
and
3. The Internal Audit Group (IAG) as the third line of defense as the independent assurance provider.

Aside from monitoring and controlling compliance risk, our Chief Compliance Officer (CCO) also tracks our Bank's adherence to our Corporate Governance Manual, which is aligned with the SEC's Revised Code of Corporate Governance for Publicly Listed Companies, and embodies all CG-related rules and regulations of the BSP. Cases of non-compliance are required to be reported to our Board Chairman who ensures due process and determines appropriate sanctions. The Bank fully and continually complies with the material requirements of the SEC's Revised Code of Corporate Governance for Publicly-Listed Companies as embodied in its Board-approved Corporate Governance Manual.

Our Compliance Office continually strives to maintain our strong compliance culture in the midst of an ever-dynamic banking regulatory landscape. It proactively identifies and monitors, assesses, and addresses emerging compliance issues, vigorously promotes continuing education through formal/informal trainings, compliance awareness testing, compliance checking, and advisory service through a clear and open communication line; and fosters good corporate governance culture by benchmarking against industry best practices and standards.

Internal Audit

Internal Audit Group (IAG) is established by the Board of Directors. Its responsibilities are defined by the Audit Committee (AuditCom) as part of their oversight function. The mission of internal auditing within an organization is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.

The role of the IAG is to assist the Bank in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management, and control processes. IAG is headed by the Chief Audit Executive (CAE) who reports functionally to the Board through the Audit Committee and administratively to the President. The CAE confirms annually to the Board the organizational independence of the internal audit activity.

IAG governs itself by adherence to The Institute of Internal Auditors' (IIA's) mandatory guidance which includes the Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

IAG, with strict accountability for confidentiality and safeguarding records and information, is authorized to:

1. have full, free, and unrestricted access to all Bank functions, records, properties, and personnel pertinent to carrying out any engagement;
2. have direct and unrestricted access to senior management and the Audit Committee;
3. allocate resources, set frequencies, select subjects, determine scopes of work, apply the procedures and techniques required to accomplish audit objectives, and issue reports; and,
4. obtain necessary assistance from personnel in other units of the Bank where they perform audits, as well as other specialized services from within or outside the Bank.

IAG remains free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of an independent and objective mental attitude.

OUR REMUNERATION POLICY

Our directors and officers are provided with an industry competitive compensation package to attract, motivate, and retain highly qualified people. The salary scales of our officers, including that of our President or Chief Executive Officer (our sole Executive Director), are generally based on the nature of their jobs, positions, and ranks. These are reviewed yearly vis-à-vis annual performance scorecards so structured to achieve business objectives.

The Bank's compensation package for its non-officers / rank and file employees is in accordance with the labor law requirements and is linked to both performance and the Bank's contractual obligation under a collective bargaining agreement which include loyalty bonuses to reward loyal employees.

The Bank also grants fixed bonuses, including a 13th-month pay in accordance with law and performance bonus (non-guaranteed) based on the Bank's overall performance, individual performance and market conditions.

Our Board sees to it that this remuneration strategy is regularly reviewed to ensure that the policy is commensurate with corporate and individual performance, aligned with the Bank's long-term interests, compliant with labor laws & regulations and benchmarked against our industry peers and other market considerations, while also maintaining internal equity.

Except for the President/Chief Executive Officer (our sole Executive Director), each director receives a monthly professional fee for attending Board and committee meetings. This is also in consideration of their valuable contributions in the formulation of our Bank's overall strategy.

The total per diem and transportation allowance paid to directors for their attendance in Board meetings for the period January to December 2019 was PhP15.665 million. Our remuneration policy for directors indicates that the Chairman, Vice Chairmen, and each of the Directors receive reasonable per diems for attendance at any Board meeting. There is nothing in our by-laws that prevents any director from serving any other capacity and receiving compensation.

We have been consistent in preaching the philosophy of meritocracy, such that our compensation and rewards programs are geared towards providing incentives to employees who have contributed to the success of the Bank.

- **Merit Increase.** Annual increases are given to employees based on their relative performance within the organization. The Bank has adapted an increase matrix that rewards high performers without neglecting those rated as 'standard' performers, or those who were able to perform as expected. Rewarding the most productive encourages others to likewise perform better. This procedure on merit increase comes immediately after the performance appraisal

exercise, in order for the employees to relish the fruits of their hard work and contributions to the growth of the Bank.

- **Other Performance Incentives.** Based on the overall company performance, i.e., attainment by the Bank of a stipulated income, we grant a return on equity (ROE) bonus to rank and file employees.
- **HEIGHTS: Reaching the Peak of Topnotch Performance.** This productivity-based award is given quarterly and annually to an individual or group for achieving exceptional performance. We also regularly review all our policies and programs such as this primary employee recognition to ensure that the organization is always at par with trends in the industry.
- **Job Evaluation.** We regularly conduct job evaluation on new positions resulting from our re-organization. This happens after a bank-wide job evaluation conducted every three years, which is aimed at measuring and benchmarking all Bank positions vis-à-vis the banking industry.
- **Salary Structure Program.** We conduct salary restructuring to ensure that the salaries of our employees are equitable to what the industry is offering. The Bank acknowledges that it needs to attract and retain top talent, thus a review of the existing scale is done periodically to ensure competitiveness.

OUR SELECTION PROCESS FOR SENIOR MANAGEMENT

The Bank has pre-defined Job Descriptions (JDs) for its senior management positions (i.e. those to be held by officers ranking at least an Assistant Vice President) whereby the qualifications of any internal and/or external candidates to any such available roles are to be assessed on. Each candidate undergoes a series of interview by the Line Head, Customer Experience and Human Resources Group Head and the President. Any hiring or appointment to the role shall be endorsed by the Management-level Personnel Committee for approval of the President and the Board of Directors.

OUR RETIREMENT AND SUCCESSION POLICY

As a matter of policy, the compulsory retirement age for the Bank's regular employees (officers and staff) is at fifty-five (55) years old. Such has been established in the Bank's Retirement and Gratuity Plan, duly approved by the Bureau of Internal Revenue. To aid in workforce planning, we review the roster of employees who shall be reaching the compulsory retirement age before the end of the applicable year. Appropriate notification is arranged, and deferential treatment is accorded the retired employees, ensuring that they receive the compensations for their loyal service within thirty (30) days after their effective date of retirement.

The Bank has instituted a succession planning program to ensure continuity and viability of the business. Positions that are critical to the business have identified "Ready Now" and "Ready Later" replacements, which is reviewed annually. Potential successors are subjected to Individual Development Plans, which is a combination of classroom training, cross postings, immersions, and development assignments. Furthermore, strategic workforce planning is also in effect annually to ensure that critical positions are filled up and that Talent Acquisition is ready to provide external talents if deemed necessary.

Except for certain persons such as Filipino citizens with recognized stature, influence and reputation in the banking and business community and whose business practices stand as testimonies to good corporate governance, we are also considering the adoption of an age limit of 75 years old as a general rule for directors, as patterned after that of our parent bank. Upon the recommendation of the Corporate Governance Committee, said age limit for directors may be waived by the Board if such a waiver is deemed to be for the best interest of the Bank. As for the Bank's independent directors, they may only serve as such for a maximum cumulative term of nine (9) years reckoned starting 2012, after which, the independent director shall be perpetually barred from reelection as such, but may continue to qualify for nomination and election as a non-independent or regular director. If the Bank wants to

retain an independent director who has already served for nine (9) years, the Board should provide meritorious justification/s and seek shareholders' approval during the Annual Shareholders' Meeting. Succession or filling up any vacancies in the Board of Directors shall be made by the vote of at least a majority of the remaining directors, if still constituting a quorum. Vacancies occurring by reason of removal by the stockholders, by expiration of term, or by an increase in the number of directors, however, shall be filled by the stockholders in a regular or special meeting called for this purpose.

OUR DIVIDEND POLICY

Dividends to be paid in cash are subject to the approval by a majority of the Board of Directors. Dividends to be paid in the form of stocks require the approval of a majority of the Board and the approval of shareholders representing no less than two-thirds of the Bank's outstanding capital stock.

Consistent with SEC rules, cash dividends declared by the Bank must have a record date of not less than 10 but not more than 30 business days from the date the cash dividends are declared/approved by the Board. With respect to stock dividends, the record date should not be less than 10 but not more than 30 business days from the date of the stockholders' approval; provided however, that the set record date should not be less than 10 business days after the Philippine Stock Exchange (PSE) has received the notice of declaration of stock dividend. BSP regulations have since allowed banks to fix the record date and payment date on the date of dividend declaration, and pay such dividends without prior BSP approval, with the exception of banks with major supervisory concerns. In the event that a stock dividend is declared in connection with an increase in authorized capital stock, the corresponding record date is to be fixed by the SEC.

Unless approved via majority vote of the Board of Directors at a different rate depending on the Bank's earnings/results of operations, cash flow, financial condition and other factors or otherwise restricted/prohibited from declaring/paying dividends, the Bank regularly declares out of its unrestricted retained earnings and pays cash dividends at a payout ratio of ₱3.00 per share per annum or ₱0.75 per share per quarter, provided that the regulatory requirements of both the SEC and the BSP are complied with. Circumstances which could restrict the payment of cash dividends include, but are not limited to, when the Bank undertakes major projects and developments requiring substantial cash expenditures or when it is restricted from paying cash dividends by its loan covenants.

Provided likewise that the Bank is not restricted/prohibited from declaring/paying dividends and that all such regulatory requirements are complied with, the Bank may also declare out of its unrestricted retained earnings and pay out special cash dividends (on top of its regular quarterly cash dividends) at such rate as may also be approved via majority vote of the Board of Directors.

The aggregate amount of quarterly cash dividends declared by the Bank in 2019 stood at ₱1.15 billion. Details are shown under Note 21 of the Audited Financial Statements section.

OUR GOVERNANCE EVALUATION

Annually within the first quarter of each year, our Board, individual Directors, their respective oversight committees, and all other Board-level committees, as well as the President and all Management-level committees conduct annual self-rating exercises on their performance during the immediately preceding calendar year through the use of scorecards. This aims to gauge their effectiveness and determine areas of improvement vis-à-vis set performance standards that are consistent with the Bank's strategic objectives and business plans designed to continuously create value to all our stakeholders. Items subject to rating are the pertinent standards, as well as their duties and responsibilities, under a 3-point rating scale, to wit: "3"-Meets Standards (MS), "2"-Needs Improvement (NI), and "1"-Not Observed (NO), with an enjoinder to provide suggestions on how to address the deficiencies/improve performance on items rated either "1" or "2". The scorecard results are reviewed by our Corporate Governance Committee, reported to our Board of Directors and, thereafter, regularly tracked in terms of the status of addressing the areas needing improvement. This annual performance rating exercises also include that of the Chairman of the Board, the Chief Risk Officer, the Chief Audit Executive, the Chief Compliance Officer, directors/officers with multiple/interlocking positions and of the entire Bank.

Corporate Social Responsibility

PSBank believes that Corporate Social Responsibility awareness starts with small initiatives that produce a culture of concern when combined.

Below are the Bank's continuing initiatives:

- Continued partnership with TREK (Trails to Empower Kids) where volunteer PSBankers go with other volunteer trekkers to remote mountain areas bringing school supplies and materials to indigenous and largely marginalized communities.
- Partnership with Manila Doctors Hospital on the Restoration of the Arroceros Park, Coastal Cleanup and Brigada Eskwela.
- Quarterly Bloodletting Activities in partnership with Philippine Children's Medical Center (PCMC).
- Medical and Surgical Mission in Mambajao, Camiguin in collaboration with the Department of Health's Philippine Center or Specialized Health Care.
- PSBank Cebu-based employees' collaboration with Light of Hope Project, a non-profit, non-government organization to promote renewable energy and provide solar lamps to secluded islands in the country. These solar lamps are made from recycled bottles and powered by solar energy cells which our employees themselves assembled.

Health, Safety and Welfare of Employees

PSBank advocates a work environment free of hazards, which is conducive to the well-being and professional development of employees. We continuously seek ways to reach out to our employees. The Bank's leadership, represented by our Senior Officers, goes around the branches to personally meet with employees to conduct engagement sessions, check on the employees' welfare and needs, as well as the kind of customer experience we provide to our customers. Facilities are also checked to see if they are in accordance with our occupational health and safety standards.

In addition, we strictly adhere and even go beyond general labor standards, such as:

- **Occupational Health and Safety Program (OHSP) and the Health and Safety Committee (HASCOM).** The OHSP provides for the organization of a local committee on Health and Safety found in the branches. This program ensures that adequate guidelines, programs, and measures are adopted to ensure employees' health and safety.
- **First Aid Certification Program.** Our HR team regularly coordinates with the Philippine National Red Cross (PNRC) in conducting certification seminars for head office and branch employees, ensuring all branches have at least one certified First-Aider.
- **Fire and Earthquake Drills.** The Bank conducted fire and earthquake drills that aim to strengthen the awareness of PSBank employees on what to do during emergencies, and test individual and organizational response during the occurrence of an emergency.
In May 2019, a total of 1,166 employees in the Head Office participated in the Fire Drill and evacuated the building within 14 minutes, which is within the standard evacuation time of 15 minutes.
In April – May 2019, a total of 1,664 employees across the Branches performed the initial earthquake response of "duck-cover-hold" and evacuated their branch within the 5-minute standard, except for 3 Branches which completed evacuation in 6 minutes.
PSBank supports a healthy and safe work environment through programs designed to safeguard the well-being of all employees. The Bank conducts regular branch visits and facilities check-ups to see if all are in accordance with occupational health and safety standards.

Health and Wellness Programs. We ensure that employees have a healthy work-life balance by offering programs that would develop engagement, camaraderie, and healthy working environment. The Bank launched Mind over Matter as its primary program on Mental Health. Activities include sessions on mindfulness, positive psychology, and mental well-being. Through this initiative, the Bank also helps employees understand that their first line of defense is awareness.

Sports activities are also among the Bank's most anticipated events. The Laro ng Lahi: Gilas at Galing Sportsfest 2019 gathered employees from different head office teams and branches. It also had runs in Central and South Luzon segments. Paintball, Basketball, Volleyball, Bowling, and Badminton tournaments were also conducted.

PSBank also provides subsidies for Runs for a Cause like the Tytana Founders Run and World Vision Run. In 2019, employees also participated and represented the Bank in the Philippine Red Cross's Million Volunteer Run – the largest humanitarian run in the Philippines.

Health advisories and e-bulletins on frozen shoulder and stiff neck, malaria, and leptospirosis, as well as infomercials on obesity, caring for the lungs, nutrition, and neutral positioning of fingers, were disseminated to all PSBankers for information and proper guidance. The annual physical exam remains as a way for the Bank to provide basic health care for all. The PSBank Clinic is open daily for all employees. Intellicare doctors are available from Tuesday to Friday, while nurses are on duty every day.

PSBank branches are also equipped with first-aid kits.

PSBankers were also given a chance to exhibit their professionalism and sportsmanship through interbank competitions. These are:

- 2019 Bankers Athletic Association (BAA) Bowling Competition;
- 2019 Bankers Athletic Association (BAA) Badminton Competition;
- 2019 Philippine Finance Association (PFA) Ten Pin Handicap Bowling Tournament where PSBank's bowling team bagged the championship trophy for the second time; and
- 2019 Philippine Bankers' League (PBL) Basketball Tournament

Spiritual Needs. PSBankers celebrate the Holy Eucharist every First Friday and during Holy Days of Obligation such as Ash Wednesday and Immaculate Conception. PSBank groups and divisions take turns in sponsoring each mass, while the PSBank Glee Club serves as the mass choir. In 2019, the Bank also launched a Christian Fellowship program open to all religious denominations.

Family Welfare Program. PSBank is also a family-oriented institution which allows participation of family members in such occasions as Halloween or Christmas season where employees and their children get to enjoy quality bonding time.

Learning and Development Programs. In 2019, the Bank launched **PSBank Business Campus**, its official training arm and its most progressive approach to learning yet, adopting an Open University – a first in the industry. The Business Campus operates under these pillars: *Flexible Learning, Faculty Excellence, and Choose-Your-Career Dynamics*.

With Sales Productivity being a business focus in 2019, various sales programs were designed and implemented including the following:

- **Branch Sales Clinic** – which covered 641 Branch Tellers and New Accounts Clerk nationwide
- **Sales Bootcamp** – for 51 average and below average performing Branch Heads
- **i-LEAD** – for 25 Branch Heads on Developmental Assignment (DA), including those who recently completed their DA
- **Solution Selling** – for 26 Head Office-based and product-specific Account Officers
- **Staff Professional Enhancement and Educational Program (SPEED) Accelerated Learning (AX-L)**

Twenty-four (24) out of twenty-five (25) candidates completed 598 hours of learning 35 different subjects under 47 faculty members to complete the Operations Track – the first batch to do so.

Information Technology (IT) Training

To respond to the Bank's need for more future-ready IT workforce – the Bank's IT personnel were subjected to Industrial Revolution 4.0-relevant learning opportunities. Four (4) of which are firsts for PSBankers:

- **Customized DevOps Agile Essentials** – for 49 IT and business unit leads
- **DevOps Fundamentals** – for 25 IT Project Managers and other leads
- **Agile Scrum Foundation** – for 25 IT Project Managers and other leads
- **Agile Scrum Master Certification** – for two (2) Key Heads

Other IT trainings included these programs: Modern React.js Development Training, Basic and Advance iOS Mobile Application Development Training, Automating Administration with Windows PowerShell (10961), Certified Data Center Professional, Comptia Linux+: System Administration, Wireshark Certified Network Analyst, Mobile Programming Using Android, among others – which covered 59 IT personnel.

For 2019, PSBank Business Campus covered a total of 181 training programs – 73 of this are external and 108 are internal ones – under the following program family: professional development, technical/systems, functional, sales & marketing, organizational/institutional, leadership & management, regulatory compliance, internal controls & risk management, human capital management, credit/loan processes, customer experience, products & processes.

PHILIPPINE SAVINGS BANK
STATEMENTS OF CONDITION

	December 31			Amount	%	Amount	%
	2019	2018	2017	2019 vs 2018		2018 vs 2017	
ASSETS							
Cash and Other Cash Items	P2,281,813,055	P3,776,087,269	P2,596,872,801	(P1,494,274,214)	-39.57%	P1,179,214,468	45.41%
Due from Bangko Sentral ng Pilipinas	6,814,865,832	15,156,184,418	15,265,387,772	(8,341,318,586)	-55.04%	(109,203,354)	-0.72%
Due from Other Banks	1,138,642,148	1,682,806,080	1,508,489,309	(544,163,932)	-32.34%	174,316,771	11.56%
Interbank Loans Receivable and Securities							
Purchased Under Resale Agreements	–	1,891,820,000	1,842,023,049	(1,891,820,000)	-100.00%	49,796,951	2.70%
Fair Value Through Profit or Loss (FVTPL)							
Investments	43,674	10,107,022	366,235,689	(10,063,348)	-99.57%	(356,128,667)	-97.24%
Financial Assets at Fair Value Through Other							
Comprehensive Income (FVOCI)	4,775,388,467	12,931,601,524	–	(8,156,213,057)	-63.07%	12,931,601,524	100.00%
Available-for-Sale Investments	–	–	16,925,485,941	–	–	(16,925,485,941)	-100.00%
Investment Securities at Amortized Cost	34,233,974,816	35,646,765,264	–	(1,412,790,448)	-3.96%	35,646,765,264	100.00%
Held-to-Maturity Investments	–	–	29,473,724,384	–	–	(29,473,724,384)	-100.00%
Loans and Receivables	164,384,202,213	156,260,362,775	144,964,513,221	8,123,839,438	5.20%	11,295,849,554	7.79%
Investment in a Joint Venture	755,781,369	691,425,681	607,162,821	64,355,688	9.31%	84,262,860	13.88%
Property and Equipment	3,312,836,126	2,257,379,905	2,480,012,354	1,055,456,221	46.76%	(222,632,449)	-8.98%
Investment Properties	3,765,748,696	4,036,317,716	3,930,317,479	(270,569,020)	-6.70%	106,000,237	2.70%
Deferred Tax Assets	1,398,136,782	1,327,667,084	1,429,327,369	70,469,698	5.31%	(101,660,285)	-7.11%
Goodwill and Intangible Assets	480,456,498	655,446,833	714,924,056	(174,990,335)	-26.70%	(59,477,223)	-8.32%
Other Assets	1,564,931,514	1,405,320,467	1,219,566,379	159,611,047	11.36%	185,754,088	15.23%
	P224,906,821,190	P237,729,292,038	P223,324,042,624	P(12,822,470,848)	-5.39%	P14,405,249,414	6.45%

(Forward)

	December 31			Amount	%	Amount	%
	2019	2018	2017	2019 vs 2018		2018 vs 2017	
LIABILITIES AND EQUITY							
Liabilities							
Deposit Liabilities							
Demand	P22,490,617,234	P20,367,043,344	P19,112,561,892	P2,123,573,890	10.43%	P1,254,481,452	6.56%
Savings	35,691,639,304	33,399,725,991	30,383,783,001	2,291,913,313	6.86%	3,015,942,990	9.93%
Time	105,912,878,349	138,525,888,196	136,042,056,714	(32,613,009,847)	-23.54%	2,483,831,482	1.83%
Long-term Negotiable Certificates of Deposits	8,409,975,273	8,395,281,852	3,375,000,000	14,693,421	0.18%	5,020,281,852	148.75%
	172,505,110,160	200,687,939,383	188,913,401,607	(28,182,829,223)	-14.04%	11,774,537,776	6.23%
Bills Payable	4,189,736,932	2,968,567,431	1,492,418,518	1,221,169,501	41.14%	1,476,148,913	98.91%
Bonds Payable	6,254,701,780	—	—	6,254,701,780	100.00%	—	—
Subordinated Notes	—	2,981,673,382	2,978,997,695	(2,981,673,382)	-100.00%	2,675,687	0.09%
Treasurer's, Cashier's and Manager's Checks	1,297,680,147	1,615,520,188	2,213,869,703	(317,840,041)	-19.67%	(598,349,515)	-27.03%
Accrued Taxes, Interest and Other Expenses	1,409,451,987	2,014,522,713	1,658,423,304	(605,070,726)	-30.04%	356,099,409	21.47%
Financial Liabilities at FVTPL	—	2,895,073	—	(2,895,073)	-100.00%	2,895,073	0.00%
Income Tax Payable	374,977	637,607	375,277	(262,630)	-41.19%	262,330	69.90%
Other Liabilities	4,792,491,744	3,063,388,051	3,673,232,353	1,729,103,693	56.44%	(609,844,302)	-16.60%
	190,449,547,727	213,335,143,828	200,930,718,457	(22,885,596,101)	-10.73%	12,404,425,371	6.17%
Equity							
Common Stock	3,831,094,160	2,402,524,910	2,402,524,910	1,428,569,250	59.46%	—	0.00%
Capital Paid in Excess of Par Value	9,287,650,873	2,818,083,506	2,818,083,506	6,469,567,367	229.57%	—	0.00%
Surplus Reserves	1,037,214,639	1,035,899,409	1,035,402,901	1,315,230	0.13%	496,508	0.05%
Surplus	21,269,544,274	19,391,850,112	17,097,046,504	1,877,694,162	9.68%	2,294,803,608	13.42%
Fair Value Reserves on Financial Assets at FVOCI	(18,931,431)	(782,896,279)	—	763,964,848	-97.58%	(782,896,279)	0.00%
Net Unrealized Loss on Available-for-Sale Investments	—	—	(411,510,218)	—	—	411,510,218	-100.00%
Remeasurement Losses on Retirement Plan	(937,954,589)	(470,611,677)	(545,392,541)	(467,342,912)	99.31%	74,780,864	-13.71%
Equity in Remeasurement Gains on Retirement Plan of a Joint Venture	941,681	3,131,435	1,245,144	(2,189,754)	-69.93%	1,886,291	151.49%
Cumulative Translation Adjustment	(12,286,144)	(3,833,206)	(4,076,039)	(8,452,938)	220.52%	242,833	-5.96%
	34,457,273,463	24,394,148,210	22,393,324,167	10,063,125,253	41.25%	2,000,824,043	8.93%
	P224,906,821,190	P237,729,292,038	P223,324,042,624	(P12,822,470,848)	-5.39%	P14,405,249,414	6.45%

PHILIPPINE SAVINGS BANK
STATEMENTS OF INCOME

	Years Ended December 31			Amount	%	Amount	%
	2019	2018	2017	2019 vs 2018		2018 vs 2017	
INTEREST INCOME							
Loans and receivables	₱15,481,189,433	₱14,268,805,623	₱12,477,133,237	₱1,212,383,810	8.50%	₱1,791,672,386	14.36%
Financial assets at FVOCI/AFS investments and investment securities at amortized cost/HTM investments	1,896,257,446	1,985,357,651	1,773,020,358	(89,100,205)	-4.49%	212,337,293	11.98%
Interbank loans receivable and securities purchased under resale agreements	30,140,459	89,723,370	61,037,150	(59,582,911)	-66.41%	28,686,220	47.00%
Due from other banks	4,066,446	4,338,859	2,608,271	(272,413)	-6.28%	1,730,588	66.35%
Due from Bangko Sentral ng Pilipinas	831,792	16,662,587	179,406,826	(15,830,795)	-95.01%	(162,744,239)	-90.71%
FVTPL investments	2,152	9,088,886	50,570,958	(9,086,734)	-99.98%	(41,482,072)	-82.03%
	17,412,487,728	16,373,976,976	14,543,776,800	1,038,510,752	6.34%	1,830,200,176	12.58%
INTEREST EXPENSE							
Deposit liabilities	5,327,625,405	4,818,493,359	3,214,665,720	509,132,046	10.57%	1,603,827,639	49.89%
Bills payable	319,718,630	55,857,635	58,953,437	263,860,995	472.38%	(3,095,802)	-5.25%
Bonds payable	167,596,354	—	—	167,596,354	100.00%	—	—
Subordinated notes	125,118,285	167,675,686	191,058,261	(42,557,401)	-25.38%	(23,382,575)	-12.24%
Lease Liabilities	113,560,729	—	—	113,560,729	100.00%	—	—
	6,053,619,403	5,042,026,680	3,464,677,418	1,011,592,723	20.06%	1,577,349,262	45.53%
NET INTEREST INCOME	11,358,868,325	11,331,950,296	11,079,099,382	26,918,029	0.24%	252,850,914	2.28%
Service fees and commission income	1,951,941,673	1,721,745,423	1,470,202,440	230,196,250	13.37%	251,542,983	17.11%
Service fees and commission expense	88,437,296	96,107,664	94,428,291	(7,670,368)	-7.98%	1,679,373	1.78%
NET SERVICE FEES AND COMMISSION INCOME	1,863,504,377	1,625,637,759	1,375,774,149	237,866,618	14.63%	249,863,610	18.16%
OTHER OPERATING INCOME (CHARGES)							
Gain on foreclosure and sale of investment properties - net	611,833,898	421,975,957	348,813,362	189,857,941	44.99%	73,162,595	20.97%
Gain on foreclosure and sale of chattel mortgage properties - net	(84,902,195)	232,063,012	584,947,874	(316,965,207)	-136.59%	(352,884,862)	-60.33%
Trading and securities gains (losses) - net	223,992,445	(133,297,506)	(65,237,826)	357,289,951	-268.04%	(68,059,680)	104.33%
Foreign exchange gain - net	65,884,165	88,032,388	56,483,920	(22,148,223)	-25.16%	31,548,468	55.85%
Gain on sale of property and equipment	8,132,940	7,918,569	1,731,001	214,371	2.71%	6,187,568	357.46%
Miscellaneous	554,897,890	624,299,435	507,510,359	(69,401,545)	-11.12%	116,789,076	23.01%
	1,379,839,143	1,240,991,855	1,434,248,690	138,847,288	11.19%	(193,256,835)	-13.47%
TOTAL OPERATING INCOME	₱14,602,211,845	₱14,198,579,910	₱13,889,122,221	₱403,631,935	2.84%	₱309,457,689	2.23%

(Forward)

	Years Ended December 31			Amount	%	Amount	%
	2019	2018	2017	2019 vs 2018		2018 vs 2017	
OTHER EXPENSES							
Compensation and fringe benefits	₱3,520,613,973	₱3,363,828,408	₱3,260,605,852	₱156,785,565	4.66%	₱103,222,556	3.17%
Provision for credit and impairment losses	2,214,989,857	2,137,972,532	2,270,178,805	77,017,325	3.60%	(132,206,273)	-5.82%
Taxes and licenses	1,549,754,043	1,627,741,446	1,268,907,979	(77,987,403)	-4.79%	358,833,467	28.28%
Occupancy and equipment-related costs	322,330,030	763,766,590	740,050,501	(441,436,560)	-57.80%	23,716,089	3.20%
Depreciation	910,341,824	622,182,083	635,436,103	288,159,741	46.31%	(13,254,020)	-2.09%
Security, messengerial and janitorial services	453,062,842	493,737,524	477,533,030	(40,674,682)	-8.24%	16,204,494	3.39%
Amortization of intangible assets	135,054,994	159,089,068	135,432,343	(24,034,074)	-15.11%	23,656,725	17.47%
Miscellaneous	2,023,191,282	2,140,897,722	2,251,333,506	(117,706,440)	-5.50%	(110,435,784)	-4.91%
	11,129,338,845	11,309,215,373	11,039,478,119	(179,876,528)	-1.59%	269,737,254	2.44%
INCOME BEFORE SHARE IN NET INCOME OF A JOINT VENTURE AND INCOME TAX	3,472,873,000	2,889,364,537	2,849,644,102	583,508,463	20.20%	39,720,435	1.39%
SHARE IN NET INCOME OF A JOINT VENTURE	105,905,423	82,376,569	71,836,533	23,528,854	28.56%	10,540,036	14.67%
INCOME BEFORE INCOME TAX	3,578,778,423	2,971,741,106	2,921,480,635	607,037,317	20.43%	50,260,471	1.72%
PROVISION FOR (BENEFIT FROM) INCOME TAX							
Current	414,828,340	381,369,781	394,082,636	33,458,559	8.77%	(12,712,855)	-3.23%
Deferred	135,612,443	(71,774,541)	(127,021,129)	207,386,984	-288.94%	55,246,588	-43.49%
	550,440,783	309,595,240	267,061,507	240,845,543	77.79%	42,533,733	15.93%
NET INCOME	₱3,028,337,640	₱2,662,145,866	₱2,654,419,128	₱366,191,774	13.76%	₱7,726,738	0.29%
Basic/Diluted Earnings Per Share	₱8.03	₱10.51*	₱10.48*				

*Restated to show the effect of stock rights issued in January 2019

Part III. Management Discussion and Analysis

A. Analysis of Statements of Condition

As of December 31, 2019 and 2018

The Bank's Total Assets for the year ended December 31, 2019 stood at ₱224.91 billion, 5.39% lower than the ₱237.73 billion as of December 31, 2018. The decrease was primarily due to the reduction in regulatory reserve requirements and investment securities.

As of December 31, 2019, Loans and Receivables, net of allowance and unearned interest and discounts, representing 73.09% of total assets was higher by 5.20% to ₱164.38 billion from ₱156.26 billion as of December 31, 2018 as driven by our Auto and Mortgage loan business. Auto loans increased by 4.36% while Mortgage loans grew by 5.02%.

Cash and Other Cash Items decreased by ₱1.49 billion or 39.57% to ₱2.28 billion in 2019 from ₱3.78 billion in 2018. Due from Other Banks also decreased by ₱544.16 million or 32.34% compared to last year's level of ₱1.68 billion as a net effect of movements in the balances maintained with various local and foreign banks. Further, Due from BSP went down by ₱8.34 billion to ₱6.81 billion in 2019 from ₱15.16 billion in 2018 due to BSP's reduction in reserve requirements. As of December 31, 2019 and 2018, Interbank Loans Receivable and Securities Purchased under Resale Agreements (SPURA) amounted to nil and ₱1.89 billion, respectively.

Investments securities represent 17.34% and 20.44% of total assets as of December 31, 2019 and 2018, respectively. As of December 31, 2019, Investment Securities at Amortized Cost representing 15.22% of total assets was recorded at ₱34.23 billion or ₱1.41 billion lower than the last year's balance. Financial Assets at Fair Value through Other Comprehensive Income (FVOCI) amounted to ₱4.78 billion and ₱12.93 billion as of December 31, 2019 and 2018, respectively. The decrease in the account by 63.07% or ₱8.17 billion resulted from the net disposals of FVOCI during the year. Financial Assets at Fair Value through Profit or Loss (FVTPL) stood at ₱0.04 million and ₱10.11 million as of December 31, 2019 and 2018, respectively. The declines on Investment securities were caused by both sale and maturities.

Investment in a Joint Venture increased by ₱64.36 million or 9.31% to ₱755.78 million from ₱691.43 million, due to the recognition of PSBank's share in the net earnings of Sumisho Motor Finance Corporation (SMFC), a joint venture between PSBank and Sumitomo Corporation. The increase from the recognition of share in net earnings was partially reduced by the dividend received by the Bank from SMFC amounting to ₱39.36 million. As of December 31, 2019 and 2018, the Bank's ownership interest in SMFC is 30.00%.

Property and Equipment increased by 46.76% or ₱1.06 billion to ₱3.31 billion as of December 31, 2019 from ₱2.26 billion as of December 31, 2018 due to the Bank's adoption of PFRS 16, *Leases* effective January 1, 2019. The adoption resulted in the initial recognition of right of uses under 'property and equipment' and lease liability under 'other liabilities' amounting to ₱1.44 billion and ₱1.63 billion, respectively.

Investment properties decreased by 6.70% or ₱270.57 million from ₱4.04 billion as of December 31, 2018 to ₱3.77 billion as of December 31, 2019 due to sale of investment properties.

Deferred Tax Assets increased by ₱70.47 million to ₱1.40 billion as of December 31, 2019 from ₱1.33 billion as of December 31, 2018 due to the recognition of deferred tax benefits from loan loss provisioning during the year.

Goodwill and Intangible Assets dropped by 26.70% or ₱174.99 million to ₱480.46 million from ₱655.45 million posted last year as a result of retirement and amortization of software cost and license fees. Other Assets increased by 11.36% or ₱159.61 million to ₱1.56 billion from ₱1.41 billion primarily due to additions in chattel mortgage properties.

The Bank's deposits representing 90.58% of total liabilities decreased by 14.04% or ₱28.18 billion to ₱172.51 billion as of December 31, 2019 from ₱200.69 billion as of December 31, 2018 as it continued to rebalance its funding mix to focus on retail and alternative sources. Demand deposits and Savings Deposits were recorded at ₱22.49 billion and ₱35.69 billion, respectively, or an improvement by 10.43% and 6.86%, respectively. Meanwhile, Time Deposits decreased by 23.54% or ₱32.61 billion to ₱105.91 billion.

As of December 31, 2019 and 2018, Long Term Negotiable Certificate of Time Deposits (LTNCTD) amounted to ₱8.41 billion and ₱8.40 billion, respectively.

Bills payable reached ₱4.19 billion, 41.14% more than the ₱2.97 billion level in 2018. This comprised of Interbank Loans Borrowing of ₱1.20 billion and Medium-Term Fixed Rate Notes, net of prepaid expenses, of ₱2.99 billion.

As of December 31, 2019, the carrying value of the bonds amounted to ₱6.25 billion. On July 24, 2019, the Bank issued fixed rate bonds amounting to ₱6.30 billion with a tenor of two (2) years and due on July 24, 2021 with interest rate of 5.6% per annum payable quarterly. Debt issue cost related to the issuance amounted to ₱56.90 million. Proceeds from the fund-raising exercise will support the Bank's initiatives in expanding its consumer business.

In August 2019, the Bank exercised the call option of its ₱3.00 billion BASEL III compliant Tier 2 Notes issued in May 2014.

Financial Liabilities at FVTPL stood at nil and ₱2.90 million as of December 31, 2019 and 2018, respectively.

Accrued Taxes, Interest and Other Expenses decreased by ₱605.07 million or 30.04% to ₱2.01 billion as of December 31, 2019 due to lower accrued interest and accrued other expenses payable. Treasurer's, Cashier's and Manager's Checks decreased by 19.67% to ₱1.30 billion from ₱1.62 billion last year as a result of normal banking operations of the Bank. Income tax payable was lower at ₱0.37 million versus ₱0.64 million a year-ago. Meanwhile, Other Liabilities which include Accounts Payables, Withholding tax payables, Net Retirement Liability and Lease Liability increased by ₱1.73 billion due to the Bank's adoption of PFRS 16.

As of December 31, 2019, Capital funds stood at ₱34.46 billion, up by 41.25% from last year's level of ₱24.39 billion primarily due to better Fair Value Reserves on Financial Assets at FVOCI amounted to (₱18.93) million and (₱782.90) million as of December 2019 and 2018, respectively. On January 2019, the Bank successfully completed its stock rights offering amounting to ₱8.00 billion.

The Bank recorded Remeasurement Losses on Retirement Plan of ₱937.95 million in December 2019. On the other hand, the Bank's share in the Remeasurement Gains on Retirement Plan of its joint venture was posted at ₱0.94 million from ₱3.13 million in December 2018.

As of December 31, 2019 and 2018, the Bank recorded loss on 'Cumulative Translation Adjustment' under equity amounting to ₱12.29 million and ₱3.83 million, respectively.

As of December 31, 2019 Capital adequacy Ratio (CAR) was at 17.76%. This is above the minimum regulatory requirement of 10%.

Meanwhile Return on Average Equity (ROAE) decreased to 10.29% in 2019 versus 11.38% in 2018. Return on Average Assets (ROAA) increased to 1.31% in 2019 from 1.15% in 2018.

As of December 31, 2018 and 2017

The Bank's Total Assets for the year ended December 31, 2018 stood at ₱237.73 billion. This is 6.45% or ₱14.41 billion higher compared to the December 2017 level of ₱223.32 billion due to the continued expansion of its loan portfolio and investment securities.

Loans and Receivables, net of allowance and unearned interest and discounts, representing 65.73% of total assets was higher by 7.79% to ₱156.26 billion from ₱144.96 billion in 2017. Auto Loans increased by ₱6.02 billion to ₱90.29 billion in 2018 from ₱84.28 billion last year. Mortgage Loans also climbed to ₱49.98 billion in 2018 from ₱46.59 billion in 2017.

Cash and Other Cash Items increased by ₱1.18 billion or 45.41% to ₱3.78 billion from ₱2.60 billion. Due from Other Banks also increased by ₱174.32 million or 11.56% compared to last year's level of ₱1.51 billion. Meanwhile, Due from BSP went down by ₱109.20 million to ₱15.16 billion from ₱15.27 billion in 2017.

Interbank Loans Receivable and Securities Purchased under Resale Agreements (SPURA) rose by ₱49.80 million or 2.70% to ₱1.89 billion from ₱1.84 billion in 2017 due to the increase in overnight and term placements with BSP as of December 31, 2018.

As of December 31, 2018, Investment Securities at Amortized Cost representing 14.99% of total assets was recorded at ₱35.65 billion. On the other hand, Held-to-Maturity (HTM) Investments stood at ₱29.47 billion as of December 31, 2017.

Financial Assets at Fair Value through Other Comprehensive Income (FVOCI) representing 5.44% of total assets amounted to ₱12.93 billion as of December 31, 2018 and Available-for-Sale (AFS) Investments was recorded at ₱16.93 billion as of December 31, 2017.

Financial Assets at Fair Value through Profit or Loss (FVTPL) stood at ₱10.11 million as of December 31, 2018 under PFRS 9.

These investments securities represent 20.44% of total assets as of December 31, 2018.

As results of adoption of the classification and measurement requirements of PFRS 9 effective January 01, 2018, the Bank classified debt securities held under AFS investments as of December 31, 2017 as either at amortized cost for securities belonging to portfolios managed under Investment Securities at Amortized Cost business model or FVOCI belonging to portfolios managed under a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. On the other hand, debt securities held under HTM investments as of December 31, 2017, the Bank classified them as either Investment Securities at Amortized Cost business model, at FVOCI or at FVTPL.

Investment in a Joint Venture increased by ₱84.26 million or 13.88% to ₱691.43 million from ₱607.16 million, due to the recognition of PSBank's share in the net earnings of Sumisho Motor Finance Corporation (SMFC), which is a joint venture between PSBank and Sumitomo Corporation.

On August 9, 2017, the Bank signed a Sale and Purchase Agreement ('SPA') to sell 2.0 million shares or 10.00% ownership in SMFC to GT Capital Holdings, Inc. (GT Capital), a related party, for ₱190.0 million or ₱95.0 per share. The price of the transaction was based on an independent valuation report which was subjected to a third party fairness opinion.

As a result of the sale, the Bank's ownership interest in SMFC was reduced from 40.00% to 30.00%.

Property and Equipment decreased by 8.98% or ₱222.63 million to ₱2.26 billion as of December 31, 2018 from ₱2.48 billion as of December 31, 2017. On the other hand, Investment Properties increased by 2.70% to ₱4.04 billion from ₱3.93 billion.

Deferred Tax Assets declined by ₱101.66 million to ₱1.33 billion as of December 31, 2018.

Goodwill and Intangible Assets including software cost and license fees went down by 8.32% or ₱59.48 million to ₱655.45 million from ₱714.92 million posted last year. Other Assets increased by 15.23% or ₱185.75 million to ₱1.41 billion from ₱1.22 billion last year.

The Bank's deposits representing 94.07% of total liabilities was higher by 6.23% or ₱11.77 billion to ₱200.69 billion from ₱188.91 billion posted in December 2017. Demand deposits and Savings Deposits improved by 6.56% and 9.93%, respectively to ₱20.37 billion and ₱33.40 billion, respectively. Time Deposits went up by 1.83% or ₱2.48 billion to ₱138.53 billion.

In August 2018, the Bank successfully issued its Long Term Negotiable Certificate of Time Deposits (LTNCTD) with an aggregate principal amount of ₱5.08 billion due on February 9, 2024, with fixed interest rate of 5.0% per annum. As of December 31, 2018, LTNCTD, net of issuance cost amounted ₱8.40 billion.

Subordinated Notes, net of debt issuance cost amounted to ₱2.98 billion. The Tier II Notes issued in May 2014 qualified as Tier II capital in the BSP's revised risk-based capital adequacy framework in line with BASEL III standards. The issuance has a loss absorption feature to conform with BASEL III requirements. PSBank has an issuer rating of PRS Aaa (corp.) from Philratings.

On December 10, 2018, the Bank issued its Medium term fixed rate notes (MTFN) amounting to ₱3.0 billion with a tenor of one (1) year and six (6) months and due on June 10, 2020 with interest rate of 7.07% per annum payable quarterly. As of December 31, 2018, Bills Payable representing MTFN, net of debt issuance cost amounted to ₱2.97 billion.

Financial Liabilities at FVTPL stood at ₱2.90 million as of December 31, 2018. Accrued Taxes, Interest and Other Expenses increased by ₱356.10 million or 21.47% to ₱2.01 billion.

Treasurer's, Cashier's and Manager's Checks decreased by 27.03% to ₱1.62 billion from ₱2.21 billion last year. Income tax payable was higher at ₱0.64 million versus ₱0.38 million a year-ago. Meanwhile, Other Liabilities which include Accounts Payables, Withholding tax payables and Net Retirement Liability were lower at ₱3.06 billion from ₱3.67 billion.

As of December 31, 2018, Capital funds stood at ₱24.39 billion, 8.93% higher than last year's level of ₱22.39 billion due to the higher net income booked during the year and effect of the adoption of PFRS 9.

Fair Value Reserves on Financial Assets at FVOCI amounted to (₱782.90) million in December 2018.

As of December 31, 2018 Capital adequacy Ratio (CAR) was at 13.88%. This is above the minimum regulatory requirement of 10%. The Bank recorded loss on 'Cumulative Translation Adjustment' under equity amounting to ₱3.83 million, 5.96% lower against December 31, 2017 of ₱4.08 million.

The Bank recorded Remeasurement Losses on Retirement Plan of ₱470.61 million in December 2018. On the other hand, the Bank's share in the Remeasurement Gains on Retirement Plan of its joint venture was posted at ₱3.13 million from ₱1.25 million in December 2017.

Meanwhile Return on Average Equity (ROAE) decreased to 11.38% in 2018 versus 12.51% in 2017. Return on Average Assets (ROAA) also decreased to 1.15% in 2018 from 1.26% in 2017.

As of December 31, 2017 and 2016

The Bank's total assets for the year ended December 31, 2017 stood at ₱223.32 billion. This was 13.45% better than the December 2016 level of ₱196.85 billion. Significant year-on-year increase was due to growth in loan portfolio and investment securities.

Loans and Receivables, net of allowance and unearned interest discounts, representing 64.91% of total assets increased by 13.95% to ₱144.96 billion from ₱127.22 billion. Auto Loans increased by ₱14.27 billion to ₱82.32 billion in 2017 from ₱68.41 billion last year. Mortgage Loans also climbed to ₱45.96 billion in 2017 from ₱43.39 billion in 2016.

Due from BSP representing 6.84% of total assets increased by ₱1.28 billion or 9.14% to ₱15.27 billion from ₱13.99 billion in December 2017 due to higher reserve volume in 2017 amounting to ₱13.9 billion versus ₱12.0 billion in 2016. On the other hand, Interbank Loans Receivable and Securities Purchased under Resale Agreements (SPURA) declined by ₱1.41 billion or 43.40% from last year.

Available-for-Sale Investments went up by ₱3.81 billion to ₱16.93 billion from ₱13.12 billion in 2016. Held-to-Maturity (HTM) investments also rose to ₱29.47 billion from ₱23.16 billion in 2016 while Fair Value through Profit or Loss (FVTPL) decreased by ₱994.56 million to ₱366.24 million.

Deferred Tax Assets rose by 9.89% to ₱1.43 billion from ₱1.30 billion in 2016 due to recognition of deferred tax benefits from the loan-loss provisioning during the year.

Investment Properties increased by 1.78% to ₱3.93 billion as of December 2017 due to higher foreclosures of real estate properties. Property and Equipment decreased by 7.02% or ₱187.16 million to ₱2.48 billion due to higher depreciation.

The Bank's deposit level comprising of 94.02% of total liabilities grew by 19.27% or ₱30.53 billion to ₱188.91 billion from ₱158.39 billion recorded in 2016. Time Deposits were higher by 17.47% or ₱20.23 billion to ₱136.04 billion. Likewise, Demand Deposits increased by 24.60% to ₱19.11 billion from ₱15.34 billion in 2016 while Savings Deposits rose by 11.56% to ₱30.38 billion.

On December 8, 2016, the BSP authorized the Bank to issue LTNCDs up to ₱10.0 billion through one or multiple tranches over a period of one year. On January 30, 2017, the Bank issued the first tranche of LTNCDs amounting to ₱3.375 billion due on April 30, 2022 with fixed interest rate of 3.50% per annum payable quarterly.

As of December 31, 2017, Bills Payable representing Interbank Borrowing and Securities Sold under Repurchase Agreement (SSURA) amounted to ₱1.49 billion.

The Tier II Notes, net of debt issuance cost was recorded at ₱2.98 billion in December 2017, 50.15% or ₱3.0 billion lower than the 2016 year-end level of ₱5.98 billion as the Bank exercised the call option of its ₱3.0 billion Tier 2 Notes issued in 2012. The Tier II Notes issued in May 2014 qualified as Tier II capital in the BSP's revised risk-based capital adequacy framework in line with BASEL III standards.

Treasurer's, Cashier's and Manager's Checks increased by 25.75% to ₱2.21 billion from ₱1.76 billion last year. Other Liabilities increased to ₱3.67 billion from ₱3.34 billion.

As of December 31, 2017, the Bank's Capital stood at ₱22.39 billion, 11.76% better than the ₱20.04 billion level in 2016. Mark-to-market losses on Available-for-Sale Investments were recorded at ₱411.51 million in December 31, 2017 versus ₱ 842.91 million last year. Meanwhile, the Bank recorded Remeasurement Losses of ₱545.39 million on its Retirement Plan in 2017 due to losses on return on plan assets.

As of end of 2017, Total Capital Adequacy Ratio (CAR) was at 13.87%, this is above the minimum regulatory requirement of 10%. As of December 31, 2017, the Bank recorded a loss on its 'Cumulative Translation Adjustment' under equity amounting to ₱4.08 million from ₱1.44 million Cumulative Translation Adjustment gain last year.

Meanwhile, Return on Average Equity (ROAE) improved to 12.51% in 2017 versus 12.50% in 2016. Return on Average Assets (ROAA) also decreased to 1.26% in 2017 from 1.34% in 2016.

B. Discussion of Results of Operations

For the years ended December 31, 2019 and 2018

The Bank registered a net income after tax of ₱3.03 billion higher than the ₱2.66 billion recorded for the same period last year.

Total Interest Income increased by 6.34% or ₱1.04 billion, better than the ₱16.37 billion recorded last year mainly a result of an increase from Interest Income on Loans and Receivables.

In 2019, Net Interest Income rose by ₱26.92 million or 0.24% year-on-year, from ₱11.33 billion in 2018 to ₱11.36 billion in 2019 primarily due to increase in Interest Income on Loans and Receivables by 8.50% or ₱1.21 billion to ₱15.48 billion in 2019.

Interest income on Financial assets at FVOCI/AFS investments and investment securities at amortized cost/HTM investments went down to ₱1.90 billion from ₱1.99 billion. Meanwhile, Interest earned from Interbank Loans Receivable and SPURA decreased by ₱59.58 million to ₱30.14 million in 2019 versus ₱89.72 million in 2018. Interest earned from deposits with BSP slid by ₱15.83 million to ₱0.83 million while interest income from other banks was down by ₱0.27 million to ₱4.0 million in 2019. Interest income from FVTPL investments declined by ₱9.01 million or 99.98% from ₱9.09 million in 2018.

Interest Expense on the Bank's deposit liabilities increased by 10.57% to ₱5.33 billion compared to ₱4.82 billion during the same period last year due to rise in deposit cost of funds. Meanwhile, Interest Expense on Bills Payable was at ₱319.72 million from ₱55.86 million in 2018. Interest Expense on Bonds Payable was at ₱167.60 million in 2019. Interest on subordinated notes decreased by 25.38% due to the Bank's exercise of its call option in August 2019.

Interest expense on lease liability amounting to ₱113.56 million was recognized in 2019 in relation to the Bank's adoption of PFRS 16.

Net Service Fees and Commission Income increased by 14.63% to ₱1.86 billion from ₱1.63 billion in 2018.

Other Operating Income was higher by 11.19% in 2019 compared with previous year. Other Operating Income increased to ₱1.38 billion from ₱1.24 billion.

The Bank recorded a net gain on foreclosure and sale of investment properties amounting to ₱611.83 million, ₱189.86 million higher compared with the ₱421.98 million during the same period last year. On the other hand, the Bank recorded a net loss on the foreclosure and sale of chattel mortgage properties amounting to ₱84.90 million in 2019 as compared to the net gain on foreclosure and sale of chattel mortgage properties amounting to ₱232.06 million recorded in 2018. Also, the Bank registered a net trading and securities gain of ₱223.99 million in 2019.

Foreign Exchange gain was lower at ₱65.88 million from ₱88.03 million. Miscellaneous Income was lower by ₱69.40 million to ₱544.90 million from ₱624.30 million during the same period last year.

Other Operating Expenses, excluding provision for impairment, decreased by 2.80% to ₱8.91 billion from the year ago level of ₱9.17 billion. The Bank set aside a total of ₱2.21 billion

provisions for credit and impairment losses in 2019, 3.60% higher than the ₱2.14 billion allocated in 2018.

Occupancy and equipment-related costs decreased by 57.80% to ₱322.33 million from ₱763.77 million as a result of lower rent expense. Amortization of Software Cost declined by 15.11% to ₱135.05 million. On the other hand, Depreciation and amortization of Bank's properties and leasehold improvements rose to ₱910.34 million from ₱622.18 million.

Compensation and Fringe Benefits went up by 4.66% to ₱3.52 billion. Meanwhile, Taxes and Licenses decreased by 4.79% to ₱1.55 billion compared to last year due to lower Documentary Stamps Taxes paid in 2019. Security, messengerial, and janitorial services also dropped by 8.24% or ₱40.67 million to ₱453.06 million in 2019. Miscellaneous Expenses went down by 5.50% to ₱2.02 billion.

The Bank also recorded income from its investment in Sumisho Motor Finance Corporation (SMFC) amounting to ₱105.91 million in 2019. This was higher by 28.56% versus the same period last year.

For the years ended December 31, 2018 and 2017

The Bank registered a net income after tax of ₱2.66 billion higher than the ₱2.65 billion recorded for the same period last year.

Total Interest Income increased by 12.58% or ₱1.83 billion, better than the ₱14.54 billion recorded last year.

Interest income on Loans and Receivables showed a 14.36% improvement or an increase of ₱1.79 billion. Interest income on Financial assets at FVOCI/AFS investments and investment securities at amortized cost/HTM investments went up to ₱1.99 billion from ₱1.77 billion due to higher investment portfolios in 2018. Meanwhile, Interest earned from Interbank Loans Receivable and SPURA increased by 47.00% or ₱28.69 million to ₱89.72 million versus ₱61.04 million in 2017. Interest earned from deposits with BSP slid by ₱162.74 million or 90.71% while interest income from other banks was up by 66.35% to ₱4.34 million. Interest income from FVTPL declined by 82.03% or ₱41.48 million to ₱9.09 million.

Interest Expense on the Bank's deposit liabilities increased by 49.89% to ₱4.82 billion compared to ₱3.21 billion during the same period last year due to higher cost of funds in 2018 and overall rise in total deposit in 2018 by 6.23%. Interest Expense on Subordinated Notes decreased by ₱23.38 million to ₱167.68 million from ₱191.06 million in 2017. This was due to the redemption of the Bank's ₱3.0 billion Unsecured Subordinated (Tier 2) Notes issued in 2012 last February 2017.

The Bank also posted ₱55.86 million Interest Expense on Bills Payable as of December 2018 from ₱58.95 million in 2017.

As of December 2018, Net Interest Income rose by 2.28% to ₱11.33 billion from ₱11.08 billion in 2017.

Net Service Fees and Commission Income increased by 18.16% to ₱1.63 billion from ₱1.38 billion in 2017.

Other Operating Income was lower in 2018 compared with previous year due to lower net gain on foreclosure and sale of chattel mortgage properties in 2018. As a result, Other Operating Income slid by 13.47% to ₱1.24 billion. Also, the Bank registered a net trading and securities loss of ₱133.30 million in 2018.

The Bank recorded a net gain on foreclosure and sale of investment properties amounting to

₱421.98 million, ₱73.16 million higher compared with the ₱348.81 million during the same period last year. On the other hand, net gain on foreclosure and sale of chattel mortgage properties decreased by ₱352.88 million to ₱232.06 million from ₱584.95 million in 2017.

Income from the sale of property and equipment in 2018 was higher at ₱7.92 million versus ₱1.73 million in 2017.

Foreign Exchange gain was posted at ₱88.03 million from ₱56.48 million. Miscellaneous Income was higher by ₱116.79 million to ₱624.30 million from ₱507.51 million during the same period last year.

Other Operating Expenses, excluding provision for impairment, increased by 4.58% to ₱9.17 billion from the year ago level of ₱8.77 billion. In line with the Bank's thrust to further strengthen its balance sheet. The Bank set aside a total of ₱2.14 billion provisions for credit and impairment losses in 2018.

Occupancy and equipment-related costs increased by 3.20% or ₱763.77 million to ₱740.05 million. Amortization of Software Cost increased by 17.47% to ₱159.09 million. On the other hand, Depreciation and amortization of Bank's properties and leasehold improvements were down to ₱622.18 million from ₱635.44 million. Taxes and Licenses increased by 28.28% or ₱1.63 billion due to higher Documentary Stamp and gross receipt taxes paid in 2018. Meanwhile, Compensation and Fringe Benefits went up by 3.17% to ₱3.36 billion. Miscellaneous Expenses went down by 4.91% to ₱2.14 billion due to lower insurance and advertising expenses. Security, messengerial, and janitorial services were recorded at ₱493.74 million.

The Bank also recorded income from its investment in Sumisho Motor Finance Corporation (SMFC) amounting to ₱82.38 million in 2018. This was higher by 14.67% versus the same period last year.

For the years ended December 31, 2017 and 2016

The Bank registered a net income after tax of ₱2.65 billion or 8.31% higher than the ₱2.45 billion recorded for the same period last year. The increase in net income was due to higher core income in 2017 versus 2016.

Total Interest Income increased by 16.42% or ₱2.05 billion, better than the ₱12.49 billion recorded last year.

Interest income on Loans and Receivables showed a 12.74% improvement or an increase of ₱1.41 billion. On the other hand, Interest Income on Investment Securities increased to ₱1.82 billion from ₱1.35 billion due to higher investment portfolios in 2017. Meanwhile, Interest earned from Interbank Loans Receivable and SPURA declined by ₱0.49 million to ₱61.04 million from ₱61.53 million. Interest earned from deposits with BSP was higher by ₱165.50 million to ₱179.41 million while interest income from other banks also improved by 17.36% to ₱2.61million.

Interest Expense on deposit liabilities increased by 33.39% to ₱3.21 billion with overall rise in total deposits in 2017 by 19.27%. Meanwhile, interest Expense on Tier 2 Unsecured Subordinated Notes declined to ₱191.06 million from ₱361.77 million in 2016. This was due to the redemption of the Bank's ₱3 billion Unsecured Subordinated Notes (Tier 2) notes issued in 2012 last February 2017.

The Bank recorded ₱58.95 million in Interest Expense on Bills Payable as of December 31 2017, ₱2.15 million higher compared to last year.

As of December 2017, Net Interest Income rose by 14.64% to ₱11.08 billion from ₱9.66 billion in 2016.

Net Service Fees and Commission Income increased by 21.07% to ₱1.38 billion from ₱1.14 billion in 2016.

Other Operating Income was lower in 2017 compared with previous year due to higher trading gains recorded in 2016. As a result, Other Operating Income slid by 14.55% to ₱1.43 billion. Also, the Bank registered a net trading loss of ₱65.24 million in 2017 compared to the ₱509.67 million in trading gains in 2016.

The Bank recorded a net gain on foreclosure and sale of chattel mortgage amounting to ₱584.95 million, ₱233.23 million higher compared with the ₱351.72 million during the same period last year. On the other hand, net gain on foreclosure and sale of investment properties decreased by ₱15.58 million to ₱348.81 million from ₱364.39 million in 2016.

Income on sale of property and equipment in 2017 was lower at ₱ 1.73 million versus ₱2.64 million in 2016.

Foreign Exchange gain was posted at ₱56.48 million, an improvement from ₱23.99 million in 2016. Miscellaneous Income was higher by ₱81.36 million to ₱507.51 million from ₱426.15 million in 2016.

Other Operating Expenses, excluding provision for impairment, was up by 15.06% to ₱8.77 billion from ₱7.62 billion a year ago. Compensation and Fringe Benefits was posted at ₱3.26 billion while Occupancy and equipment-related costs increased by ₱29.11 million or 4.09% to ₱740.05 million.

Depreciation and amortization of Bank's properties and leasehold improvements were ₱635.44 million from ₱557.65 million in 2016. Meanwhile, security, messengerial and janitorial services were recorded at ₱477.53 million. Amortization of intangible assets was recorded at ₱135.43 million. Miscellaneous Expenses were higher by 19.98% at ₱2.25 billion from ₱1.88 billion last year. Taxes and Licenses went up by 19.88% compared to last year to ₱1.27 billion.

The Bank set aside ₱2.27 billion in provisions for impairment and credit losses.

The Bank recorded its share in the net income of its investments in Sumisho Motor Finance Corporation at ₱71.84 million from ₱35.47 million in the same period last year. This was higher by 102.55% versus the same period last year.

C. Analysis of Key Performance Indicators

		2019	2018	2017
Return on Average Assets	ROAA	1.31%	1.15%	1.26%
Return on Average Equity	ROAE	10.29%	11.38%	12.51%
Net Interest Margin on				
Average Earning Assets	NIM	5.82%	5.79%	6.10%
Debt-Equity Ratio	DER	5.53:1	8.75:1	8.97:1
Asset-to-Equity Ratio	AER	6.53:1	9.75:1	9.97:1
Interest Rate Coverage Ratio	IRCR	1.59:1	1.59:1	1.84:1
Liquidity Ratio	LR	19.70%	23.47%	20.70%
Capital-to-Risk Assets Ratio	CAR	17.76%	13.88%	13.87%
Earnings per share	EPS	₱8.03	₱10.51*	₱10.48*

*Effect of stock rights issued in January 2019

2019 vs. 2018 Comparative highlights on key performance indicators

1. Return on Average Assets (ROAA) increased to 1.31% in 2019 from 1.15% in 2018. ROAA is calculated by dividing the net income by the year-on-year average of the outstanding total assets.
2. Return on Average Equity (ROAE) decreased from 11.38% in 2018 to 10.29% in 2019. ROAE measures how well the Bank is using common shareholders' invested money. It is

calculated by dividing the net income by the year-on-year average of the outstanding shareholders' equity.

3. Net Interest Margin on Average Earning Assets (NIM) slightly went up to 5.82% in 2019 from 5.79% in 2018. NIM is calculated by dividing the net interest income by the average earning assets.
4. Debt-to-Equity Ratio (DER) decreased to at 5.53:1 as of December 31, 2019 versus 8.75:1 as of December 31, 2018. DER measures the Bank's financial leverage. This is computed by dividing total liabilities by total stockholder's equity.
5. Asset-to-Equity Ratio (AER) decreased to 6.53:1 in 2019 versus 9.75:1 in 2018. AER is computed by dividing the total assets by total shareholder's equity.
6. Interest Rate Coverage Ratio (IRCR) was at 1.59:1 as of December 31, 2019 and 2018. IRCR is a measure of the Bank's ability to meet its interest payments on outstanding debt. It is calculated by dividing the total earnings before interest and taxes over interest expense.
7. Liquidity Ratio (LR) decreased in 2019 at 19.70% compared to 23.47% in 2018. LR measures the Bank's ability to meet its short-term liabilities. It is derived from dividing the current assets by current liabilities.
8. Capital-to-Risk Assets Ratio (CAR) increased from 13.38% to 17.76% in 2019. CAR is the measure of the Bank's capital strength. It is calculated by dividing the qualified capital by risk-weighted assets as defined by the Bangko Sentral ng Pilipinas (BSP).
9. Earnings per Share (EPS) decreased to ₱8.03 in 2019 from ₱10.51 in 2018. EPS is the net profit the Bank has generated per common share. It is computed by dividing the net income by the weighted average number of outstanding common shares. EPS for the year ended December 31, 2018 was restated to show the effect of stock rights issued in January 2019.

2018 vs. 2017 Comparative highlights on key performance indicators

1. Return on Average Assets (ROAA) decreased to 1.15% in 2018 from 1.26% in 2017. ROAA is calculated by dividing the net income by the year-on-year average of the outstanding total assets.
2. Return on Average Equity (ROAE) decreased from 12.51% in 2017 to 11.38% in 2018. ROAE measures how well the Bank is using common shareholders' invested money. It is calculated by dividing the net income by the year-on-year average of the outstanding shareholders' equity.
3. Net Interest Margin on Average Earning Assets (NIM) went down from 6.10% in 2017 to 5.79% in 2018. NIM is calculated by dividing the net interest income by the average earning assets.
4. Debt-to-Equity Ratio (DER) decreased to at 8.75:1 as of December 2018 versus 8.97:1 as of December 31, 2017. DER measures the Bank's financial leverage. This is computed by dividing total liabilities by total stockholder's equity.
5. Asset-to-Equity Ratio (AER) decreased to 9.75:1 in 2018 versus 9.97:1 in 2017. AER is computed by dividing the total assets by total shareholder's equity.
6. Interest Rate Coverage Ratio (IRCR) decreased to 1.59:1 as of December 31, 2018 from 1.84:1 the same period last year. IRCR is a measure of the Bank's ability to meet its interest payments on outstanding debt. It is calculated by dividing the total earnings before interest and taxes over interest expense.

7. Liquidity Ratio (LR) increased in 2018 at 23.47% compared to 20.70% in 2017 as excess funds were placed in higher yielding investment securities. LR measures the Bank's ability to meet its short-term liabilities. It is derived from dividing the current assets by current liabilities.
8. Capital-to-Risk Assets Ratio (CAR) increased from 13.87% to 13.88% in 2018. CAR is the measure of the Bank's capital strength. It is calculated by dividing the qualified capital by risk-weighted assets as defined by the Bangko Sentral ng Pilipinas (BSP).
9. Earnings per Share (EPS) improved to ₱10.51 in 2018 from ₱10.48 in 2017. EPS is the net profit the Bank has generated per common share. It is computed by dividing the net income by the weighted average number of outstanding common shares. EPS for the years ended December 31, 2018 and 2017 were restated to show the effect of stock rights issued in January 2019.

2017 vs. 2016 Comparative highlights on key performance indicators

1. Return on Average Equity (ROAE) increased from 12.50% in 2016 to 12.51% in 2017. ROAE measures how well the Bank is using common shareholders' invested money. It is calculated by dividing the net income by the year-on-year average of the outstanding shareholders' equity.
2. Return on Average Assets (ROAA) decreased to 1.26% in December 2017 from 1.34% in 2016. ROAA is calculated by dividing the net income by the year-on-year average of the outstanding total assets.
3. Net Interest Margin on Average Earning Assets (NIM) went down from 6.17% in 2016 to 6.10% in 2017. NIM is calculated by dividing the net interest income by the average earning assets.
4. Earnings per Share (EPS) improved to ₱10.48 in 2017 from ₱10.20 in 2016. EPS is the net profit the Bank has generated per common share. It is computed by dividing the net income by the weighted average number of outstanding common shares. EPS for the year ended December 31, 2017 was restated to show the effect of stock rights issued in January 2019.
5. Capital-to-Risk Assets Ratio (CAR) decreased from 14.07% to 13.87% in 2017. CAR is the measure of the Bank's capital strength. It is calculated by dividing the qualified capital by risk-weighted assets as defined by the Bangko Sentral ng Pilipinas (BSP).
6. Liquidity Ratio (LR) decreased in 2017 at 20.70% compared to 23.46% in 2016 as excess funds were placed in higher yielding investment securities. LR measures the Bank's ability to meet its short-term liabilities. It is derived from dividing the current assets by current liabilities.
7. Debt-to-Equity Ratio (DER) increased to at 8.97:1 as of December 2017 versus 8.82:1 in 2016. DER measures the Bank's financial leverage. This is computed by dividing total liabilities by total stockholder's equity.
8. Asset-to-Equity Ratio (AER) increased to 9.97:1 in 2017 versus 9.82:1 in 2016. AER is computed by dividing the total assets by total shareholder's equity.
9. Interest Rate Coverage Ratio (IRCR) decreased to 1.84:1 as of December 31, 2017 from 1.94:1 the same period last year. IRCR is a measure of the Bank's ability to meet its interest payments on outstanding debt. It is calculated by dividing the total earnings before interest and taxes over interest expense.

D. Key Variables and Other Qualitative and Quantitative Factors

Liquidity

PSBank manages its liquidity position to ensure that it has more than adequate funds to meet its obligations at any given time. The Bank monitors its daily liquidity and reserve position by determining inflows and outflows, short-term and long-term obligations, holdings and repayments. Short-term liquidity management identifies obligations and repayments in the next 12-months, aids in the determination of the securities trading strategy, and influences the Bank's pricing mechanism. On the other hand, long-term liquidity management covers maturing obligations and repayments of loans and investments beyond the next 12-months.

The level of liquid assets remained strong, exhibiting healthy growth in both placements with BSP/other banks and investments.

With the Bank's high capitalization, current liquidity position, strong deposit growth trend, continuing development of retail and corporate accounts, and prudent liquidity management, PSBank does not anticipate encountering any cash flow or liquidity problems in the next 12 months. It remains confident of its ability to meet its obligations and is committed to providing the necessary funding to support the projected loan growth, investment activities and expenditures for 2020.

The Bank also performs liquidity stress testing under various stress scenarios to ensure its ability to meet its funding obligations. The Bank has a Liquidity Contingency Funding Plan to anticipate and manage any funding crisis that may occur.

Events that will Trigger Direct or Contingent Financial Obligation

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities such as guarantees and commitments to extend credit, which are part of its lending and related businesses but due to their nature, may not be reflected in the accompanying financial statements. The Bank, however, does not anticipate significant losses as a result of these transactions.

Also, several suit and claims, in behalf or against the Bank in relation to its operations, including labor-related cases are pending before the courts and quasi-judicial bodies. In the opinion of management, these suits and claims, if decided adversely, will not involve an amount having a material effect on the financial statements.

Material Off-Balance Sheet Transactions, Arrangements and Obligations

The following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2019	2018	2017
Trust department accounts	₱6,981,353,030	₱6,400,841,134	₱5,596,171,367
Swap forward exchange - sold	50,635,000	2,602,710,000	2,653,256,032
Stand-by credit lines	84,000,000	70,500,000	81,664,196
Late deposits/payments received	9,521,669	9,521,669	5,625,757
Items held for safekeeping	455,693	296,024	1,298,438
Others	488,280	124,429	519,297

None of these off-balance sheet transactions, arising in the ordinary course, either individually or in the aggregate, are expected to have a material adverse effect on the Bank's financial condition.

Material Commitments for Capital Expenditures

The Bank's capital expenditures in 2019 included expenses for ten (10) new on-site & off-site ATMs, upgrade of bank premises including infrastructure, furniture, fixtures and equipment, IT-related activities on systems and licenses. Capital expenditures were sourced from the Bank's capital.

Causes for Any Material Changes from Period to Period of Financial Statements

See previous discussion on Analysis of Statement of Condition and Discussion of Results of Operations.

Known Trends, Events or Uncertainties or Seasonal Aspects

The financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures

The accounting policies adopted by the Bank are consistent with those of the previous financial year, except that it has adopted new accounting pronouncements starting January 1, 2019. These new and revised accounting standards are presented in Note 2 of the Audited Financial Statements. Please refer to Annex A.

Unless otherwise indicated, these new and revised accounting standards have no impact to the Bank.

Information on Independent Accountant and Other Related Matters

SyCip Gorres Velayo & Co. (SGV & Co.), independent certified public accountants, audited the Bank's financial statements without qualification and in accordance with Philippine Standards on Auditing and has expressed its opinion on the fairness of presentation upon completion of its examination, in its report to the stockholders and Board of Directors.

The following table sets out the aggregate fees billed for each of the years ended December 31, 2019 and 2018 for professional services rendered by SGV & Co for the audit of the Bank's annual financial statements.

	2019	2018
Audit and Audit-Related Fees:	₱1,605,000*	₱2,205,000*
Fees for services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements		

*Exclusive of 10% out-of-pocket expenses and (OPEs) and 12% value added tax (VAT).

Tax and All Other Fees for Services of External Auditor

The Bank has engaged the services of external auditor for compliance, advice, planning and any other form of services during the last three (3) years. The collective fees for each year ended December 31, 2019, 2018 and 2017 amounted to ₱3,704,400, ₱4,468,800 and ₱8,495,200, respectively.

In 2019, non-audit fees paid by the Bank to its external auditors did not outweigh its audit-related fees. These non-audit fees pertain to an engagement for the vulnerability assessment and penetration testing of the Bank's publicly-accessible servers, network, devices and services while audit-related fees pertain to regular year-end financial statement audit, as well as interim financial statement reviews and issuance of comfort letters in line with the Bank's peso fixed-rate bond issuances. Nonetheless, to ensure that the existing arrangements do not compromise our external auditor's independence, separate engagement agreements and teams handled the said services.

Fees for Services of other Tax Consultant

The Bank also engaged the services of Du-Baladad and Associates for tax consultancy. The collective fees amounted to ₱266,112, ₱891,352 and ₱288,288 for 2019, 2018 and 2017, respectively.

Audit Committee's Approval Policies and Procedures for Above Services

As Metrobank subsidiary, the Bank adopted the Parent's policies and procedures on audit engagement contract for external auditors. The same was discussed and approved by the Audit Committee.

Included in the duties and responsibilities of the Audit Committee as provided for in the Audit Committee Charter are to recommend to the Board the appointment, re-appointment and dismissal of external auditors; to review and evaluate the external auditors' qualifications, performance, independence, and objectivity; and to review the external auditors' audit plan and scope among others.

The following are the members of Bank's Audit Committee:

Name	Position
Eduardo A. Sahagun, Independent Director	Chairman
Samson C. Lim, Independent Director	Member
Vicente R. Cuna, Jr., Non-executive Director*	Member
Jose T. Pardo, Independent Director **	Member

* Membership ended in April 2019

** Appointed as member in April 2019

ANNEX B

PHILIPPINE SAVINGS BANK
EVENTS REPORTED UNDER FORM 17-C
(Reports filed during the year 2019)

No.	Particulars	Date Reported
1	PSBank reported the following information as of December 31, 2018: 1. Top 20 Stockholders 2. Top 100 Stockholders 3. Statement of Beneficial Ownership 4. Summary Report on Distribution of Stockholdings by Nationality 5. List of Major PSBank Stockholders Owning 5% or more 6. List of Stockholders and their Stockholdings 7. Changes in Stockholdings of Stockholders	January 11, 2019
2	PSBank reported the final consolidated report dated January 16, 2019 for the stock rights offering of Philippine Savings Bank. The actual subscription of the Rights Shares will become effective only upon listing of the Rights Shares on the Philippine Stock Exchange on January 18, 2019.	January 18, 2019
3	PSBank reported that the Board of Directors, in its meeting held on 17 January 2019, passed a resolution on the following: 1. Scheduling of the Annual Stockholders Meeting on April 15, 2019 at 3 o'clock in the afternoon at the 19 th Floor, PSBank Center, Paseo de Roxas corner Sedenos Street, Makati City; 2. Setting March 1, 2019 as the Record Date for determining stockholders entitled to notice and to vote in the Meeting; and 3. Granting of authority to Mr. Jose Vicente L. Alde, PSBank President, to change the date, time and place of the Meeting as well as the record date and to decide on such other related matters as may be required by the regulators and other exigencies; and to sign, execute and deliver any and all documents and to do and perform any and all acts as may be necessary to carry into effect the intents and purposes of the foregoing.	January 21, 2019
4	PSBank reported that the Board of Directors, in its meeting held on 17 January 2019, passed a resolution declaring a 7.5% Regular Cash Dividend for the fourth quarter of 2018 amounting to ₱287.33 million equivalent to ₱0.75 per share. This will be payable to all common stockholders as of the Record Date of 01 February 2019 and will be paid no later than the Payment Date of 18 February 2019.	January 22, 2019
5	PSBank reported the attendance of its Board of Directors in Corporate Governance Seminars for the year 2018 and the corresponding certification issued by the Corporate Secretary, Mr. Pocholo V. Dela Peña.	January 31, 2019
6	PSBank reported that the Board of Directors, in its meeting held on February 15, 2019, passed a resolution approving the request to exercise the option to call on PSBank's Unsecured Subordinated Debt – Tier 2 Notes amounting to ₱3.0 billion issued on 23 May 2014.	February 20, 2019
7	PSBank reported that the Board of Directors, in its meeting held on March 12, 2019, passed a resolution approving the following matters: 1. Increase in the authorized capital stock of PSBank by Php 1.75 Billion with corresponding amendment of the Bank's Articles of Incorporation to reflect such increase; and 2. Declaration of Php 437.50 Million in stock dividends in relation to the increase in the authorized capital stock	March 18, 2019
8	PSBank reported that the Board of Directors, in its meeting held on March 12, 2019, passed a resolution approving the issuance of up to ₱40.0 billion in Peso Dominated Bonds in multiple tranches.	March 18, 2019
9	PSBank reported its financial results for year-end 2018.	March 25, 2019
10	PSBank reported the following information as of March 31, 2019: 1. Top 20 Stockholders 2. Top 100 Stockholders 3. Statement of Beneficial Ownership 4. Summary Report on Distribution of Stockholdings by Nationality 5. List of Major PSBank Stockholders Owning 5% or more 6. List of Stockholders and their Stockholdings 7. Changes in Stockholdings of Stockholders	April 15, 2019

11	PSBank reported that the Board of Directors, in its meeting held on 15 April 2019, passed a resolution declaring a 7.5% Regular Cash Dividend for the first quarter of 2019 amounting to Php 287.33 million equivalent to Php 0.75 per share. This will be payable to all common stockholders as of the Record Date of 03 May 2019 and will be paid no later than the Payment Date of 15 May 2019.	April 17, 2019
12	PSBank reported the results of its Annual Stockholders' Meeting held on 15 April 2019.	April 17, 2019
13	PSBank reported the results of its Organizational Meeting held on 15 April 2019.	April 17, 2019
14	PSBank reported its financial results for first quarter of 2019.	May 15, 2019
15	PSBank reported the following information as of June 30, 2019: 1. Top 20 Stockholders 2. Top 100 Stockholders 3. Statement of Beneficial Ownership 4. Summary Report on Distribution of Stockholdings by Nationality 5. List of Major PSBank Stockholders Owning 5% or more 6. List of Stockholders and their Stockholdings 7. Changes in Stockholdings of Stockholders	July 10, 2019
16	PSBank reported that the Board of Directors, in its meeting held on 19 July 2019, passed a resolution declaring a 7.5% Regular Cash Dividend for the second quarter of 2019 amounting to ₱287.33 million equivalent to ₱0.75 per share. This will be payable to all common stockholders as of the Record Date of 05 August 2019 and will be paid no later than the Payment Date of 19 August 2019.	July 23, 2019
17	PSBank reported the listing of its Fixed Rate Bonds Due 2021 with a total issue size of ₱6.3 Billion; approximately twice its initial target of ₱3.0 Billion.	July 30, 2019
18	PSBank reported its financial results for first half of 2019.	August 14, 2019
19	PSBank reported the following information as of September 30, 2019: 1. Top 20 Stockholders 2. Top 100 Stockholders 3. Statement of Beneficial Ownership 4. Summary Report on Distribution of Stockholdings by Nationality 5. List of Major PSBank Stockholders Owning 5% or more 6. List of Stockholders and their Stockholdings 7. Changes in Stockholdings of Stockholders	October 7, 2019
20	PSBank reported that the Board of Directors, in its meeting held on 14 October 2019, passed a resolution declaring a 7.5% Regular Cash Dividend for the third quarter of 2019 amounting to ₱287.33 million equivalent to ₱0.75 per share. This will be payable to all common stockholders as of the Record Date of 29 October 2019 and will be paid no later than the Payment Date of 13 November 2019.	October 16, 2019
21	PSBank reported its financial results for third quarter of 2019.	November 8, 2019
22	PSBank reported that the Bank's application for the increase of its authorized capital stock to ₱6,000,000,000.00 divided into 600,000,000 common shares with a par value of ₱10.00 per share including the corresponding amendments to its Articles of Incorporation (Article VII) had been approved by the SEC on November 20, 2019 and received by the Bank on December 11, 2019. Further, the Commission approved January 31, 2020 as the Record Date for the stock dividend equivalent to 437,500,000.00 common shares that shall be applied as payment of the required subscription to the increase in capital stock.	December 16, 2019

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **JOSE T. PARDO**, Filipino, of legal age and a resident of _____, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of Philippine Savings Bank and have been its independent director since May 2007.

2. I am affiliated with the following companies or organizations (including Government-Owned and Controlled Corporations):

COMPANY/ ORGANIZATION	POSITION/ RELATIONSHIP	PERIOD OF SERVICE
Philippine Seven Corporation	Chairman and Independent Director	2015 to present
Philippine Stock Exchange	Chairman and Independent Director	2011 to present
Securities Clearing Corporation of the Philippines	Chairman and Independent Director	2011 to present
Bank of Commerce	Independent Director	2003 to present
Bank of Commerce	Chairman	2011 to present
National Grid Corporation of the Philippines	Independent Director	2009 to present
JG Summit Holdings, Inc.	Independent Director	2003 to present
ZNN Radio Veritas	Independent Director	2006 to present
Synergy Grid and Development Philippines, Inc. (Non – operating)	Independent Director	2014 to present
Monte Oro Grid Resources Corporation	Independent Director	2016 to present
Araneta Hotels, Inc.	Independent Director	2016 to present
League One Finance and Leasing Corporation	Independent Director	2016 to present
Del Monte Philippines, Inc.	Independent Director	2018 to present
ECOP Council of Business Leaders (Non-profit)	Chairman	2009 to present
PCCI Council of Business Leaders (Non-profit)	Chairman	2007 to present
Philippine Business Center, Inc. (Non-Profit)	Chairman	2011 to 2019

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Philippine Savings Bank, as provided for in Section 38 of the Securities Regulation Code, its implementing Rules and Regulations and other SEC issuances.

4. I am related to the following director/ officer/ substantial shareholder of (covered company and its subsidiaries and affiliates) other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code. (where applicable)

NAME OF DIRECTOR/ OFFICER/ SUBSTANTIAL SHAREHOLDER	COMPANY	NATURE OF RELATIONSHIP
N/A	N/A	N/A

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding / I disclose that I am the subject of the following criminal/ administrative investigation or proceeding (as the case may be):

OFFENSE CHARGED/ INVESTIGATED	TRIBUNAL OR AGENCY INVOLVED	STATUS
N/A	N/A	N/A

6. (For those in government service/ affiliated with a government agency or GOCC) I have the required written permission or consent from the N/A to be an independent director in N/A, pursuant to the Office of the President Memorandum Circular No. 17 and Section 12, Rule XVIII of the Revised Civil Service Rules.

7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

8. I shall inform the Corporate Secretary of Philippine Savings Bank of any changes in the abovementioned information within five days from its occurrence.

FEB 21 2020

Done, this _____ day of _____, at MAKATI CITY.



Jose T. Pardo
Affiant

FEB 21 2020

MAKATI CITY

SUBSCRIBED AND SWORN TO before me this _____ day of _____, at _____ affiant
exhibiting to me his Passport No. _____ issued on _____, at _____

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Book No. 08
Series of 2020.


ATTY. ROMEO S. MASANGYA, JR.
NOTARY PUBLIC FOR MAKATI CITY
APPOINTMENT NO. M-72 UNTIL DECEMBER 31, 2020
MCLE COMPLIANCE NO. VI-0014090, APRIL 14, 2022
IBP LIFETIME NO. 0106603, 01/03/2018 MAKATI CITY
PTR NO. 8116034, 01/02/2020 MAKATI CITY
17TH FLR. PSBANK CENTER NO. 777 PASEO DE ROXAS
COR. SEDENO ST. MAKATI CITY
TEL NO. (02)8511-8042
ROLL NO. 45164

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **BENEDICTO JOSE R. ARCINAS**, Filipino, of legal age and a resident of _____, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of Philippine Savings Bank and have been its independent director since April 2012.

2. I am affiliated with the following companies or organizations (including Government- Owned and Controlled Corporations):

COMPANY/ ORGANIZATION	POSITION/ RELATIONSHIP	PERIOD OF SERVICE
Arcinas Freres, Inc.	Director & General Manager	1989 to present
Metrobank Card Corporation	Independent Director	2018 to 2019

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Philippine Savings Bank, as provided for in Section 38 of the Securities Regulation Code, its implementing Rules and Regulations and other SEC issuances.

4. I am related to the following director/ officer/ substantial shareholder of (covered company and its subsidiaries and affiliates) other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code. (where applicable)

NAME OF DIRECTOR/ OFFICER/ SUBSTANTIAL SHAREHOLDER	COMPANY	NATURE OF RELATIONSHIP
N/A	N/A	N/A

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding / I disclose that I am the subject of the following criminal/ administrative investigation or proceeding (as the case may be):

OFFENSE CHARGED/ INVESTIGATED	TRIBUNAL OR AGENCY INVOLVED	STATUS
N/A	N/A	N/A

6. (For those in government service/ affiliated with a government agency or GOCC)
I have the required written permission or consent from the N/A to be an independent director in N/A, pursuant to the Office of the President Memorandum Circular No. 17 and Section 12, Rule XVIII of the Revised Civil Service Rules.

7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

8. I shall inform the Corporate Secretary of Philippine Savings Bank of any changes in the abovementioned information within five days from its occurrence.

FEB 21 2020


Done, this _____ day of _____, at **MAKATI CITY**


Benedicto Jose R. Arcinas
Affiant

FEB 21 2020

SUBSCRIBED AND SWORN TO before me this _____ day of _____, at _____
affiant exhibiting to me his Passport No. _____ issued on _____ at _____
North East.

Doc. No. 43
Page No. 10
Book No. 08
Series of 2020.


ATTY. ROMEO S. MASANGYA, JR.
NOTARY PUBLIC FOR MAKATI CITY
APPOINTMENT NO. M-72 UNTIL DECEMBER 31, 2020
MCLE COMPLIANCE NO. VI-0014090. APRIL 14, 2022
IBP LIFETIME NO. 0186663. 01/03/2018 MAKATI CITY
PTR NO. 8116034. 01/02/2020 MAKATI CITY
17TH FLR. PSBANK CENTER NO. 777 PASEO DE ROXAS
COR. SEDENO ST. MAKATI CITY
TEL NO. (02)8511-8042
ROLL NO. 45164

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **SAMSON C. LIM**, Filipino, of legal age and a resident of _____ after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of **Philippine Savings Bank** and have been its independent director since April 2008.

2. I am affiliated with the following companies or organizations (including Government – Owned and Controlled Corporations) :

COMPANY/ ORGANIZATION	POSITION/ RELATIONSHIP	PERIOD OF SERVICE
BLIMS LIFESTYLE GROUP (BLG)	CHAIRMAN	2014 to present
COLLINS INTERNATIONAL TRADING CORP.	CHAIRMAN	2002 to present
FRANCORP PHILIPPINES	CHAIRMAN	2002 to present
CANADIAN TOURISM & HOSPITALITY INSTITUTE	PRESIDENT	2010 to present
PHILIPPINE CHAMBER OF COMMERCE AND INDUSTRY	DIRECTOR FOR TOURISM, RETAIL & FRANCHISE	2018 to present
PHILIPPINE RETAILERS ASSOCIATION	CHAIRMAN EMERITUS	2000 to present
PHILIPPINE FRANCHISE ASSOCIATION	CHAIRMAN EMERITUS/ INTERNATIONAL RELATION	2005 to present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Philippine Savings Bank, as provided for in Section 38 of the Securities Regulation Code, its implementing Rules and Regulations and other SEC issuances.

4. I am related to the following director/ officer/ substantial shareholder of (covered company and its subsidiaries and affiliates) other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code. (where applicable):

NAME OF DIRECTOR/ OFFICER/ SUBSTANTIAL SHAREHOLDER	COMPANY	NATURE OF RELATIONSHIP
N/A	N/A	N/A

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding / I disclose that I am the subject of the following criminal/ administrative investigation or proceeding (as the case may be):

OFFENSE CHARGED/ INVESTIGATED	TRIBUNAL OR AGENCY INVOLVED	STATUS
N/A	N/A	N/A


6. (For those in government service/ affiliated with a government agency or GOCC) I have the required written permission or consent from the N/A to be an independent director in N/A, pursuant to the Office of the President Memorandum Circular No. 17 and Section 12, Rule XVIII of the Revised Civil Service Rules.

7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

8. I shall inform the Corporate Secretary of Philippine Savings Bank of any changes in the abovementioned information within five days from its occurrence.

FEB 21 2020

Done, this _____ day of _____, at MAKATI CITY


Samson C. Lim
Affiant
FEB 21 2020

MAKATI CITY SUBSCRIBED AND SWORN to before me this _____ day of _____ at _____, affiant personally appeared before me and exhibited to me his Passport
No. _____ I at _____ on _____

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Book No. 08
Series of 2020.

ATTY. ROMEO S. BASANGYA, JR.
NOTARY PUBLIC FOR MAKATI CITY
APPOINTMENT NO. M-72 UNTIL DECEMBER 31, 2020
MCLE COMPLIANCE NO. VI-0014060. APRIL 14, 2022
IBP LIFETIME NO. 0166863. 01/03/2018 MAKATI CITY
PTR NO. 8116094. 01/02/2020 MAKATI CITY
17TH FLR. PSBANK CENTER NO. 777 PASEO DE ROXAS
COR. SEDENO ST. MAKATI CITY
TEL NO. (02)8511-8042
ROLL NO. 45164

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **EDUARDO A. SAHAGUN**, Filipino, of legal age and a resident of _____, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of **Philippine Savings Bank** and have been its independent director since April 2017.

2. I am affiliated with the following companies or organizations (including Government – Owned and Controlled Corporations) :

COMPANY/ ORGANIZATION	POSITION/ RELATIONSHIP	PERIOD OF SERVICE
Union Galvasteel Corporation	Member, Board of Directors	2011 to present
Union Galvasteel Corporation	President & CEO	2017 to present
Phinma Property Holdings Corporation	Member, Board of Directors	2016 to present
EdCommerce Corporation	Chairman	2017 to present
Phinma Solar Energy Corporaton	President and CEO	2017 to present
Phinma Renewable Energy Corporation	Member, Board of Directors	2017 to present
Philcement Corporation	President and CEO	2017 to present
Phinma Foundation Inc.	Member, Board of Trustees	2017 to present
T – O Insurance Brokers, Inc.	Member, Board of Directors	2019 to present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Philippine Savings Bank, as provided for in Section 38 of the Securities Regulation Code, its implementing Rules and Regulations and other SEC issuances.
4. I am related to the following director/ officer/ substantial shareholder of (covered company and its subsidiaries and affiliates) other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code. (where applicable)


NAME OF DIRECTOR/ OFFICER/ SUBSTANTIAL SHAREHOLDER	COMPANY	NATURE OF RELATIONSHIP
N/A	N/A	N/A

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding / I disclose that I am the subject of the following criminal/ administrative investigation or proceeding (as the case may be):

OFFENSE CHARGED/ INVESTIGATED	TRIBUNAL OR AGENCY INVOLVED	STATUS
N/A	N/A	N/A


6. (For those in government service/ affiliated with a government agency or GOCC) I have the required written permission or consent from the N/A to be an independent director in N/A, pursuant to the Office of the President Memorandum Circular No. 17 and Section 12, Rule XVIII of the Revised Civil Service Rules.
7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
8. I shall inform the Corporate Secretary of Philippine Savings Bank of any changes in the abovementioned information within five days from its occurrence.

Done, this FEB 21 2020 day of _____, at Makati City.


Eduardo A. Sahagun
Affiant

SUBSCRIBED AND SWORN TO before me this FEB 21 2020 day of _____, at _____, affiant exhibiting to me his Passport No. _____ issued on _____

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Page No. 10
Book No. 08
Series of 2020.


ATTY. ROMEO S. MASANGYA, JR.
NOTARY PUBLIC FOR MAKATI CITY
APPOINTMENT NO. M-72 UNTIL DECEMBER 31, 2020
MCLE COMPLIANCE NO. VI-0014090. APRIL 14, 2022
IBP LIFETIME NO. 0136663. 01/03/2018 MAKATI CITY
PTR NO. 8113634. 01/02/2020 MAKATI CITY
17TH FLR. PSSBANK CENTER NO. 777 PASEO DE ROXAS
COR. SEDENO ST. MAKATI CITY
TEL NO. (02)8511-8042
ROLL NO. 45164



PSBank
PHILIPPINE SAVINGS BANK
Metrobank Group

SECURITIES AND EXCHANGE COMMISSION
G/F Secretariat Building
PICC Complex, Roxas Boulevard
Pasay City, 1307

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

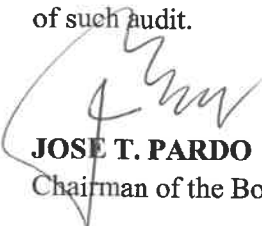
The management of **Philippine Savings Bank** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, 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 company'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 company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the company'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 or members.

SyCip, Gorres, Velayo & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.


JOSE T. PARDO
Chairman of the Board


JOSE VICENTE L. ALDE
President


LEAH M. ZAMORA
Controller

Signed this day of **FEB 20 2020**.

REPUBLIC OF THE PHILIPPINES
CITY OF MAKATI) S.S.

MAKATI CITY

FEB 21 2020

SUBSCRIBED AND SWORN TO before me this _____ affiants exhibiting to me their
passports as follow:

Name	Passport No.	Date of Issue	Place of Issue
Jose T. Pardo	XXXXXXXX	XXXXXXXX	XXXXXXXX
Jose Vicente L. Alde	XXXXXXXX	XXXXXXXX	XXXXXXXX
Leah M. Zamora	XXXXXXXX	XXXXXXXX	XXXXXXXX

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Book No. XVI
Series of 2020.

ATTY. GERVACIO B. ORTIZ, JR.
NOTARY PUBLIC FOR MAKATI CITY
UNTIL DECEMBER 31, 2020
PTR NO. 7333104/01-03-2019 MAKATI
IBP NO 656155 LIFETIME MEMBER
APPT. NO. M104/2017/ROLL NO. 4009
MCLE COMPLIANCE NO. V-0006984
GROUND FLOOR 8747 PASO DE
MAYAS, LEPANTO BLDG

Philippine Savings Bank

Financial Statements
December 31, 2019 and 2018
and for the Years Ended December 31, 2019,
2018 and 2017

and

Independent Auditor's Report



COVER SHEET

for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

1	5	5	5	2					
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COMPANY NAME

P	H	I	L	I	P	P	I	N	E		S	A	V	I	N	G	S		B	A	N	K						

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

P	S	B	a	n	k		C	e	n	t	e	r	,		7	7	7		P	a	s	e	o		d	e		R	o
x	a	s		c	o	r	n	e	r		S	e	d	e	ñ	o		S	t	r	e	e	t	,		M	a	k	a
t	i		C	i	t	y																							

Form Type

A	A	F	S
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Department requiring the report

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Secondary License Type, If Applicable

N	/	A	
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COMPANY INFORMATION

Company's Email Address

--

Company's Telephone Number

8885-8208

Mobile Number

--

No. of Stockholders

1,458

Annual Meeting (Month / Day)

04/21

Fiscal Year (Month / Day)

12/31

CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person

Leah M. Zamora

Email Address

LMZamora@psbank.com.ph

Telephone Number/s

(632) 8845-8816

Mobile Number

--

CONTACT PERSON'S ADDRESS

777 Paseo de Roxas corner Sedeño St., Makati City, Philippines

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

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



INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Philippine Savings Bank
PSBank Center
777 Paseo de Roxas corner Sedeño Street
Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Philippine Savings Bank (“the Bank”), which comprise the statements of condition as at December 31, 2019 and 2018 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for 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 (PFRSs).

Basis for Opinion

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

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. For each matter below, our description of how our audit addressed the matter is provided in that context.



We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Adoption of PFRS 16, Leases

Effective January 1, 2019, the Bank adopted PFRS 16, *Leases*, under the modified retrospective approach and resulted in significant changes in the Bank's accounting policy for leases. The Bank's adoption of PFRS 16 is significant to our audit because the Bank has high volume of lease agreements; the recorded amounts are material to the financial statements; and adoption involves application of significant judgment and estimation in determining the lease term, including evaluating whether the Bank is reasonably certain to exercise options to extend or terminate the lease and determining the incremental borrowing rate. This resulted in the recognition of right of use assets and lease liability amounting to ₱1.4 billion and ₱1.6 billion, respectively, as of January 1, 2019 and the recognition of depreciation expense of ₱373.1 million and interest expense of ₱113.6 million, for the year ended December 31, 2019.

The disclosures related to the adoption of PFRS 16 applied by the Bank, are included in Notes 2, 11, 19 and 25 to the financial statements.

Audit response

We obtained an understanding of the Bank's process in implementing the new standard, including the determination of the population of the lease contracts covered by PFRS 16, the application of the short-term and low value assets exemptions, the selection of the transition approach and any election of available practical expedients. We tested the completeness of the population of lease agreements by comparing the number of leases per operational report against the master lease schedule. On a test basis, we inspected lease agreements (i.e., lease agreements existing prior to the adoption of PFRS 16 and new lease agreements) from the master lease schedule, identified their contractual terms and conditions, and traced these contractual terms and conditions to the lease calculation prepared by management, which covers the calculation of the financial impact of PFRS 16, including the transition adjustments.

For selected lease contracts with renewal and/or termination option, we reviewed the management's assessment of whether it is reasonably certain that the Bank will exercise the option to renew or not exercise the option to terminate. We tested the parameters used in the determination of the incremental borrowing rate by reference to market data. We test computed the lease calculation prepared by management on a sample basis, including the transition adjustments.

We reviewed the disclosures related to the transition adjustments based on the requirements of PFRS 16 and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Adequacy of allowance for credit losses

The Bank's application of the Expected Credit Loss (ECL) model in calculating the allowance for credit losses is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Bank's credit risk exposures; determining the method to estimate ECL; defining default; identifying exposures with significant deterioration in credit quality; determining assumptions to be used in the ECL model such as the counterparty credit risk rating, the expected life of the financial asset and expected recoveries from defaulted accounts; and incorporating forward-looking information (called overlays) in calculating ECL.



Allowance for credit losses as of December 31, 2019 for the Bank amounted to ₱3.9 billion. Provision for credit losses of the Bank in 2019 using the ECL model amounted to ₱2.2 billion.

Refer to Note 15 of the financial statements for the disclosure on the details of the allowance for credit losses using the ECL model.

Audit response

We obtained an understanding of the board-approved methodologies and models used for the Bank's different credit exposures and assessed whether these considered the requirements of PFRS 9 to reflect an unbiased and probability-weighted outcome, and to consider time value of money and the best available forward-looking information. We also inspected and considered the results of PFRS 9 model validation performed by management's specialist.

We (a) tested the definition of default and significant increase in credit risk criteria against historical analysis of accounts and credit risk management policies and practices in place; (b) tested the Bank's application of internal credit risk rating system by reviewing the ratings of sample credit exposures; (c) tested loss given default by inspecting historical recoveries and related costs, write-offs and collateral valuations; (d) tested exposure at default considering outstanding commitments and repayment scheme; and (e) checked the reasonableness of forward-looking information used for overlay through statistical test and corroboration using publicly available information and our understanding of the Bank's lending portfolios and broader industry knowledge.

Further, we checked the data used in the ECL models by reconciling data from source system reports to the data warehouse and from the data warehouse to the loss allowance analysis/models and financial reporting systems. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets of debt financial assets with similar risk characteristics, we traced or re-performed the disaggregation from source systems to the loss allowance analysis. We also assessed the assumptions used where there are missing or insufficient data.

We recalculated impairment provisions on a sample basis. We reviewed the completeness of the disclosures made in the financial statements.

We involved our internal specialists in the performance of the above procedures.



Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 17-A, SEC Form 20-IS (Definitive Information Statement) and Annual Report for the year ended December 31, 2019, but does not include the financial statements and our auditor's report thereon. The SEC Form 17-A, SEC Form 20-IS (Definitive Information Statement) and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor's 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 PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 auditor's 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 the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 36 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine Savings Bank. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is
Veronica Mae A. Arce.

SYCIP GORRES VELAYO & CO.



Veronica Mae A. Arce

Partner

CPA Certificate No. 0117208

SEC Accreditation No. 1740-A (Group A),

February 7, 2019, valid until February 6, 2022

Tax Identification No. ~~888-888-888~~

BIR Accreditation No. 08-001998-135-2018,

December 17, 2018, valid until December 16, 2021

PTR No. 8125206, January 7, 2020, Makati City

February 20, 2020



PHILIPPINE SAVINGS BANK
STATEMENTS OF CONDITION

	December 31	
	2019	2018
ASSETS		
Cash and Other Cash Items	P2,281,813,055	P3,776,087,269
Due from Bangko Sentral ng Pilipinas (Note 16)	6,814,865,832	15,156,184,418
Due from Other Banks (Note 29)	1,138,642,148	1,682,806,080
Interbank Loans Receivable and Securities Purchased		
Under Resale Agreements (Note 7)	–	1,891,820,000
Fair Value Through Profit or Loss (FVTPL) Investments		
(Note 8)	43,674	10,107,022
Financial Assets at Fair Value Through Other		
Comprehensive Income (FVOCI) (Note 8)	4,775,388,467	12,931,601,524
Investment Securities at Amortized Cost (Note 8)	34,233,974,816	35,646,765,264
Loans and Receivables (Note 9)	164,384,202,213	156,260,362,775
Investment in a Joint Venture (Notes 10 and 29)	755,781,369	691,425,681
Property and Equipment (Note 11)	3,312,836,126	2,257,379,905
Investment Properties (Note 12)	3,765,748,696	4,036,317,716
Deferred Tax Assets (Note 27)	1,398,136,782	1,327,667,084
Intangible Assets and Goodwill (Note 13)	480,456,498	655,446,833
Other Assets (Note 14)	1,564,931,514	1,405,320,467
	P224,906,821,190	P237,729,292,038

LIABILITIES AND EQUITY

Liabilities

Deposit Liabilities (Note 16)

Demand	P22,490,617,234	P20,367,043,344
Savings	35,691,639,304	33,399,725,991
Time	105,912,878,349	138,525,888,196
Long-term Negotiable Certificates of Deposits	8,409,975,273	8,395,281,852

	172,505,110,160	200,687,939,383
--	------------------------	------------------------

Bills Payable (Note 17)	4,189,736,932	2,968,567,431
--------------------------------	----------------------	----------------------

Bonds Payable (Note 17)	6,254,701,780	–
--------------------------------	----------------------	----------

Subordinated Notes (Note 17)	–	2,981,673,382
-------------------------------------	----------	----------------------

Treasurer's, Cashier's and Manager's Checks	1,297,680,147	1,615,520,188
--	----------------------	----------------------

Accrued Taxes, Interest and Other Expenses (Note 18)	1,409,451,987	2,014,522,713
---	----------------------	----------------------

Financial Liabilities at FVTPL (Note 8)	–	2,895,073
--	----------	------------------

Income Tax Payable	374,977	637,607
---------------------------	----------------	----------------

Other Liabilities (Note 19)	4,792,491,744	3,063,388,051
------------------------------------	----------------------	----------------------

	190,449,547,727	213,335,143,828
--	------------------------	------------------------

(Forward)



	December 31	
	2019	2018
Equity		
Common Stock (Note 21)	₱3,831,094,160	₱2,402,524,910
Capital Paid in Excess of Par Value (Note 21)	9,287,650,873	2,818,083,506
Surplus Reserves (Note 30)	1,037,214,639	1,035,899,409
Surplus (Note 21)	21,269,544,274	19,391,850,112
Fair Value Reserves on Financial Assets at FVOCI (Note 8)	(18,931,431)	(782,896,279)
Remeasurement Losses on Retirement Plan (Note 24)	(937,954,589)	(470,611,677)
Equity in Remeasurement Gains on Retirement Plan of a Joint Venture (Note 10)	941,681	3,131,435
Cumulative Translation Adjustment	(12,286,144)	(3,833,206)
	34,457,273,463	24,394,148,210
	₱224,906,821,190	₱237,729,292,038

See accompanying Notes to Financial Statements.



PHILIPPINE SAVINGS BANK
STATEMENTS OF INCOME

	Years Ended December 31		
	2019	2018	2017
INTEREST INCOME			
Loans and receivables (Note 9)	₱15,481,189,433	₱14,268,805,623	₱12,477,133,237
Financial assets at FVOCI/AFS investments and investment securities at amortized cost/HTM investments (Note 8)	1,896,257,446	1,985,357,651	1,773,020,358
Interbank loans receivable and securities purchased under resale agreements (Note 7)	30,140,459	89,723,370	61,037,150
Due from other banks	4,066,446	4,338,859	2,608,271
Due from Bangko Sentral ng Pilipinas	831,792	16,662,587	179,406,826
FVTPL investments (Note 8)	2,152	9,088,886	50,570,958
	17,412,487,728	16,373,976,976	14,543,776,800
INTEREST EXPENSE			
Deposit liabilities (Note 16)	5,327,625,405	4,818,493,359	3,214,665,720
Bills payable (Note 17)	319,718,630	55,857,635	58,953,437
Bonds payable (Note 17)	167,596,354	—	—
Subordinated notes (Note 17)	125,118,285	167,675,686	191,058,261
Lease liabilities	113,560,729	—	—
	6,053,619,403	5,042,026,680	3,464,677,418
NET INTEREST INCOME	11,358,868,325	11,331,950,296	11,079,099,382
Service fees and commission income (Note 22)	1,951,941,673	1,721,745,423	1,470,202,440
Service fees and commission expense (Note 22)	88,437,296	96,107,664	94,428,291
NET SERVICE FEES AND COMMISSION INCOME	1,863,504,377	1,625,637,759	1,375,774,149
OTHER OPERATING INCOME (CHARGES)			
Gain on foreclosure and sale of investment properties - net (Note 12)	611,833,898	421,975,957	348,813,362
Gain (loss) on foreclosure and sale of chattel mortgage properties – net (Note 14)	(84,902,195)	232,063,012	584,947,874
Trading and securities gains (losses) - net (Note 8)	223,992,445	(133,297,506)	(65,237,826)
Foreign exchange gain - net	65,884,165	88,032,388	56,483,920
Gain on sale of property and equipment (Note 11)	8,132,940	7,918,569	1,731,001
Miscellaneous (Notes 12, 23 and 25)	554,897,890	624,299,435	507,510,359
	1,379,839,143	1,240,991,855	1,434,248,690
TOTAL OPERATING INCOME	14,602,211,845	14,198,579,910	13,889,122,221
OTHER EXPENSES			
Compensation and fringe benefits (Notes 24 and 29)	3,520,613,973	3,363,828,408	3,260,605,852
Provision for credit and impairment losses (Note 15)	2,214,989,857	2,137,972,532	2,270,178,805
Taxes and licenses	1,549,754,043	1,627,741,446	1,268,907,979
Depreciation (Note 11)	910,341,824	622,182,083	635,436,103
Security, messengerial and janitorial services	453,062,842	493,737,524	477,533,030
Occupancy and equipment-related costs (Note 25)	322,330,030	763,766,590	740,050,501
Amortization of intangible assets (Note 13)	135,054,994	159,089,068	135,432,343
Miscellaneous (Notes 12 and 26)	2,023,191,282	2,140,897,722	2,251,333,506
	11,129,338,845	11,309,215,373	11,039,478,119

(Forward)



Years Ended December 31			
	2019	2018	2017
INCOME BEFORE SHARE IN NET INCOME OF A JOINT VENTURE AND INCOME TAX	₱3,472,873,000	₱2,889,364,537	₱2,849,644,102
SHARE IN NET INCOME OF A JOINT VENTURE (Notes 10 and 29)	105,905,423	82,376,569	71,836,533
INCOME BEFORE INCOME TAX	3,578,778,423	2,971,741,106	2,921,480,635
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 27)			
Current	414,828,340	381,369,781	394,082,636
Deferred	135,612,443	(71,774,541)	(127,021,129)
	550,440,783	309,595,240	267,061,507
NET INCOME	₱3,028,337,640	₱2,662,145,866	₱2,654,419,128
Basic/Diluted Earnings Per Share (Note 28)	₱8.03	₱10.51*	₱10.48*

*Restated to show the effect of stock rights issued in January 2019

See accompanying Notes to Financial Statements.



PHILIPPINE SAVINGS BANK
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2019	2018	2017
NET INCOME	₱3,028,337,640	₱2,662,145,866	₱2,654,419,128
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Items that recycle to profit or loss in subsequent periods:</i>			
Fair value reserves on debt securities at FVOCI (Note 8)	762,418,992	(713,972,048)	–
Cumulative translation adjustment	(8,452,938)	242,833	(5,518,027)
Net unrealized gain (loss) from Available-for-sale investments (Note 8)	–	–	431,398,146
	753,966,054	(713,729,215)	425,880,119
<i>Items that do not recycle to profit or loss in subsequent periods:</i>			
Remeasurement gains (losses) on retirement plan (Note 24)	(667,632,731)	106,829,806	(5,273,354)
Equity in remeasurement gains (losses) on retirement plan of a joint venture (Note 10)	(2,189,754)	1,886,291	(198,455)
Fair value reserves on equity securities at FVOCI (Note 8)	1,545,856	222,501	–
Income tax effect (Note 27)	200,289,819	(32,048,942)	1,582,006
	(467,986,810)	76,889,656	(3,889,803)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	285,979,244	(636,839,559)	421,990,316
TOTAL COMPREHENSIVE INCOME, NET OF TAX	₱3,314,316,884	₱2,025,306,307	₱3,076,409,444

See accompanying Notes to Financial Statements.



PHILIPPINE SAVINGS BANK

STATEMENTS OF CHANGES IN EQUITY

	Common Stock (Note 21)	Capital Paid in Excess of Par Value (Note 21)	Surplus Reserves (Note 30)	Surplus (Note 21)	Fair Value Reserves on Financial Assets at FVOCI / Net Unrealized Loss on Available-for-Sale Investments (Note 8)	Remeasurement Losses on Retirement Plan (Note 24)	Equity in Remeasurement Gains on Retirement Plan of a Joint Venture (Note 10)	Cumulative Translation Adjustment	Total
Balance at January 1, 2019	P2,402,524,910	P2,818,083,506	P1,035,899,409	P19,391,850,112	(P782,896,279)	(P470,611,677)	P3,131,435	(P3,833,206)	P24,394,148,210
Issuance of stock rights (Note 21)	1,428,569,250	6,469,567,367	—	—	—	—	—	—	7,898,136,617
Total comprehensive income (loss) for the year	—	—	—	3,028,337,640	763,964,848	(467,342,912)	(2,189,754)	(8,452,938)	3,314,316,884
Cash dividends (Note 21)	—	—	—	(1,149,328,248)	—	—	—	—	(1,149,328,248)
Appropriation of surplus to trust business (Note 30)	—	—	1,315,230	(1,315,230)	—	—	—	—	—
Balance at December 31, 2019	P3,831,094,160	P9,287,650,873	P1,037,214,639	P21,269,544,274	(P18,931,431)	(P937,954,589)	P941,681	(P12,286,144)	P34,457,273,463
Balance at January 1, 2018	P2,402,524,910	P2,818,083,506	P1,035,402,901	P17,097,046,504	(P411,510,218)	(P545,392,541)	P1,245,144	(P4,076,039)	P22,393,324,167
Effect of the adoption of PFRS 9	—	—	—	353,911,723	342,363,486	—	—	—	696,275,209
Balance at January 1, 2018, as restated	P2,402,524,910	P2,818,083,506	P1,035,402,901	P17,450,958,227	(P69,146,732)	(P545,392,541)	P1,245,144	(P4,076,039)	P23,089,599,376
Total comprehensive income (loss) for the year	—	—	—	2,662,145,866	(713,749,547)	74,780,864	1,886,291	242,833	2,025,306,307
Cash dividends (Note 21)	—	—	—	(720,757,473)	—	—	—	—	(720,757,473)
Appropriation of surplus to trust business (Note 30)	—	—	496,508	(496,508)	—	—	—	—	—
Balance at December 31, 2018	P2,402,524,910	P2,818,083,506	P1,035,899,409	P19,391,850,112	(P782,896,279)	(P470,611,677)	P3,131,435	(P3,833,206)	P24,394,148,210
Balance at January 1, 2017	P2,402,524,910	P2,818,083,506	P1,035,275,317	P15,163,512,433	(P842,908,364)	(P541,701,193)	P1,443,599	P1,441,988	P20,037,672,196
Total comprehensive income (loss) for the year	—	—	—	2,654,419,128	431,398,146	(3,691,348)	(198,455)	(5,518,027)	3,076,409,444
Cash dividends (Note 21)	—	—	—	(720,757,473)	—	—	—	—	(720,757,473)
Appropriation of surplus to trust business (Note 30)	—	—	127,584	(127,584)	—	—	—	—	—
Balance at December 31, 2017	P2,402,524,910	P2,818,083,506	P1,035,402,901	P17,097,046,504	(P411,510,218)	(P545,392,541)	P1,245,144	(P4,076,039)	P22,393,324,167

See accompanying Notes to Financial Statements.



PHILIPPINE SAVINGS BANK

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱3,578,778,423	₱2,971,741,106	₱2,921,480,635
Adjustments to reconcile income before income tax to net cash provided by operations:			
Provision for credit and impairment losses (Note 15)	2,214,989,857	2,137,972,532	2,270,178,805
Depreciation (Note 11)	910,341,824	622,182,083	635,436,103
Amortization of premium (discount) on financial assets at fair value through other comprehensive income and investment securities at amortized cost	1,038,248,791	(565,582,794)	–
Loss (Gain) on foreclosure and sale of:			
Investment properties (Note 12)	(611,833,898)	(421,975,957)	(348,813,361)
Chattel mortgage properties (Note 14)	84,902,195	(232,063,012)	(584,947,873)
Amortization of:			
Intangible assets (Note 13)	135,054,994	159,089,068	135,432,343
Debt issuance costs (Note 17)	51,072,480	12,466,263	3,265,585
Accretion of lease liabilities (Note 25)	113,560,729	–	–
Realized loss (gain) on sale of financial assets at fair value through other comprehensive income (FVOCI) (Note 8)	(224,424,552)	92,278,733	–
Share in net income of a joint venture (Note 10)	(105,905,423)	(82,376,569)	(71,836,533)
Fair value loss (gains) on fair value through profit or loss investments (Note 8)	(9,784)	16,941,771	(12,181,153)
Gain on sale of property and equipment (Note 11)	(8,132,940)	(7,918,569)	(1,731,001)
Amortization of premium (discount) on available-for-sale investments and held-to-maturity investments	–	–	345,911,497
Realized loss on sale of available-for-sale investments (Note 8)	–	–	49,756,366
Loss on sale of a joint venture	–	–	2,052,642
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Fair value through profit or loss investments	7,178,059	1,512,257,295	941,420,934
Loans and receivables	(13,941,308,215)	(15,682,534,934)	(22,428,511,076)
Other assets	9,737,244	(177,995,072)	(35,731,437)
Increase (decrease) in:			
Deposit liabilities	(28,187,004,930)	11,765,973,830	30,523,557,488
Treasurer's, cashier's and manager's checks	(317,840,041)	(598,349,515)	453,363,881
Accrued taxes, interest and other expenses	(415,997,141)	356,099,813	464,596,545
Other liabilities	(338,670,707)	(500,120,437)	329,104,407
Cash generated from (used in) operations	(36,007,263,035)	1,378,085,635	15,591,804,797
Income taxes paid	(415,090,970)	(381,107,451)	(394,158,858)
Dividends received from joint venture investment (Note 10)	39,359,981	–	–
Net cash provided by (used in) operating activities	(36, 382,994,024)	996,978,184	15,197,645,939
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
Financial assets at FVOCI	(1,924,784,626)	(6,318,566,676)	–
Property and equipment (Note 11)	(124,268,752)	(182,350,588)	(227,119,984)
Other intangible assets (Note 13)	(44,356,459)	(99,611,845)	(345,190,531)
Investment securities at amortized cost	–	(1,863,449,350)	–
Available-for-sale investments	–	–	(9,380,635,227)
Held-to-maturity investments	–	–	(6,917,136,761)

(Forward)



	Years Ended December 31		
	2019	2018	2017
Proceeds from sale/maturities of:			
Financial assets at FVOCI (Note 8)	P10,879,133,032	P4,919,018,184	P-
Chattel mortgage properties (Note 14)	2,688,067,819	2,346,032,425	2,146,956,711
Investment properties (Note 12)	1,276,797,669	701,479,408	784,512,544
Investment securities at amortized cost	557,776,500	-	-
Property and equipment (Note 11)	47,736,237	45,609,973	24,120,404
Available-for-sale investments (Note 8)	-	-	5,879,947,979
Held to maturity investments (Note 8)	-	-	324,545,000
Investment in a joint venture (Note 10)	-	-	189,960,000
Net cash provided by (used in) investing activities	13,356,101,420	(451,838,469)	(7,520,039,865)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of bills payable (Note 32)	382,498,646,855	87,840,542,536	-
Settlement of bills payable (Note 32)	(381,298,646,855)	(86,365,497,487)	(4,601,585,608)
Issuance of stock rights (Note 21)	7,898,136,617	-	-
Issuance of bonds payable (Note 17 and 32)	6,243,125,419	-	-
Settlement of subordinated notes (Note 17 and 32)	(3,000,000,000)	-	(3,000,000,000)
Dividends paid (Note 21)	(1,149,328,248)	(720,757,473)	(720,757,473)
Payment of lease liabilities (Notes 25 and 32)	(439,476,020)	-	-
Net cash provided by (used in) financing activities	10,752,457,768	754,287,576	(8,322,343,081)
Effect of exchange rate differences	(180,999)	6,116	(225,564)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(12,274,615,835)	1,299,433,407	(644,962,571)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items	3,776,087,269	2,596,872,801	2,778,009,185
Due from Bangko Sentral ng Pilipinas (Note 16)	15,159,012,316	15,265,387,772	13,986,784,696
Due from other banks	1,685,106,753	1,508,489,309	1,838,630,022
Interbank loans receivable and securities purchased under resale agreements (Note 7)	1,892,000,000	1,842,023,049	3,254,311,599
	22,512,206,338	21,212,772,931	21,857,735,502
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	2,281,813,055	3,776,087,269	2,596,872,801
Due from Bangko Sentral ng Pilipinas (Note 16)	6,816,092,181	15,159,012,316	15,265,387,772
Due from other banks	1,139,685,267	1,685,106,753	1,508,489,309
Interbank loans receivable and securities purchased under resale agreements (Note 7)	-	1,892,000,000	1,842,023,049
	P10,237,590,503	P22,512,206,338	P21,212,772,931
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid	P6,468,552,306	P4,669,014,050	P5,012,646,483
Interest received	18,507,292,047	15,413,717,174	10,936,013,646

See accompanying Notes to Financial Statements.



PHILIPPINE SAVINGS BANK

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Philippine Savings Bank (the Bank) was incorporated in the Philippines primarily to engage in savings and mortgage banking. The Bank's shares are listed in the Philippine Stock Exchange (PSE). The Bank offers a wide range of products and services such as deposit products, loans, treasury and trust functions that mainly serve the retail and consumer markets. On September 6, 1991, the Bank was authorized to perform trust functions.

As of December 31, 2019 and 2018, the Bank had 250 branches. In 2019, the Bank had 288 Automated Telling Machines (ATMs) in Metro Manila and 269 in provincial locations, bringing its total number of ATMs to 557 as of December 31, 2019 and 575 as of December 31, 2018.

The Bank's original Certificate of Incorporation was issued by the Securities and Exchange Commission (SEC) on June 30, 1959. On March 28, 2006, the Board of Directors (BOD) of the Bank approved the amendment of Article IV of its Amended Articles of Incorporation to extend the corporate term of the Bank, which expired on June 30, 2009, for another 50 years or up to June 30, 2059. This was subsequently approved by stockholders representing at least two-thirds of the outstanding capital stock of the Bank on April 25, 2006. The Amended Articles of Incorporation was approved by the SEC on September 27, 2006.

On April 27, 2010, by majority vote of the BOD and by stockholders representing two-thirds of the outstanding capital stock, the amendment of Article VI of its Amended Articles of Incorporation reducing the number of directors from a maximum of eleven (11) to a maximum of nine (9) has been approved. This was approved by the SEC on August 26, 2010.

On March 24, 2014, the BOD approved Article III of Articles of Incorporation to specify its principal address from Makati City to PSBank Center, 777 Paseo de Roxas corner Sedeño Street, Makati City 1226. The Amended Articles of Incorporation was approved by the SEC on December 22, 2014.

As of December 31, 2019 and 2018, Metropolitan Bank & Trust Company (MBTC), the Bank's ultimate parent, owned eighty-eight percent (88%) and eighty-three percent (83%) of the Bank, respectively. The increase was due to the stock rights offering of the Bank last January 11, 2019.

2. Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities at fair value through profit or loss (FVTPL) and financial assets at fair value through other comprehensive income (FVOCI) that have been measured at fair value. All values are rounded to the nearest peso unless otherwise stated.

The financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of RBU and FCDU is Philippine Peso (PHP) and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine peso (see accounting policy on Foreign Currency Translation). The financial statements of these units are combined after eliminating inter-unit accounts.



The financial statements provide comparative information in respect of the previous period. In addition, the Bank presents an additional statement of condition at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements.

Statement of Compliance

The financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements

The Bank presents its statements of condition in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within twelve (12) months after the statement of condition date (current) and more than 12 months after the statement of condition date (non-current) is presented in Note 20.

Financial assets and financial liabilities are offset and the net amount is reported in the statements of condition only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. The Bank assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of solvency or bankruptcy of the Bank and all of the counterparties.

Income and expenses are not offset in the statements of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Bank has adopted the following new accounting pronouncements starting January 1, 2019. Unless otherwise indicated, these new and revised accounting standards have no impact to the Bank.

- **PFRS 16, *Leases***

PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases - Incentives*, and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, PFRS 16 did not have an impact for leases where the Bank is the lessor.

The Bank adopted PFRS 16 using the modified retrospective approach with certain transition reliefs with the date of initial application of January 1, 2019 and applied the following practical expedients wherein it:

- Applied the standard only to contracts that were previously identified as leases, applying the old standards at the date of initial application;
- Used the recognition exemptions for short-term leases and lease contracts for low value assets;



- Relied on its assessment of whether leases are onerous immediately before the date of initial application; and
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application

The reconciliation of the operating lease commitments to the total gross lease payments used in the measurement of the lease liabilities are as follows:

Operating lease commitments as at 31 December 2018	₱2,044,036,855
Weighted average incremental borrowing rate at 1 January 2019	7.52%
Discounted operating lease commitments at 1 January 2019	1,631,376,370
Less: Commitments relating to short term leases	—
Commitments relating to leases of low-value assets	—
Add: Commitments relating to leases previously classified as finance leases	—
Payments relating to renewal periods not included in operating lease commitments as at 31 December 2018	—
Lease liabilities recognized as at 1 January 2019	₱1,631,376,370

The Bank has lease contracts for office branches, warehouses, spaces for Automated Teller Machines (ATMs), and office equipment. Before the adoption of PFRS 16, the Bank classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. All leases (as lessee) were classified as operating leases. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense under 'Occupancy and equipment-related cost' in the statement of income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under 'Prepaid expenses' lodged in 'Other assets', and 'Accrued other expenses' lodged in 'Accrued taxes, interest and other expenses', respectively.

Upon adoption of PFRS 16, the Bank applied a single recognition and measurement approach for all leases (as lessee) except for short-term leases and leases of low-value assets. The Bank recognized lease liabilities representing lease payments and right-of-use (ROU) assets representing the right to use the underlying assets. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate (IBR) at the date of initial application. ROU assets were recognized based on the amount equal to the lease liabilities adjusted for any related prepaid and accrued lease payments previously recognized.

The effect of adoption of PFRS 16 as at January 1, 2019 follows:

	Increase (Decrease)
ASSETS	
Right-of-use Assets under 'Property and Equipment (Note 11)'	₱1,442,283,639
LIABILITIES	
Lease Liabilities under 'Other Liabilities' (Note 19)	₱1,631,376,370
Accrued Taxes, Interest and Other Expenses*	(189,092,731)
	₱1,442,283,639

*Pertains to accrued rent recognized under PAS 17



The adoption of PFRS 16 had no impact on the Bank's retained earnings and CET 1 ratio as at January 1, 2019.

Amounts recognized in the statement of condition and statement of income

Set out below are the carrying amounts of the Bank's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use Assets (Note 11)	Lease Liabilities (Note 19)
As at January 1, 2019	₱1,442,283,639	₱1,631,376,370
Additions	186,062,195	186,062,195
Depreciation during the period	(373,133,483)	—
Accretion during the period	—	113,560,729
Expiry/termination	(7,105,035)	(24,419,449)
Payments	—	(439,476,020)
As at December 31, 2019	₱1,248,107,316	₱1,467,103,825

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

	December 31, 2019
Depreciation expense of right-of-use assets	₱373,133,483
Interest expense on lease liabilities	113,560,729
Rent expense - leases of low-value assets	94,131,623
Total amounts recognized in the statement of income	₱580,825,835

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:
 - Whether an entity considers uncertain tax treatments separately
 - The assumptions an entity makes about the examination of tax treatments by taxation authorities
 - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
 - How an entity considers changes in facts and circumstances

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



Upon adoption of the Interpretation, the Bank has assessed whether it has any uncertain tax position. The Bank applies significant judgement in identifying uncertainties over its income tax treatments. The Bank determined, based on its assessment, in consultation with its tax counsel, that it is probable that its income tax treatments will be accepted by the taxation authorities. Accordingly, the interpretation did not have an impact on the financial statements of the Bank.

- Amendments to PFRS 9, *Financial Instruments, Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Investment in Associates and Joint Ventures, Long-term Interests in Associates and Joint Ventures*
- *Annual Improvements to PFRSs 2015-2017 Cycle*
 - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*
 - Amendments to PAS 12, *Income Taxes, Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
 - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Summary of Significant Accounting Policies

Foreign Currency Translation

The financial statements are presented in PHP, which is the Bank's functional and presentation currency.

The books of accounts of the RBU are maintained in PHP, while those of the FCDU are maintained in USD.

RBU

As at reporting date, foreign currency monetary assets and liabilities of the RBU are translated in PHP based on the Bankers Association of the Philippines (BAP) closing rate (for 2019 and 2018) and Philippine Dealing System (PDS) closing rate (for 2017) prevailing at the statement of condition date, and foreign currency-denominated income and expenses, at the exchange rates as at the dates of the transactions. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities in the RBU are credited to or charged against profit or loss in the year in which the rates change. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

FCDU

As at reporting date, the assets and liabilities of the FCDU are translated to the Bank's presentation currency (PHP) at the BAP closing rate (for 2019 and 2018) and PDS closing rate (for 2017) prevailing at the statement of condition date, and its income and expenses are translated using the exchange rates as at the dates of the transactions. Exchange differences arising on translation to the presentation currency are taken to the statements of comprehensive income under 'Cumulative translation adjustment'. Upon disposal of the FCDU or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statements of comprehensive income is recognized in the statements of income.



Fair Value Measurement

The Bank measures financial instruments, such as FVTPL investments, financial assets at FVOCI and derivative financial instruments, at fair value at each statement of condition date. Also, fair values of financial instruments measured at amortized cost and non-financial assets such as investment properties are disclosed in Note 4.

Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If an asset or a liability measured at fair value has a bid price and an ask price (e.g., an input from a dealer market), the price between the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset and liability and the level of the fair value hierarchy as explained above.



Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP and other banks, interbank loans receivable and securities purchased under resale agreements (SPURA) that are convertible to known amounts of cash which have original maturities of three months or less from date of placements and that are subject to an insignificant risk of changes in value. Due from BSP includes the statutory reserves required by the BSP which the Bank considers as cash equivalents as withdrawals can be made to meet the Bank's cash requirements as allowed by the BSP.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Purchases or sales of financial assets, except for derivatives, that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Derivative financial instruments are recognized on a trade date basis. Deposits, amounts due to banks and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.

Initial recognition of financial instruments

All financial instruments are initially measured at fair value. Except for financial assets and financial liabilities at FVTPL, the initial measurement of financial instruments includes transaction costs.

Day 1' difference

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

Investments at FVTPL

Financial assets or financial liabilities at FVTPL

Financial assets and financial liabilities at FVTPL include financial assets and financial liabilities held for trading purposes and derivative instruments.

Financial instruments held-for-trading

Financial assets or financial liabilities held for trading (HFT) are recorded in the statements of condition at fair value. Included in this classification are debt securities which have been acquired principally for the purpose of selling in the near term. Changes in fair value relating to the HFT positions are recognized in 'Trading and securities gains (losses) - net'. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded in other operating income under 'Miscellaneous' when the right to receive payment has been established.

Derivatives recorded at FVTPL

Derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as cash flow hedges) are taken directly to the statements of income and are included in 'Foreign exchange gain - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. As of December 31, 2019 and 2018, derivatives consist of foreign exchange swaps, forwards and



Republic of the Philippines (ROP) paired warrants acquired to manage the Bank's foreign currency risk, lower the risk-weighted assets and improve the capital adequacy ratio of the Bank.

Financial Instruments – Classification and Subsequent Measurement

Financial assets are measured at FVTPL unless these are measured at FVOCI or at amortized cost. Financial liabilities are classified as either financial liabilities at FVTPL or financial liabilities at amortized cost. The classification of financial assets depends on the contractual terms and the business model for managing the financial assets. Subsequent to initial recognition, the Bank may reclassify its financial assets only when there is a change in its business model for managing these financial assets. Reclassification of financial liabilities is not allowed.

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. As a second step of its classification process, the Bank assesses the contractual terms of financial assets to identify whether they pass the contractual cash flows test (SPPI test).

Financial Assets at FVOCI

Financial assets at FVOCI include debt and equity securities. After initial measurement, investment securities at FVOCI are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of financial assets at FVOCI are excluded, net of tax as applicable, from the reported earnings and are included in the statements of comprehensive income as 'Fair value reserves on financial assets at FVOCI'.

Debt securities at FVOCI are those that meet both of the following conditions: (i) the asset is held within a business model whose objective is to hold the financial assets in order to both collect contractual cash flows and sell financial assets; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. The effective yield component of debt securities at FVOCI, as well as the impact of restatements on foreign currency-denominated debt securities at FVOCI, is reported in the statements of income. Interest earned on holding debt securities at FVOCI are reported as 'Interest income' using the effective interest method. When the debt securities at FVOCI are disposed of, the cumulative gain or loss previously recognized in the statements of comprehensive income is recognized as 'Trading and securities gain (loss) - net' in the statements of income. The ECL arising from impairment of such investments are recognized in OCI with a corresponding charge to 'Provision for credit and impairment losses' in the statements of income.

Equity securities designated at FVOCI are those that the Bank made an irrevocable election to present in OCI the subsequent changes in fair value. Dividends earned on holding equity securities at FVOCI are recognized in the statements of income as 'Dividends' when the right to receive payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Gains and losses on disposal of these equity securities are never recycled to profit or loss, but the cumulative gain or loss previously recognized in the statements of comprehensive income is reclassified to 'Surplus' or any other appropriate equity account upon disposal. Equity securities at FVOCI are not subject to impairment assessment.

Financial assets at amortized cost

Financial assets at amortized cost are debt financial assets that meet both of the following conditions: (i) these are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows; and (ii) the contractual terms give rise on specified dates to cash flows



that are SPPI on the outstanding principal amount. This accounting policy relates to the statements of condition captions 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and SPURA', 'Investment securities at amortized cost' and 'Loans and receivables'.

After initial measurement, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included in 'Interest income' in the statements of income. Gains and losses are recognized in statements of income when these investments are derecognized or impaired, as well as through the amortization process. The ECL are recognized in the statements of income under 'Provision for credit and impairment losses'. The effects of revaluation on foreign currency denominated investments are recognized in the statements of income.

Other financial liabilities carried at amortized cost

This category represents issued financial instruments or their components, which are not designated at FVTPL and comprises deposit liabilities, bills payable, subordinated notes, treasurer's, cashier's and manager's checks, accrued interest payable, accrued other expenses payable, accounts payable, bills purchased-contra, other credits, dividends payable, deposits for keys-safety deposit boxes (SDB), and overages, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, financial liabilities not qualified and not designated as FVTPL are subsequently measured at amortized cost using the effective interest amortization method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on quoted market prices for similar debt instruments). The residual amount determined after deducting the fair value of the debt component is assigned to the equity component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

Financial Guarantees and Undrawn Loan Commitments

The Bank issues financial guarantees and loan commitments. Financial guarantees are those issued by the Bank to creditors as allowed under existing rules and regulations whereby it guarantees third party obligations by signing as guarantor in the contract/agreement. Undrawn loan commitments and letters of credit are commitments under which over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. The nominal contractual value of financial guarantees and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position. Starting January 1, 2018, these contracts are in the scope of the ECL requirements where the Bank estimates the expected portion of the undrawn loan commitments that will be drawn over their expected life. The ECL related to financial guarantees and undrawn loan commitments is recognized in 'Miscellaneous liabilities' under 'Other liabilities'.



Derecognition of Financial Assets and Liabilities

Financial assets

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

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

Where the Bank has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor is transferred control over the asset, the asset recognized to the extent of the Bank's continuing involvement in the asset. In this case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

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

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If a write-off is later recovered, any amounts formerly charged are credited to 'Recovery on charged-off assets' under 'Miscellaneous income' in the statements of income.

Financial liabilities

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

Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase (SSURA) at a specified future date ('repos') are not derecognized from the statements of condition as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received, including accrued interest, is recognized in the statements of condition as a loan to the Bank under 'Bills payable', reflecting the economic substance of such transaction.

Conversely, SPURA at a specified future date ('reverse repos') are not recognized in the statements of condition. The consideration paid, including accrued interest, is recognized in the statements of condition as SPURA, and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest amortization method.



Reclassification of Financial Assets

The Bank reclassifies its financial assets when there is a change in its business model for managing financial assets. A change in business model occurs when the Bank either begins or ceases to perform an activity that is significant to its operations. The Bank applies the reclassification prospectively from the reclassification date and does not restate any previously recognized gains, losses or interest.

Impairment of Financial Assets

Policies applicable beginning January 1, 2018

PFRS 9 requires the Bank to record ECL for all loans and other debt financial assets not classified as at FVTPL, together with loan commitments and financial guarantee contracts.

Expected credit loss methodology

ECL represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The objective of the new impairment standard is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk (SICR) since their initial recognition. As a result, ECL allowances are now measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that result from all possible default events over the expected life of a financial instrument. In comparison, the previous incurred loss model recognizes lifetime credit losses only when there is objective evidence of impairment.

Staging assessment

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

- Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial instruments.

Definition of “default” and “cure”

As a part of a qualitative assessment of whether a customer is in default, the Bank considers a variety of instances that may indicate unlikelihood to pay. The Bank’s definition of default is aligned with the non-performing loan criteria as prescribed in BSP Circular No. 941. Defaults refer to loans, investments, receivables, or any financial asset, even without any missed contractual payments, that satisfy any of the following conditions (1) impaired under existing accounting standards, (2) classified as doubtful or loss, (3) in litigation, (4) and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement. Microfinance and other small



loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Defaults are characterized by financial assets that have objective evidence of impairment at the reporting date and as such classified under Stage 3 ECL treatment.

An instrument is considered to be no longer in default, i.e., to have cured, when it no longer meets any of the default criteria above and there is sufficient evidence to support full collection through payments received for at least 6 months. Cured accounts are classified under Stage 1 ECL treatment.

Significant increase in credit risk (SICR)

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative models, the borrower or counterparty's credit rating has deteriorated by at least 2 notches. On the other hand, if based on the Bank's internal credit assessment, the borrower or counterparty is determined to require close monitoring or with well-defined credit weaknesses, then credit risk may have significantly increased as well. Moreover, if contractual payments are more than 30 days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which amortized payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL.

Restructuring

In certain circumstances, the Bank modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications can be given depending on the borrower's or counterparty's current or expected financial difficulty. The modifications may include, but are not limited to, changes in maturity date, principal amount from capitalization of accrued interest, terms and conditions from conversion/consolidation or interest rates/repricing cycle that results in an extension in the loan maturity. Distressed restructuring with indications of unlikelihood to pay are categorized as impaired accounts and are initially moved to Stage 3.

The Bank implements a curing policy for restructured accounts compliant with BSP Circular No. 1011. Restructured accounts that have exhibited improvements in creditworthiness may be moved from Stage 3 after a total of one-year probation period. These accounts are transferred to Stage 2 after six months of full payments and consequently transferred to Stage 1 after making the next six months of full payments.

ECL parameters and methodologies

ECL is a function of the probability of default (PD), exposure at default (EAD) and loss given default (LGD) with each of the parameter independently modelled.

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



on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio.

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

Economic overlays and multiple economic scenarios

The Bank incorporates economic overlays into the measurement of ECL to add a forward-looking risk measure parallel to multiple future macroeconomic atmosphere expectations. A broad range of economic indicators were considered for the economic inputs, such as GDP, GIR change, CPI change, PSE indices, foreign exchange rates and other BSP statistical indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To address this, quantitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

The Bank's loans and receivables consist of different portfolios, such as consumption, real estate, commercial and personal loans, as well as other receivables (e.g., sales contract receivables). In compliance with PFRS 9, the Bank developed ECL parameters and methodologies for each portfolio, using historical data as well as forward-looking inputs and assumptions.

Policies applicable prior January 1, 2018

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, which includes loans and receivables, due from banks and investment securities at amortized cost, the Bank first assesses individually at each statement of condition date whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment. Assets individually assessed for impairment for which no impairment loss was measured are also collectively assessed for impairment.



If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral have been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to 'Recovery of charged-off assets' under 'Miscellaneous income' in the statements of income.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as industry and age of receivables.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period in which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Restructured loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement on new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due.

Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subjected to an individual or collective impairment assessment, calculated using the loan's original EIR if the original loan has a fixed interest rate and the current repriced rate if the original loan is repriceable. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the applicable interest rate, is recognized in 'Provision for credit and impairment losses' in the statements of income.



AFS investments

For AFS investments, the Bank assesses at each statement of condition date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of debt instruments classified as AFS investments, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded as impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statements of income.

Future interest income continues to be accrued based on the reduced carrying amount using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statements of income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the statements of income.

In the case of equity investments classified as AFS investments, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investments below its cost. The Bank treats 'significant' generally as 20.00% and 'prolonged' generally as longer than twelve (12) months. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statements of income - is removed from equity and recognized in the statements of income. Impairment losses on equity investments are not reversed through the statements of income. Increases in fair value after impairment are recognized in the statements of comprehensive income.

Investment in a Joint Venture

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Bank's investment in its joint venture is accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Bank's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of income reflects the Bank's share of the results of operations of the joint venture. Any change in OCI of those investees is presented as part of the Bank's OCI. In addition, when there has been a change recognized directly in the equity of the joint venture, the Bank recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Bank and joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Bank's share of profit or loss of a joint venture is shown on the face of the statement of income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.



The financial statements of a joint venture are prepared for the same reporting period as the Bank. The length of the reporting period is the same from period to period. When necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

After application of the equity method, the Bank determines whether it is necessary to recognize an impairment loss on its investment in its joint venture. At each statement of condition date, the Bank determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Bank calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, then recognizes the loss as 'Share in net income of a joint venture' in the statements of income.

Upon loss of joint control over the joint venture, the Bank measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Property and Equipment

Land is stated at cost less any impairment in value, while depreciable properties, including building, furniture, fixtures and equipment, and leasehold improvements, are stated at cost less accumulated depreciation and any accumulated impairment losses. The initial cost of property and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance, are normally charged against profit or loss in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of the property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Buildings	25-50 years
Furniture, fixtures and equipment	3-5 years, depending on the type of assets
Leasehold improvements	5 years or the term of the related lease, whichever is shorter

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year-end to ensure that these are consistent with the expected pattern of economic benefits from the items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognized.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the asset is written down to its recoverable amount.



Leases

Bank as lessee

Policies applicable beginning January 1, 2019

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i. Right-of-use assets

The Bank recognizes ROU assets (included in 'Property and Equipment') at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. ROU assets are depreciated on a straight line basis over the shorter of the lease term and estimated useful lives of the assets as follows:

Office space and warehouses	1 to 20 years
ATM space	1 to 3 years

ii. Lease liabilities

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

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

Leases previously classified as operating leases

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



Determining the lease term of contracts with renewal options

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that are within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Bank's lease liabilities are included in 'Other Liabilities' (Note 19)

iii. *Short-term leases and leases of low-value assets*

The Bank applies the short-term lease recognition exemption to its short-term leases of office equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of ATMs and office equipment that are considered of low value (i.e. ₱250,000 and below). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Policies applicable prior to January 1, 2019

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

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or,
- d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Bank as lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as rent expense under 'Occupancy and equipment-related cost' in the statements of income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under 'Prepayments' lodged in other assets and 'Accrued other expenses payable', lodged in accrued taxes, interest and other expenses, respectively.

Bank as lessor

Leases where the Bank does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as income in the period in which they are earned.



Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired unless the fair value of such asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of the asset given up. The difference between the fair value of the asset received and the carrying amount of the asset given up is recorded as 'Gain on foreclosure of real assets and other properties acquired' under 'Gain on foreclosure and sale of investment properties'. Foreclosed properties are classified under investment properties from foreclosure date. Expenditures incurred after the investment properties are recognized, such as repairs and maintenance costs, are normally charged to income in the period in which the costs are incurred.

Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation and impairment in value, except for land which is stated at cost less impairment in value. Depreciation is calculated using the straight-line method over the remaining useful lives from the time of acquisition of the investment properties.

The estimated useful life of building and condominium units ranges from 10 to 40 years.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income in 'Gain on foreclosure and sale of investment properties - net' in the year of retirement or disposal.

Transfers are made to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

Chattel Mortgage Properties

Chattel mortgage properties comprise of repossessed vehicles. Chattel mortgage properties are stated at cost less accumulated depreciation and impairment in value. Chattel mortgage properties acquired are initially recognized at fair value. Depreciation is calculated using the straight-line method over the remaining useful lives from the time of acquisition of the vehicles. The useful lives of chattel mortgage properties are estimated to be five years.

Chattel mortgage properties are derecognized when they have either been disposed of or when the chattel mortgage property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on disposal of chattel mortgage properties are recognized in the statements of income under 'Gain (loss) on foreclosure and sale of chattel mortgage properties- net' in the year of disposal.

Intangible Assets

The Bank's intangible assets include branch licenses and computer software. An intangible asset is recognized only when the cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization



and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statements of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statements of income under 'Amortization of intangible assets'.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit (CGU) level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statements of income when the asset is derecognized.

Branch licenses

Branch licenses arise from the acquisition of branches from local banks and licenses to operate new branches from the BSP. Branch licenses have indefinite useful lives and are tested for impairment on an annual basis.

Software costs

Software costs are carried at cost less accumulated amortization and any impairment in value. Given the history of rapid changes in technology, computer software are susceptible to technological obsolescence. Therefore, it is likely that their useful life is short. Software costs are amortized on a straight-line basis over five years but maybe shorter depending on the period over which the Bank expects to use the asset.

Impairment of Non-financial Assets

Property and equipment, investment properties and chattel mortgage properties

At each statement of condition date, the Bank assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of the recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is



used. These calculations are corroborated by valuation multiples and other available fair value indicators.

An impairment loss is charged to operations in the year in which it arises.

An assessment is made at each statement of condition date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been previously recognized. Such reversal is recognized in the statement of income. After such reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Goodwill

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGU) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGU) is less than the carrying amount of the CGU (or group of CGU) to which goodwill has been allocated, an impairment loss is recognized immediately in the statements of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Bank performs its annual impairment test of goodwill as at December 31 of each year.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 of each year, either individually or at the CGU level, as appropriate.

Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Investment in a joint venture

After application of the equity method, the Bank determines whether it is necessary to recognize an impairment loss on the Bank's investment in a joint venture. The Bank determines at each statement of condition date whether there is any objective evidence that the investment a joint venture is impaired. If this is the case, the Bank calculates the amount of impairment as being the difference between the fair value of the investment in the joint venture and the carrying amount and recognizes such amount in the statements of income.

Common Stock

Common stocks are recorded at par. Proceeds in excess of par value are recognized under equity as 'Capital paid in excess of par value' in the statements of condition. Incremental costs incurred which are directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Revenue Recognition

Revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services.



The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Bank concluded that it is acting as a principal in all of its revenue arrangements.

Service fees and commission income

Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. These fees include remittance fees, commissions, deposit-related and other credit-related fees.

Revenues outside the scope of PFRS 15

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as financial assets at FVOCI and AFS investments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest income'.

Under PFRS 9, when a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3 (as discussed in "Impairment of Financial Assets" above), the Bank calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis. Under PAS 39, once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Income from sale of property and equipment, investment property and chattel mortgage properties

Income from sale of property and equipment, investment property and chattel mortgage properties is included in the profit or loss when the property is derecognized. The gain or loss arising from the derecognition of the property is determined as the difference between the net disposal proceeds and its carrying amount on the date of the transaction.

Trading and securities gains (losses) - net

Trading and securities gain (loss) represents results arising from trading activities, including all gains and losses from changes in the fair values of FVTPL investments. It also includes gains and losses realized from sale of debt securities at FVOCI and AFS investments.

Realized gains and losses on disposals of FVTPL investments are calculated using weighted average method. It represents the difference between an instrument's initial carrying amount and disposal amount.

Rental income

Rental income arising from leased properties is accounted for on a straight-line basis over the lease terms of ongoing leases and is recorded in the statements of income under 'Miscellaneous' in other operating income.



Expense Recognition

Expenses are recognized when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

Interest expense

Interest expense for all interest-bearing financial liabilities are recognized in 'Interest expense' in the statements of income using the EIR of the financial liabilities to which they relate.

Other expense

Expenses encompass losses as well as those expenses that arise in the ordinary course of business of the Bank. Expenses are recognized when incurred.

Business Combination and Goodwill

Business combinations are accounted for using the acquisition method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill.

If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognized directly in the statements of income in the year of acquisition.

Goodwill is initially measured at cost being the excess of the acquisition cost over the share in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities. The Bank's goodwill arose from past purchases of branch business/offices from the Parent Company.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired is, from the acquisition date, allocated to each of the CGU or group of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether the acquired other assets or liabilities are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Retirement Cost

Defined Benefit Plan

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the statement of condition date reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The present value of the defined benefit obligation is calculated annually by an independent actuary. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method.



Defined benefit costs comprise the following:

- a. service cost;
- b. net interest on the net defined benefit liability or asset; and
- c. remeasurements of net defined benefit liability or asset.

Service costs, which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Bank, nor can they be paid directly to the Bank. The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Bank's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.



Employee leave entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as 'Interest expense'.

Contingent Liabilities and Contingent Assets

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

Debt Issue Costs

Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments are included in the measurement basis of the underlying debt instruments and are amortized as an adjustment to the interest on the underlying debt instruments using the effective interest method.

Income Taxes

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

Current tax

Current income tax is the expected tax payable on the taxable income for the period, using the tax rates enacted at the statement of condition date, together with adjustments to tax payable in respect to prior years.

Deferred tax

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the statement of condition date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences and carry forward of unused tax losses and tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses and MCIT can be utilized.



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

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of condition date.

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

Current income tax and deferred income tax relating to items recognized directly in OCI is also recognized in OCI and not in the statements of income.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year, after giving retroactive effect to stock dividends declared, stock rights exercised and stock splits, if any, declared during the year.

Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Bank. Dividends for the year that are approved after the statements of condition date are dealt with as subsequent events.

Segment Reporting

The Bank's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 6. The Bank's assets generating revenues are all located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

Fiduciary Activities

Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements, where the Bank acts in a fiduciary capacity such as nominee, trustee or agent.

Subsequent Events

Post year-end events that provide additional information about the Bank's position at the statement of condition date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Standards issued but not yet effective

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



Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*
The amendments to PFRS 3 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. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*
The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*
PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

Deferred effectivity

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

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.



On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires the management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent assets and contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets and liabilities affected in future periods. The effects of any change in judgments, estimates and assumptions are reflected in the financial statements as they become reasonably determinable.

Judgments, estimates and assumptions 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.

Judgments

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

(a) Fair value of financial instruments

When the fair values of financial assets and financial liabilities in the statement of condition cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility for longer-dated derivatives and discount rates, prepayments and default rates assumptions. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The fair values of the Bank's financial instruments are disclosed in Note 4.

(b) Classification of financial assets

The Bank classifies its financial assets depending on the business model for managing those financial assets and whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

The Bank performs the business model assessment based on observable factors such as:

- Performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel
- Risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- Compensation of business units whether based on the fair value of the assets managed or on the contractual cash flows collected
- Expected frequency, value and timing of sales



In performing the SPPI test, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, the period for which the interest rate is set, contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms and other features that may modify the consideration for the time value of money.

(c) *Leases*

Bank as lessor

The Bank has entered into commercial property leases on its investment properties portfolio and over various items of furniture, fixtures and equipment. The Bank has determined, based on an evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Bank as lessee

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Extension and termination options

The Bank has several lease contracts that include extension and termination options. The Bank applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors such as leasehold improvements and location that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassess the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Estimating the IBR for lease liabilities

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR for lease liabilities is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment. The Bank estimates the IBR for lease liabilities using observable inputs (by reference to prevailing risk-free rates) adjusted to take into account the entity's credit risk (i.e., credit spread).

The carrying values of the Bank's right-of-use assets and lease liability are disclosed in Notes 11, 19 and 25, respectively.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of condition date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next period, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.



(a) *Credit losses on financial assets*

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

- Segmentation of the portfolio, where the appropriate model or ECL approach is used
- The criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and economic inputs and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

The gross carrying amounts of financial assets subject to ECL as of December 31, 2019 and the related allowance for credit losses are disclosed in Notes 5 and 15, respectively.

(b) *Impairment of investment properties and chattel mortgage properties*

The Bank assesses impairment on its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

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

The Bank recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the fair value less costs to sell for property and equipment, investment properties and chattel mortgage properties. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

The carrying values of the Bank's investment properties and chattel mortgage properties are disclosed in Notes 12 and 14, respectively.

(c) *Present value of retirement obligation*

The cost of defined benefit pension plans as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each statement of condition date.

In determining the appropriate discount rate, management considers the interest rates of Philippine government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.



The details of assumptions used in the actuarial valuation and carrying value of the net pension liability are disclosed in Note 24.

(d) Recognition of deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the availability of future taxable income in reference to financial forecast, tax strategies and expected future market or economic conditions.

Estimates of future taxable income indicate that temporary differences will be realized in the future. The carrying values of net deferred tax assets are disclosed in Note 27.

(e) Contingent liabilities

The Bank is a defendant in legal actions arising from its normal business activities. Management believes that the ultimate liability, if any, resulting from these cases will not have a material effect on the Bank's financial statements are disclosed in Note 31.

4. Fair Value Measurement

Financial Instruments

The following describes the methodologies and assumptions used to determine the fair values of financial instruments:

Cash and other cash items, due from BSP, due from other banks, interbank loans receivable and SPURA, accounts receivable, accrued interest receivable, bills purchased, RCOI, shortages, and petty cash fund - Carrying amounts approximate fair values due to the relatively short-term maturities of these assets.

Debt investments - Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services, or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology, using rates currently available for debt on similar terms, credit risk and remaining maturities. The discount rates used range from 3.00% to 9.50% and from 2.47% to 8.14% in 2019 and 2018, respectively.

Equity investments - Fair values are based on quoted prices published in markets.

Derivative instruments (included under investments and financial liabilities under FVTPL) - Fair values are estimated based on quoted market prices provided by independent parties or derived using acceptable valuation models. The models utilize published underlying rates (e.g., foreign exchange (FX) rates and forward FX rates).

Receivable from customers, sales contract receivables and security deposits - Fair values are estimated using the discounted cash flow methodology, using the Bank's current lending rates for similar types of loans. The discount rates used range from 5.58% to 30.26% and 6.00% to 36.10% in 2019 and 2018, respectively.



Demand deposits, savings deposits, treasurer's, cashier's and manager's checks, accrued interest payable, accounts payable, bills purchased-contra, other credits, due to the Treasurer of the Philippines, deposits for keys-SDB, payment orders payable and overages - Carrying amounts approximate fair values due to either the demand nature or the relatively short-term maturities of these liabilities.

Bills payable, bonds payable, subordinated notes and time deposits - Fair values are estimated using the discounted cash flow methodology using the Bank's borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rates used are the following:

Financial Instrument	Discount Rates	
	2019	2018
Bills payable	3.94% to 7.07%	7.32%
Bonds payable	5.60%	—
Subordinated note	5.50%	—
Time deposits	0.25% to 6.00%	0.50% to 3.50%

Lease liabilities - Fair values are estimated using the discounted cash flow methodology using the sum of BVAL tenor rate and credit spread rate as the discount rate, ranging from 3.89% to 5.56%.

The inputs used in the fair value measurement based on Level 2 are as follows:

Derivative assets and liabilities - fair values are calculated by reference to the prevailing spot exchange rate as of statement of condition date.

Government securities - interpolated rates based on market rates of benchmark securities as of statement of condition date.

The inputs used in estimating fair values of financial instruments carried at amortized cost and categorized under Level 3 include risk-free rates and applicable risk premium.

Non-financial Assets

Investment properties - Fair values of the investment properties have been determined based on valuations performed by independent external and in-house appraisers using valuation technique with significant inputs that are not based on observable market data (Level 3). The valuation of investment properties was based on the Sales Comparison Approach and considered recent sales of similar or substitute properties in the same areas where the investment properties are located, taking into account the economic conditions prevailing at the time of the valuation. Other factors considered were the location and shape of the properties, environmental issues, development controls such as the height restriction, building coverage and floor area ratio restrictions among others. Other significant unobservable inputs include shape, location, time element, discount and corner influence. The fair value of investment properties is based on its highest and best use, which is its current use.



The following tables summarize the carrying amount and fair values of the Bank's financial instruments and investment properties, analyzed based on the hierarchy described in Note 2 (in thousands):

December 31, 2019					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial Assets					
FVTPL investments					
HFT - government securities	P44	P44	P-	P-	P44
Financial assets at FVOCI					
Government debt securities	1,855,048	410,230	1,444,818	-	1,855,048
Private debt securities	2,908,569	2,685,319	223,250	-	2,908,569
Equity securities	11,771	10,599	1,172	-	11,771
	P4,775,432	P3,106,192	P1,669,240	P-	P4,775,432
Assets for which fair values are disclosed:					
Financial Assets					
Investment securities at amortized cost					
Government	P30,784,498	P19,577,728	P11,922,925	P-	P31,500,653
Private	3,449,477	2,208,118	1,213,212	-	3,421,330
Loans and receivables					
Receivables from customers					
Consumption loans	92,395,284	-	-	107,287,359	107,287,359
Real estate loans	52,115,714	-	-	60,228,494	60,228,494
Commercial loans	13,460,577	-	-	14,402,769	14,402,769
Personal loans	3,129,085	-	-	4,048,107	4,048,107
Sales contract receivable	42,225	-	-	46,097	46,097
Security deposits	185,170	-	-	257,162	257,162
Non-Financial Assets					
Investment properties	3,765,749	-	-	5,794,685	5,794,685
	P199,327,779	P21,785,846	P13,136,137	P192,064,673	P226,986,656
Liabilities for which fair values are disclosed:					
Deposit liabilities - time	P105,912,878	P-	P-	P108,006,266	P108,006,266
Deposit liabilities - LTNCD	8,409,975	-	-	8,586,674	8,586,674
Bills payable	4,189,737	-	-	4,409,440	4,409,440
Bonds payable	6,254,702	-	-	6,434,550	6,434,550
Lease Liability	1,467,104	-	-	1,475,748	1,475,748
	P126,234,396	P-	P-	P128,912,678	P128,912,678
December 31, 2018					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial Assets					
FVPL investments					
HFT - government securities	P34	P34	P-	P-	P34
Derivative assets	10,073	-	10,073	-	10,073
AFS investments					
Government debt securities	8,956,764	6,500,415	2,456,349	-	8,956,764
Private debt securities	3,964,612	3,964,612	-	-	3,964,612
Quoted equity securities	10,225	9,143	1,082	-	10,225
	P12,941,708	P10,474,204	P2,467,504	P-	P12,941,708
Liabilities measured at fair value:					
Financial Liabilities					
Financial liabilities at FVTPL	2,895	-	2,895	-	2,895
Assets for which fair values are disclosed:					

(Forward)



	December 31, 2018				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Financial Assets					
Investment securities at amortized cost					
Government	P31,580,028	P28,024,025	P–	P–	P28,024,025
Private	4,066,737	3,804,104	–	–	3,804,104
Loans and receivables					
Receivables from customers					
Consumption loans	87,864,557	–	–	108,704,174	108,704,174
Real estate loans	49,579,245	–	–	70,892,858	70,892,858
Commercial loans	12,770,619	–	–	15,483,984	15,483,984
Personal loans	2,954,408	–	–	4,217,287	4,217,287
Sales contract receivable	70,543	–	–	78,449	78,449
Security deposits	205,925	–	–	313,724	313,724
Non-Financial Assets					
Investment properties	4,036,318	–	–	5,898,975	5,898,975
	P193,128,380	P31,828,129	P–	P205,589,451	P237,417,580
Liabilities for which fair values are disclosed:					
Deposit liabilities – time	P138,525,888	P–	P–	P139,187,100	P139,187,100
Deposit liabilities – LTNCD	8,395,282	–	–	7,634,981	7,634,981
Subordinated notes	2,981,673	–	–	2,242,507	2,242,507
Bills payable	2,968,567	–	–	3,009,851	3,009,851
	P152,871,410	P–	P–	P152,074,439	P152,074,439

When fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any adjustments for transaction costs, the instruments are included within Level 1 of the hierarchy.

For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models. Instruments included in Level 3 include those for which there is currently no active market.

As of December 31, 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

As of December 31, 2019 and 2018, the Bank determined the market value of its warrants to be zero due to the absence of an active market for the Bank's ROP warrants, as evidenced by the unavailability of quoted market prices.

5. Financial Risk Management Policies and Objectives

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Market risk
- Liquidity risk

Organization risk management structure continues to be a top-down organization, with the BOD at the helm of all major initiatives.

Discussed below are the relevant sections on roles and responsibilities from the Risk Oversight Committee (ROC) Charter:



Board of Directors (BOD)

The corporate powers of the Bank are vested in and are exercised by the BOD, who conducts its business and controls its property. The BOD approves broad risk management strategies and policies and ensures that risk management initiatives and activities are consistent with the Bank's overall objectives. The BOD appoints the members of the ROC.

Risk Oversight Committee (ROC)

The ROC is composed of at least three members of the Board, the majority of whom are independent directors including its Chairperson. The ROC Chairperson is not the Chairperson of the Board or of any other committee. Members of the ROC possess a range of expertise and adequate knowledge of the Bank's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur.

The BOD may also appoint non-directors to the ROC as part of the Metrobank Group risk oversight measures. However, only Bank directors shall be considered as voting members of the ROC. Non-voting members are appointed in an advisory capacity.

The ROC oversees the system of limits to discretionary authority that the BOD delegates to the management and ensures that the system remains effective, the limits are observed, and that immediate corrective actions are taken whenever limits are breached.

The ROC meets on a monthly basis and is supported by the Risk Management Office (RMO). In the absence of the ROC Chairman, another Independent Director shall preside. ROC resolutions, which require the concurrence of the majority of its voting members, are presented to the BOD for confirmation.

Risk Management Office (RMO)

The RMO, headed by the Chief Risk Officer, is a function that is independent from executive functions and business line responsibilities, operations and revenue-generating functions. It reports directly to the BOD, through the ROC. The RMO assists the ROC in carrying out its responsibilities by:

- analyzing, communicating, implementing, and maintaining the risk management policies approved by the ROC and the BOD;
- spearheading the regular review of the Bank's risk management policy manual and making or elevating recommendations that enhance the risk management process to the ROC and the BOD, for their approval; and
- ensuring that the risks arising from the Bank's activities are identified, measured, analyzed, reported to and understood by risk takers, management, and the board. The RMO analyzes limit exceptions and recommends enhancements to the limits structure.

The RMO does not assume risk-taking accountability nor does it have approving authority. The RMO's role is to act as liaison and to provide support to the BOD, ROC, the President, management committees, risk takers and other support and control functions on risk-related matters.

The Risk Management Function is responsible for:

- identifying the key risk exposures and assessing and measuring the extent of risk exposures of the Bank and its trust operations;
- monitoring the risk exposures and determining the corresponding capital requirement in accordance with the Basel capital adequacy framework and based on the Bank's internal capital adequacy assessment on an on-going basis;



- monitoring and assessing decisions to accept particular risks whether these are consistent with BOD-approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures; and
- reporting on a regular basis to Senior Management and the BOD the results of assessment and monitoring.

President

The President is the Chief Executive Officer of the Bank and has the primary responsibility of carrying out the policies and objectives of the BOD. The President exercises the authorities delegated to him by the BOD and may recommend such policies and objectives he deems necessary for the continuing progress of the Bank.

Risk management

The risk management framework aims to maintain a balance between the nature of the Bank's businesses and the risk appetite of the BOD. Accordingly, policies and procedures are reviewed regularly and revised as the organization grows and as financial markets evolve. New policies or proposed changes in current policies are presented to the ROC and the BOD for approval.

a. Credit risk and concentration of assets and liabilities and off-balance sheet items

Credit risk is the risk that a counterparty will not settle its obligations in accordance with the agreed terms.

The Bank's lending business follows credit policy guidelines set by the BOD, ROC and RMO. These policies serve as minimum standards for extending credit. The people engaged in the credit process are required to understand and adhere to these policies.

Product manuals are in place for all loans and deposit products that actually or potentially expose the Bank to all types of risks that may result in financial or reputational losses. They define the product and the risks associated with the product plus the corresponding risk-mitigating controls. They embody the business plans and define the business parameters within which the product or activity is to be performed.

The system of checks around extension of credit includes approval by at least two credit approvers through the Credit Committee (CreCom), Executive Committee (ExCom) or BOD. The ROC reviews the business strategies and ensures that revenue-generating activities are consistent with the risk tolerance and standards of the Bank. The Internal Audit Group conducts regular audit across all functional units. The BOD, through the ExCom, CreCom and ROC, ensure that sound credit policies and practices are followed through all the business segments.

Credit Approval

Credit approval is the documented acceptance of credit risk in the credit proposal or application.

The Bank's credit decision-making for consumer loans utilizes the recommendation of the credit scoring and is performed at the CreCom level appropriate to the size and risk of each transaction, in conformity with corporate policies and procedures in regulating credit risk activities. The Bank's ExCom may approve deviations or exceptions, while the BOD approves material exceptions such as large exposures, loans to directors, officers, stockholders and other related interests (DOSRI) and related party transactions, and loan restructuring.

Credit delegation limits are identified, tracked and reviewed at least annually by the Bank's Head of Credit and Collections together with the Credit Risk Manager.



Borrower Eligibility

The Bank's credit processing commences when a customer expresses his intention to borrow through a credit application. The Bank gathers data on the customer; ensures they are accurate, up-to-date and adequate to meet the minimum regulatory requirements and to render credit decision. These data are used for the intended purpose only and are managed in adherence to the customer information secrecy law.

The customer's credit worthiness, repayment ability and cash flow are established before credit is extended. The Bank independently verifies critical data from the customer, ensuring compliance with Know Your Customer requirements under the anti-money laundering laws. The Bank requires that customer income be derived from legitimate sources and supported with government-accepted statements of income, assets and liabilities.

The Bank ascertains whether the customer is legally capable of entering a credit contract and of providing a charge over any asset presented as collateral for a loan. Guarantors or sureties may be accepted, provided they are a relative, partner, and have financial interest in the transaction, and they pass all credit acceptance criteria applied to the borrower.

Loan Structure

The Bank structures loans for its customers based on the customer's capability to pay, the purpose of the loan, and for a collateralized loan, the collateral's economic life and liquidation value over time.

The Bank establishes debt burden guidelines and minimum income requirements to assess the customer's capacity to pay.

The Bank utilizes credit bureau data, both external and internal, to obtain information on a customer's current commitments and credit history.

The Bank takes into account environmental and social issues when reviewing credit proposals of small businesses and commercial mortgage customers. The Bank ensures that all qualified securities pass through the BOD for approval. Assignments of securities are confirmed and insurance are properly secured.

The Bank uses credit scoring models and decision systems for consumer loans as approved by the BOD. Borrower risk rating model and facility risk rating model, on the other hand, are available for SME loans, and supported with qualitative evaluation. Regular monitoring of all these tools and their performance is carried out to ensure that they remain effective.

Initial loan limits are recommended by the CreCom and ExCom and approved by the BOD. The Bank ensures that secured loans are within ceilings set by local regulators. Succeeding loan availments are based on account performance and customer's credit worthiness.

Credit Management

The Bank maintains credit records and documents on all borrowings and captures transaction details in its loan systems. The credit risk policies and system infrastructure ensure that loans are monitored and managed at all times.

The Bank's Management Information System provides statistics that its business units need to identify opportunities for improving rewards without necessarily sacrificing risk. Statistical data on product, productivity, portfolio, profitability, performance and projection are made available regularly.



The Bank conducts regular loan review through the ROC, with the support of the RMO. The Bank examines its exposures, credit risk ratios, provisions and customer segments. The Bank's unique customer identification and unique group identification methodology enables it to aggregate credit exposures by customer or group of borrowers. Aggregate exposures of at least ₱100.0 million are put on a special monitoring.

The ROC assesses the adequacy of provisions for credit losses regularly. The Bank's automated loan grading system enables the Bank to set up provision per account. The Bank also performs impairment analyses on loans and receivables, whether on an individual or collective basis, in accordance with PFRS 9.

The Bank carries out stress testing analyses using Board-approved statistical models relating the default trends to macroeconomic indicators.

In 2018, the Bank transitioned to using PFRS 9-compliant models to meet the requirements set forth under BSP Circular No. 912 and 1011. This mandated all Philippine banks to adopt a forward-looking ECL model approach in measuring credit impairment. In response to this, the Bank created quantitative models thru statistical, economic, financial and mathematical techniques to calculate credit impairment provisions. These models were implemented effective January 1, 2018. Furthermore, policies and governance over the new models were updated accordingly.

In 2019, the Bank enhanced its consumer loan acquisition scoring models. This allowed the Bank to optimize its return whilst maintaining its risk appetite. Moreover, the Bank implemented the enhancements to the PFRS 9 ECL models as a result of the regular governance and validation of the models. This aims credit models to remain accurate, effective and regulatory compliant.

Maximum Exposure to Credit Risk

The tables below show the analysis of the maximum exposure to credit risk of the Bank's financial instruments, excluding those where the carrying values as reflected in the statement of condition and related notes already represent the financial instrument's maximum exposure to credit risk, after taking into account collateral held or other credit enhancements (in thousands):

	2019			
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral or Credit Enhancement
Due from other banks	₱1,138,642	₱2,915,612	₱382,979	₱755,663
Receivables from customers				
Consumption loans	92,395,284	137,311,674	2,342,869	90,052,415
Real estate loans	52,253,777	67,482,137	14,332,905	37,920,872
Commercial loans	13,322,514	6,537,019	10,276,388	3,046,126
Other receivables				
Accrued interest receivable	1,848,330	1,713,763	134,567	1,713,763
Sales contract receivable	42,225	43,118	19,425	22,800
Total credit exposure	₱161,000,772	₱216,003,323	₱27,489,133	₱133,511,639



2018				
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral or Credit Enhancement
Due from other banks	P1,682,806	P2,601,234	P542,984	P1,139,822
Interbank loans receivable and SPURA	1,891,820	1,883,225	8,595	1,883,225
Receivables from customers				
Consumption loans	87,864,557	122,910,470	45,918	87,818,639
Real estate loans	49,579,245	88,139,827	9,625,425	39,953,820
Commercial loans	12,770,619	16,641,755	6,403,206	6,367,413
Other receivables				
Accrued interest receivable	1,949,715	1,936,820	12,895	1,936,820
Sales contract receivable	70,543	207,185	25,953	44,590
Total credit exposure	P155,809,305	P234,320,516	P16,664,976	P139,144,329

An analysis of the maximum credit risk exposure relating to financial assets under Stage 3 as of December 31, 2019 and 2018 is shown below:

2019				
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral or Credit Enhancement
Receivables from customers				
Consumption loans	P2,533,355	P4,430,838	P58,479	P2,474,876
Real estate loans	1,728,430	2,103,065	606,860	1,121,570
Commercial loans	274,345	250,029	175,662	98,683
Other receivables				
Accrued interest receivable	64,544	352,272	—	64,544
Sales contract receivable	19,319	16,326	10,922	8,397
Total credit exposure	P4,619,993	P7,152,530	P851,923	P3,768,070

2018				
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral or Credit Enhancement
Receivables from customers				
Consumption loans	P2,770,196	P5,316,765	P256	P2,769,940
Real estate loans	1,462,410	2,555,014	412,669	1,049,741
Commercial loans	129,732	192,911	—	129,732
Other receivables				
Accrued interest receivable	60,837	514,118	—	60,837
Sales contract receivable	26,346	62,185	—	26,346
Total credit exposure	P4,449,521	P8,640,993	P412,925	P4,036,596

Collateral and Other Credit Enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding acceptability of types of collateral and valuation parameters.

The main types of collaterals obtained are as follows:

- For Due from other banks: investment securities
- For SPURA: investment securities
- For commercial lending: mortgages over real estate properties, deposit accounts and securities
- For consumer lending: mortgages over real estate and chattel



Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for credit and impairment losses.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion and proceeds are used to repay or reduce the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

The Bank holds collateral against loans and receivables in the form of real estate and chattel mortgages, guarantees, and other registered securities over assets. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing and generally are updated every two years and when a loan is assessed to be impaired, whenever applicable. The Bank is not allowed to sell or re-pledge collateral held under SPURA in the absence of default by the counterparty. Collateral is usually not held against holdings in investment securities, and no such collateral was held as of December 31, 2019 and 2018.

Concentration of risk is managed by borrower, by group of borrowers, by geographical region and by industry sector. As of December 31, 2019 and 2018, the maximum credit exposure to any borrower, before taking into account any collateral or other credit enhancement amounted to ₱1.9 billion and ₱1.8 billion, respectively.

The distribution of the Bank's financial assets before taking into account any collateral held or other credit enhancements can be analyzed by the following geographical regions (in thousands):

2019					
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Luzon	₱143,566,455	₱7,955,777	₱39,034,932	₱298,231	₱190,855,395
Visayas	11,849,260	—	—	—	11,849,260
Mindanao	12,900,392	—	—	—	12,900,392
	168,316,107	7,955,777	39,034,932	298,231	215,605,047
Less allowance for credit and impairment losses	3,931,905	2,269	25,525	—	3,959,699
Total	₱164,384,202	₱7,953,508	₱39,009,407	₱298,231	₱211,645,348

* Composed of due from BSP and due from other banks.

** Composed of FVTPL investments, financial assets at FVOCI (excluding equity securities not exposed to credit risk) and investment securities at amortized cost.

*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines amounting to ₱84.0 million.

2018					
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Luzon	₱137,515,389	₱18,736,119	₱48,617,520	₱277,840	₱205,146,868
Visayas	11,060,264	—	—	13,209	11,073,473
Mindanao	12,034,412	—	—	5,146	12,039,558
	160,610,065	18,736,119	48,617,520	296,195	228,259,899
Less allowance for credit and impairment losses	4,349,702	5,309	29,046	—	4,384,057
Total	₱156,260,363	₱18,730,810	₱48,588,474	₱296,195	₱223,875,842

* Composed of due from BSP, due from other banks, interbank loans receivable and SPURA.

** Composed of FVPL investments, financial assets at FVOCI (excluding equity securities not exposed to credit risk) and investment securities at amortized cost.

*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines amounting to ₱70.5 million.



Additionally, the tables below show the distribution of the Bank's financial assets and off-balance sheet items before taking into account any collateral or other credit enhancements analyzed by industry sector as of December 31, 2019 and 2018 (in thousands):

	2019				Total
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	
Activities of private households as employers and undifferentiated goods and services and producing activities of households for own use	P99,430,419	P-	P-	P-	P99,430,419
Real estate activities	47,809,592	-	-	-	P47,809,592
Financial and insurance activities	3,149,739	7,955,777	39,034,932	214,231	50,354,679
Wholesale and retail trade; repair of motor vehicles and motorcycles	2,941,130	-	-	-	2,941,130
Electricity, gas, steam and air-conditioning supply	1,897,393	-	-	-	1,897,393
Transportation and storage	1,049,382	-	-	-	1,049,382
Manufacturing	811,145	-	-	-	811,145
Construction	754,287	-	-	53,000	807,287
Administrative and support service activities	709,873	-	-	-	709,873
Information and communication	547,246	-	-	-	547,246
Accommodation and food service activities	335,984	-	-	-	335,984
Human health and social work activities	252,290	-	-	-	252,290
Water supply, sewage, waste management and remediation activities	246,735	-	-	-	246,735
Education	175,171	-	-	-	175,171
Professional, scientific and technical services	160,628	-	-	-	160,628
Arts, entertainment and recreation	79,879	-	-	-	79,879
Agricultural, forestry and fishing	75,280	-	-	-	75,280
Mining and quarrying	13,281	-	-	-	13,281
Other service activities	7,876,654	-	-	31,000	7,907,654
	168,316,108	7,955,777	39,034,932	298,231	215,605,048
Less allowance for credit and impairment losses	3,931,906	2,269	25,525	-	3,959,700
Total	P164,384,202	P7,953,508	P39,009,407	P298,231	P211,645,348

* Composed of due from BSP and due from other banks

** Composed of FVTPL investments, financial assets at FVOCI (excluding equity securities not exposed to credit risk) and investment securities at amortized cost.

*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines amounting to P84.0 million.

	2018				Total
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	
Activities of private households as employers and undifferentiated goods and services and producing activities of households for own use	P96,744,990	P-	P-	P-	P96,744,990
Real estate activities	45,387,781	-	-	-	45,387,781
Financial and insurance activities	1,391,987	18,736,119	48,617,520	225,695	68,971,321
Wholesale and retail trade; repair of motor vehicles and motorcycles	2,975,766	-	-	-	2,975,766
Electricity, gas, steam and air-conditioning supply	1,974,413	-	-	-	1,974,413
Transportation and storage	1,185,771	-	-	-	1,185,771
Manufacturing	980,150	-	-	-	980,150
Construction	880,713	-	-	53,000	933,713
Administrative and support service activities	833,096	-	-	-	833,096
Information and communication	566,813	-	-	-	566,813
Accommodation and food service activities	352,248	-	-	-	352,248
Human health and social work activities	288,099	-	-	-	288,099
Water supply, sewage, waste management and remediation activities	237,473	-	-	-	237,473
Education	218,540	-	-	-	218,540

(Forward)



	2018				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Professional, scientific and technical services	P142,147	P-	P-	P-	P142,147
Agricultural, forestry and fishing	91,150	-	-	-	91,150
Arts, entertainment and recreation	87,772	-	-	-	87,772
Mining and quarrying	16,169	-	-	-	16,169
Other service activities	6,254,987	-	-	17,500	6,272,487
	160,610,065	18,736,119	48,617,520	296,195	228,259,899
Less allowance for credit and impairment losses	4,349,702	5,309	29,046	-	4,384,057
Total	P156,260,363	P18,730,810	P48,588,474	P296,195	P223,875,842

* Composed of due from BSP, due from other banks, interbank loans receivable and SPURA.

** Composed of FVTPL investments, financial assets at FVOCI (excluding equity securities not exposed to credit risk) and investment securities at amortized cost.

*** Composed of financial assets classified under other assets (such as RCOI, security deposits and shortages) and stand-by credit lines amounting to P70.5 million.

Credit Quality

The Bank uses the standard below in defining credit quality.

High Grade exposures show low levels of expected loss. For loans, these accounts should neither be past due nor impaired. The Bank classifies those accounts under current or 1 to 30 days past due status and are not impaired (Stage 1 & 2).

Standard Grade exposures show moderate levels of expected loss. For loans, these accounts should neither be past due nor impaired.

Sub Standard Grade requires a special degree of attention given the increased risk of default. For loans, these accounts should neither be past due nor impaired.

Past Due but Not Credit Impaired are applicable to loan accounts which are classified as delinquent (31-90 days past due) but are not subject to impairment (Stage 2) as of statement of condition date.

Past Due and Credit Impaired. These include loan accounts considered to be delinquent (91+ days past due), non-performing as defined by BSP Circular No. 941.

Description of the internal credit rating system for loans, receivables and stand-by credit lines:

Internal Credit Rating System (ICRS)

The Bank rates accounts on a scale of 1 to 10, with 1 being the best, based on the Board-approved credit ratings which utilize the expected credit loss and qualitative assessments. ICRS rating assessment considers both borrower and facility features.

Neither Past Due nor Impaired

The Bank classifies those accounts under current or 1 to 30 days past due status and are not impaired (Stage 1 & 2) having the following credit ratings:

High Grade (ICRS Rating 1 - 4)

1 - Excellent

An excellent rating is given to a borrower with a very low probability of going into default and/or low loss given default. The Bank's internal rating system has given an outstanding rating to the borrower, indicative of excellent ability to meet credit obligation in full and consistently meet payment



commitments. Accounts with excellent rating may have collateral, further diminishing any losses in case of a default.

2 - Strong

This rating is given to borrowers with low probability of going into default in the coming year with low to moderate loss given default. The Bank's internal rating system has given a high rating to the borrower. The borrower has the ability to meet credit obligation in full, except that the borrower may have a history of missing a payment.

3 – Good

This rating is given to borrowers with low to moderate probability of going into default in the coming year with moderate loss given default. These are largely characterized by borrowers with good rating and have historically missed several payments.

4 – Satisfactory

A 'satisfactory' rating is given to a borrower where clear risk elements exist and probability of default is somewhat greater with moderate to high loss given default. These are characterized by borrowers with good rating with a history of default.

Standard Grade (ICRS Rating 5 - 6)

5 – Acceptable

An 'acceptable' rating is given to a borrower whose risk elements are sufficiently pronounced although borrower should still be expected to meet their credit obligations in full. These are characterized by borrowers with moderate rating.

6 - Loan Especially Mentioned

An account assessed to have potential weaknesses which when left uncorrected, may affect the repayment of the account and thus increase credit risk to the Bank, will be assigned this rating.

Substandard Grade (ICRS Rating 7 - 8)

7 - 8 Substandard

These accounts or portion thereof involves a substantial and an unreasonable degree of risk to the Bank because of unfavorable record or unsatisfactory characteristics. These accounts show possibility of future loss to the Bank unless given closer supervision and well-defined weaknesses that jeopardize the account liquidation.

Past Due but Not Credit Impaired

These are accounts which are classified as delinquent (31-90 days past due) but are not subject to impairment (Stage 2) as of statement of condition date regardless of ICRS rating.

Past Due and Credit Impaired

These include accounts considered to be delinquent (91+ days past due), non-performing as defined by BSP Circular No. 941 regardless of ICRS rating. The following credit ratings will always be classified as credit impaired:

9 - Doubtful

Given to an account assessed to have characteristics where collection and liquidation in full is highly improbable and in which substantial loss is probable.

10 - Loss

Given to an account assessed to loans or portions thereof are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted.



The credit quality of receivables from customers, gross of allowance for credit losses, as of December 31, 2019 and 2018 follows (in thousands):

	2019						
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
Consumption Loans:							
High Grade	P-	P79,374,254	P-	P5,066,818	P-	P-	P84,441,072
Standard Grade	-	23,912	-	2,503,990	-	-	2,527,902
Sub-standard Grade	-	-	-	-	-	-	-
Past due but not Impaired	-	-	-	4,039,059	-	-	4,039,059
Non-performing							
Individually Impaired	-	-	-	-	3,217,461	-	3,217,461
	-	79,398,166	-	11,609,867	3,217,461	-	94,225,494
Real Estate Loans:							
High Grade	-	41,049,925	-	7,239,979	-	-	48,289,904
Standard Grade	-	-	-	583,491	-	-	583,491
Sub-standard Grade	-	-	-	-	-	-	-
Past due but not Impaired	-	-	-	1,733,587	-	-	1,733,587
Non-performing							
Individually Impaired	-	-	-	-	1,872,205	-	1,872,205
	-	41,049,925	-	9,557,057	1,872,205	-	52,479,187
Commercial Loans:							
High Grade	-	11,380,725	-	570,364	-	-	11,951,089
Standard Grade	-	776,863	-	463,733	-	-	1,240,596
Sub-standard Grade	-	26,849	-	-	-	-	26,849
Past due but not Impaired	-	-	-	98,373	-	-	98,373
Non-performing							
Individually Impaired	-	-	-	-	369,079	-	369,079
	-	12,184,437	-	1,132,470	369,079	-	13,685,986
Personal Loans:							
High Grade	-	773,850	-	237,921	-	-	1,011,771
Standard Grade	-	2,099	-	2,109,273	-	-	2,111,372
Sub-standard Grade	-	47,646	-	54,845	-	-	102,491
Past due but not Impaired	-	-	-	39,207	-	-	39,207
Non-performing							
Individually Impaired	-	-	-	-	458,350	-	458,350
	-	823,595	-	2,441,246	458,350	-	3,723,191
Total Receivables from							
Customer:							
High Grade	-	132,578,754	-	13,115,082	-	-	145,693,836
Standard Grade	-	802,874	-	5,660,487	-	-	6,463,361
Sub-standard Grade	-	74,495	-	54,845	-	-	129,340
Past due but not Impaired	-	-	-	5,910,226	-	-	5,910,226
Non-performing							
Individually Impaired	-	-	-	-	5,917,095	-	5,917,095
	P-	P133,456,123	P-	P24,740,640	P5,917,095	P-	P164,113,858

	2018						
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
Consumption Loans:							
High Grade	P-	P67,561,479	P-	P8,102,918	P-	P-	P75,664,397
Standard Grade	-	33,906	-	5,892,126	-	-	5,926,032
Sub-standard Grade	-	6,462	-	1,557,240	-	-	1,563,702
Past due but not Impaired	-	-	-	3,300,992	-	-	3,300,992
Non-performing							
Individually Impaired	-	-	-	-	3,836,615	-	3,836,615
	-	67,601,847	-	18,853,276	3,836,615	-	90,291,738
Real Estate Loans:							
High Grade	-	39,421,912	-	6,181,000	-	-	45,602,912
Standard Grade	-	32,809	-	784,797	-	-	817,606
Sub-standard Grade	-	-	-	69,703	-	-	69,703
Past due but not Impaired	-	-	-	1,855,478	-	-	1,855,478
Non-performing							
Individually Impaired	-	-	-	-	1,626,947	-	1,626,947
	-	39,454,721	-	8,890,978	1,626,947	-	49,972,646

(Forward)



	2018						
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
Commercial Loans:							
High Grade	P=	P10,902,499	P=	P=	P=	P=	P10,902,499
Standard Grade	-	794,963	-	758,261	-	-	1,553,224
Sub-standard Grade	-	528	-	198,359	-	-	198,887
Past due but not Impaired	-	-	-	32,823	-	-	32,823
Non-performing	-	-	-	-	-	-	-
Individually Impaired	-	-	-	-	215,534	-	215,534
	-	11,697,990	-	989,443	215,534	-	12,902,967
Personal Loans:							
High Grade	-	859,055	-	344,658	-	-	1,203,713
Standard Grade	-	1,664	-	1,434,140	-	-	1,435,804
Sub-standard Grade	-	6,325	-	419,598	-	-	425,923
Past due but not Impaired	-	-	-	71,285	-	-	71,285
Non-performing	-	-	-	-	-	-	-
Individually Impaired	-	-	-	-	389,198	-	389,198
	-	867,044	-	2,269,681	389,198	-	3,525,923
Total Receivables from Customer:							
High Grade	-	118,744,943	-	14,628,575	-	-	133,373,518
Standard Grade	-	863,342	-	8,869,327	-	-	9,732,669
Sub-standard Grade	-	13,315	-	2,244,900	-	-	2,258,215
Past due but not Impaired	-	-	-	5,260,578	-	-	5,260,578
Non-performing	-	-	-	-	-	-	-
Individually Impaired	-	-	-	-	6,068,294	-	6,068,294
	P=	P119,621,600	P=	P31,003,380	P6,068,294	P=	P156,693,274

The credit quality of other receivables, gross of allowance for credit losses, as of December 31, 2019 and 2018 follows (in thousands):

	2019						
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
Accrued Interest Receivable:							
High Grade	P=	P1,438,603	P=	P134,006	P=	P=	P1,572,609
Standard Grade	-	62,753	-	148,797	-	-	211,550
Sub-standard Grade	-	295	-	4,001	-	-	4,296
Past due but not Impaired	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-
Individually Impaired	-	84	-	-	460,955	-	461,039
	-	1,501,735	-	286,804	460,955	-	2,249,494
Accounts Receivable:							
High Grade	-	63,417	-	11,097	-	-	74,514
Standard Grade	-	28,615	-	3,772	-	-	32,387
Sub-standard Grade	-	5,912	-	484	-	-	6,396
Past due but not Impaired	-	-	-	11,232	-	-	11,232
Non-performing	-	-	-	-	-	-	-
Individually Impaired	-	-	-	-	1,776,781	-	1,776,781
	-	97,944	-	26,585	1,776,781	-	1,901,310
Sales Contract Receivable:							
High Grade	-	22,921	-	-	-	-	22,921
Standard Grade	-	-	-	-	-	-	-
Sub-standard Grade	-	-	-	-	-	-	-
Past due but not Impaired	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-
Individually Impaired	-	-	-	-	19,726	-	19,726
	-	22,921	-	-	19,726	-	42,647
Bills Purchased:							
High Grade	-	8,799	-	-	-	-	8,799
Standard Grade	-	-	-	-	-	-	-
Sub-standard Grade	-	-	-	-	-	-	-
Past due but not Impaired	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-
Individually Impaired	-	-	-	-	-	-	-
	-	8,799	-	-	-	-	8,799

(Forward)



2019							
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
Total Other Receivables:							
High Grade	P-	P1,533,740	P-	P145,103	P-	P-	P1,678,843
Standard Grade	-	91,368	-	152,569	-	-	243,937
Sub-standard Grade	-	6,207	-	4,485	-	-	10,692
Past due but not Impaired	-	-	-	11,232	-	-	11,232
Non-performing							
Individually Impaired	-	84	-	-	2,257,462	-	2,257,546
	P-	P1,631,399	P-	P313,389	P2,257,462	P-	P4,202,250
2018							
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
Accrued Interest Receivable:							
High Grade	P-	P1,548,576	P-	P120,223	P-	P-	P1,668,799
Standard Grade	-	3,649	-	98,554	-	-	102,203
Sub-standard Grade	-	65	-	25,573	-	-	25,638
Past due but not Impaired	-	-	-	95,255	-	-	95,255
Non-performing							
Individually Impaired	-	-	-	-	414,154	-	414,154
	-	1,552,290	-	339,605	414,154	-	2,306,049
Accounts Receivable:							
High Grade	-	1,030,278	-	9,693	-	-	1,039,971
Standard Grade	-	15	-	2,630	-	-	2,645
Sub-standard Grade	-	1,307	-	652	-	-	1,959
Past due but not Impaired	-	-	-	21,950	-	-	21,950
Non-performing							
Individually Impaired	-	-	-	-	459,631	-	459,631
	-	1,031,600	-	34,925	459,631	-	1,526,156
Sales Contract Receivable:							
High Grade	-	44,600	-	-	-	-	44,600
Standard Grade	-	-	-	-	-	-	-
Sub-standard Grade	-	-	-	-	-	-	-
Past due but not Impaired	-	-	-	-	-	-	-
Non-performing							
Individually Impaired	-	-	-	-	26,908	-	26,908
	-	44,600	-	-	26,908	-	71,508
Bills Purchased:							
High Grade	-	13,078	-	-	-	-	13,078
Standard Grade	-	-	-	-	-	-	-
Sub-standard Grade	-	-	-	-	-	-	-
Past due but not Impaired	-	-	-	-	-	-	-
Non-performing							
Individually Impaired	-	-	-	-	-	-	-
	-	13,078	-	-	-	-	13,078
Total Other Receivables:							
High Grade	-	2,636,531	-	129,917	-	-	2,766,448
Standard Grade	-	3,664	-	101,184	-	-	104,848
Sub-standard Grade	-	1,372	-	26,225	-	-	27,597
Past due but not Impaired	-	-	-	117,205	-	-	117,205
Non-performing							
Individually Impaired	-	-	-	-	900,693	-	900,693
	P-	P2,641,567	P-	P374,531	P900,693	P-	P3,916,791



The credit quality of other financial assets which include RCOCI, security deposits and shortage, gross of allowance for credit losses amounting as of December 31, 2019 and 2018 follows (in thousands):

	2019						
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
Other Financial Assets							
High Grade	P-	P-	P-	P-	P-	P-	P-
Standard Grade	-	298,231	-	-	-	-	298,231
Sub-standard Grade	-	-	-	-	-	-	-
Past due but not Impaired	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-
Individually Impaired	-	-	-	-	-	-	-
Total	P-	P298,231	P-	P-	P-	P-	P298,231

	2018						
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
Other Financial Assets							
High Grade	P-	P-	P-	P-	P-	P-	P-
Standard Grade	-	296,195	-	-	-	-	296,195
Sub-standard Grade	-	-	-	-	-	-	-
Past due but not Impaired	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-
Individually Impaired	-	-	-	-	-	-	-
Total	P-	P296,195	P-	P-	P-	P-	P296,195

Movements of receivables from customers as of December 31, 2019 and 2018 follow (in thousands):

	2019						
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
Consumption Loans							
Balance as of January 1, 2019	P-	P67,601,847	P-	P18,853,276	P3,836,615	P-	P90,291,738
New assets originated	-	33,761,304	-	1,130,553	750,727	-	35,642,584
Assets derecognized or repaid	-	(20,290,720)	-	(8,389,391)	(2,138,047)	-	(30,818,158)
Amounts written off	-	(887)	-	(96,334)	(793,449)	-	(890,670)
Transfers to Stage 1	-	8,318,780	-	(8,031,786)	(286,994)	-	-
Transfers to Stage 2	-	(8,990,013)	-	9,624,255	(634,242)	-	-
Transfers to Stage 3	-	(1,002,145)	-	(1,480,706)	2,482,851	-	-
Balance at December 31, 2019	-	79,398,166	-	11,609,867	3,217,461	-	94,225,494
Real Estate Loans							
Balance as of January 1, 2019	-	39,454,721	-	8,890,978	1,626,947	-	49,972,646
New assets originated	-	9,696,243	-	313,396	62,745	-	10,072,384
Assets derecognized or repaid	-	(4,856,753)	-	(2,196,036)	(513,054)	-	(7,565,843)
Amounts written off	-	-	-	-	-	-	-
Transfers to Stage 1	-	2,427,300	-	(2,328,290)	(99,010)	-	-
Transfers to Stage 2	-	(5,257,588)	-	5,600,145	(342,557)	-	-
Transfers to Stage 3	-	(413,998)	-	(723,136)	1,137,134	-	-
Balance at December 31, 2019	-	41,049,925	-	9,557,057	1,872,205	-	52,479,187
Commercial Loans							
Balance as of January 1, 2019	-	11,697,990	-	989,443	215,534	-	12,902,967
New assets originated	-	8,917,394	-	60,822	11,423	-	8,989,639
Assets derecognized or repaid	-	(7,904,145)	-	(220,067)	(82,408)	-	(8,206,620)
Amounts written off	-	-	-	-	-	-	-
Transfers to Stage 1	-	186,641	-	(183,010)	(3,631)	-	-
Transfers to Stage 2	-	(596,200)	-	596,200	-	-	-
Transfers to Stage 3	-	(117,243)	-	(110,918)	228,161	-	-
Balance at December 31, 2019	-	12,184,437	-	1,132,470	369,079	-	13,685,986

(Forward)



	2019						
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
Personal Loans							
Balance as of January 1, 2019	P-	P866,969	P-	P2,269,682	P389,272	P-	P3,525,923
New assets originated	-	386,313	-	937,524	29,349	-	1,353,186
Assets derecognized or repaid	-	(507,349)	-	(464,548)	(31,305)	-	(1,003,202)
Amounts written off	-	(1,084)	-	(44,782)	(106,850)	-	(152,716)
Transfers to Stage 1	-	201,953	-	(200,954)	(999)	-	-
Transfers to Stage 2	-	(111,590)	-	113,010	(1420)	-	-
Transfers to Stage 3	-	(11,617)	-	(168,686)	180,303	-	-
Balance at December 31, 2019	-	823,595	-	2,441,246	458,350	-	3,723,191
Total Receivable from Customer							
Balance at January 1, 2019	-	119,621,527	-	31,003,379	6,068,368	-	156,693,274
New assets originated	-	52,761,254	-	2,442,295	854,244	-	56,057,793
Assets derecognized or repaid	-	(33,558,967)	-	(11,270,042)	(2,764,814)	-	(47,593,823)
Amounts written off	-	(1,971)	-	(141,116)	(900,299)	-	(1,043,386)
Transfers to Stage 1	-	11,134,674	-	(10,744,040)	(390,634)	-	-
Transfers to Stage 2	-	(14,955,391)	-	15,933,610	(978,219)	-	-
Transfers to Stage 3	-	(1,545,003)	-	(2,483,446)	4,028,449	-	-
Balance at December 31, 2019	P-	P133,456,123	P-	P24,740,640	P5,917,095	P-	P164,113,858
	2018						
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
Consumption Loans							
Balance as of January 1, 2018	P-	P66,453,274	P-	P14,489,537	P3,333,643	P-	P84,276,454
New assets originated	-	27,181,775	-	7,414,477	608,224	-	35,204,476
Assets derecognized or repaid	-	(18,657,485)	-	(7,650,644)	(2,422,237)	-	(28,730,366)
Amounts written off	-	-	-	(12,088)	(446,738)	-	(458,826)
Transfers to Stage 1	-	4,676,363	-	(4,519,004)	(157,359)	-	-
Transfers to Stage 2	-	(10,707,703)	-	11,125,263	(417,560)	-	-
Transfers to Stage 3	-	(1,344,377)	-	(1,994,265)	3,338,642	-	-
Balance at December 31, 2018	-	67,601,847	-	18,853,276	3,836,615	-	90,291,738
Real Estate Loans							
Balance as of January 1, 2018	-	36,429,563	-	8,662,410	1,502,102	-	46,594,075
New assets originated	-	9,518,100	-	649,312	72,752	-	10,240,164
Assets derecognized or repaid	-	(4,397,697)	-	(2,016,221)	(447,675)	-	(6,861,593)
Amounts written off	-	-	-	-	-	-	-
Transfers to Stage 1	-	2,534,278	-	(2,436,788)	(97,490)	-	-
Transfers to Stage 2	-	(4,296,965)	-	4,595,056	(298,091)	-	-
Transfers to Stage 3	-	(332,558)	-	(562,791)	895,349	-	-
Balance at December 31, 2018	-	39,454,721	-	8,890,978	1,626,947	-	49,972,646
Commercial Loans							
Balance as of January 1, 2018	-	10,900,908	-	920,702	154,095	-	11,975,705
New assets originated	-	4,296,949	-	145,216	18,086	-	4,460,251
Assets derecognized or repaid	-	(3,285,259)	-	(205,755)	(41,975)	-	(3,532,989)
Amounts written off	-	-	-	-	-	-	-
Transfers to Stage 1	-	94,625	-	(94,625)	-	-	-
Transfers to Stage 2	-	(232,635)	-	234,465	(1,830)	-	-
Transfers to Stage 3	-	(76,598)	-	(10,560)	87,158	-	-
Balance at December 31, 2018	-	11,697,990	-	989,443	215,534	-	12,902,967
Personal Loans							
Balance as of January 1, 2018	-	824,536	-	2,005,831	655,701	-	3,486,068
New assets originated	-	239,357	-	884,333	30,616	-	1,154,306
Assets derecognized or repaid	-	(371,521)	-	(384,709)	(130,168)	-	(886,398)
Amounts written off	-	(1,875)	-	(65,983)	(160,195)	-	(228,053)
Transfers to Stage 1	-	259,095	-	(249,242)	(9,853)	-	-
Transfers to Stage 2	-	(72,015)	-	163,232	(91,217)	-	-
Transfers to Stage 3	-	(10,608)	-	(83,780)	94,388	-	-
Balance at December 31, 2018	-	866,969	-	2,269,682	389,272	-	3,525,923

(Forward)



	2018						
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
Total Receivable from Customer							
Balance at January 1, 2018	P=	¥114,608,281	P=	¥26,078,480	¥5,645,541	P=	¥146,332,302
New assets originated	–	41,236,181	–	9,093,338	729,678	–	51,059,197
Assets derecognized or repaid	–	(26,711,962)	–	(10,257,329)	(3,042,055)	–	(40,011,346)
Amounts written off	–	(1,875)	–	(78,071)	(606,933)	–	(686,879)
Transfers to Stage 1	–	7,564,361	–	(7,299,659)	(264,702)	–	–
Transfers to Stage 2	–	(15,309,318)	–	16,118,016	(808,698)	–	–
Transfers to Stage 3	–	(1,764,141)	–	(2,651,396)	4,415,537	–	–
Balance at December 31, 2018	P=	¥119,621,527	P=	¥31,003,379	¥6,068,368	P=	¥156,693,274

Movements of other receivables as of December 31, 2019 and 2018 follow (in thousands):

	2019						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Accrued Interest Receivable							
Balance as of January 1, 2019	P=	P1,552,290	P=	P339,605	P414,154	P=	P2,306,049
New assets originated	–	600,714	–	119,949	337,023	–	1,057,686
Assets derecognized or repaid	–	(640,761)	–	(145,345)	(328,135)	–	(1,114,241)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	99,677	–	(96,697)	(2,980)	–	–
Transfers to Stage 2	–	(96,995)	–	103,196	(6,201)	–	–
Transfers to Stage 3	–	(13,190)	–	(33,904)	47,094	–	–
Balance at December 31, 2019	–	1,501,735	–	286,804	460,955	–	2,249,494
Sales Contract Receivable							
Balance at January 1, 2019	–	44,600	–	–	26,908	–	71,508
New assets originated	–	22,475	–	–	–	–	22,475
Assets derecognized or repaid	–	(46,030)	–	–	(5,306)	–	(51,336)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	5,320	–	–	(5,320)	–	–
Transfers to Stage 2	–	–	–	–	–	–	–
Transfers to Stage 3	–	(3,444)	–	–	3,444	–	–
Balance at December 31, 2019	–	22,921	–	–	19,726	–	42,647
Total Other Receivables							
Balance at January 1, 2019	–	1,596,890	–	339,605	441,062	–	2,377,557
New assets originated	–	623,189	–	119,949	337,023	–	1,080,161
Assets derecognized or repaid	–	(686,791)	–	(145,345)	(333,441)	–	(1,165,577)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	104,997	–	(96,697)	(8,300)	–	–
Transfers to Stage 2	–	(96,995)	–	103,196	(6,201)	–	–
Transfers to Stage 3	–	(16,634)	–	(33,904)	50,538	–	–
Balance at December 31, 2019	P=	P1,524,656	P=	P286,804	P480,681	P=	P2,292,141

	2018						
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
Accrued Interest Receivable							
Balance as of January 1, 2018	₪–	1,475,109	₪–	296,665	139,598	₪–	₪1,911,372
New assets originated	–	263,010	–	96,041	359,381	–	718,432
Assets derecognized or repaid	–	(123,177)	–	(45,950)	(154,358)	–	(323,485)
Amounts written off	–	–	–	–	(270)	–	(270)
Transfers to Stage 1	–	62,942	–	(60,408)	(2,534)	–	–
Transfers to Stage 2	–	(104,109)	–	110,595	(6,486)	–	–
Transfers to Stage 3	–	(21,485)	–	(57,338)	78,823	–	–
Balance at December 31, 2018	–	1,552,290	–	339,605	414,154	–	2,306,049
Sales Contract Receivable							
Balance at January 1, 2018	–	84,465	–	10,308	11,955	–	106,728
New assets originated	–	–	–	–	(1,230)	–	(1,230)
Assets derecognized or repaid	–	(26,480)	–	(7,510)	–	–	(33,990)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	27	–	(27)	–	–	–
Transfers to Stage 2	–	–	–	–	–	–	–
Transfers to Stage 3	–	(13,412)	–	(2,771)	16,183	–	–
Balance at December 31, 2018	–	44,600	–	–	26,908	–	71,508



	2018						
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
(Forward)							
Total Other Receivables							
Balance at January 1, 2018	P=	P1,559,574	P=	P306,973	151,553	–	2,018,100
New assets originated	–	263,010	–	96,041	358,151	–	717,202
Assets derecognized or repaid	–	(149,657)	–	(53,460)	(154,628)	–	(357,745)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	62,969	–	(60,435)	(2,534)	–	–
Transfers to Stage 2	–	(104,109)	–	110,595	(6,486)	–	–
Transfers to Stage 3	–	(34,897)	–	(60,109)	95,006	–	–
Balance at December 31, 2018	P=	P1,596,890	P=	P339,605	P441,062	P=	P2,377,557

External Ratings

For investment securities, in ensuring quality investment portfolio, the Bank uses the credit risk rating from published data providers like Moody's, Standard & Poor's (S&P) or other reputable rating agencies.

Presented here is Moody's rating – equivalent S&P rating and other rating agencies applies:

Credit Quality					External Rating					
High grade	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3
Standard grade	Ba1	Ba2	Ba3	B1	B2	B3				
Substandard grade	Caa1	Caa2	Caa3	Ca	C					

High grade - represents those investments which fall under any of the following grade:

Aaa - fixed income obligations are judged to be of the highest quality, with the smallest degree of risk.

Aa1, Aa2, Aa3 - fixed income are judged to be of high quality and are subject to very low credit risk, but their susceptibility to long-term risks appears somewhat greater.

A1, A2, A3 - fixed income obligations are considered upper-medium grade and are subject to low credit risk, but have elements present that suggest a susceptibility to impairment over the long term.

Baa1, Baa2, Baa3 - fixed income obligations are subject to moderate credit risk. They are considered medium grade and as such protective elements may be lacking or may be characteristically unreliable. Standard grade - represents those investments which fall under any of the following grade:

Ba1, Ba2, Ba3 - obligations are judged to have speculative elements and are subject to substantial credit risk.

B1, B2, B3 - obligations are considered speculative and are subject to high credit risk.

Substandard grade - represents those investments which fall under any of the following grade:

Caa1, Caa2, Caa3 - are judged to be of poor standing and are subject to very high credit risk.

Ca - are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

C - are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.



As of December 31, 2019 and 2018 the following tables show the credit quality of loans and advances to banks (in thousands).

	2019						
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
Due from BSP							
High Grade	P6,816,092	P–	P–	P–	P–	P–	P6,816,092
Due from other banks							
High Grade	1,139,685	–	–	–	–	–	1,139,685
Interbank loans receivable							
High Grade	–	–	–	–	–	–	–
Total Loans and Advances to Banks							
High Grade	P7,955,777	P–	P–	P–	P–	P–	P7,955,777
	2018						
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
Due from BSP							
High Grade	P15,159,012	P–	P–	P–	P–	P–	P15,159,012
Due from other banks							
High Grade	1,685,107	–	–	–	–	–	1,685,107
Interbank loans receivable							
High Grade	1,892,000	–	–	–	–	–	1,892,000
Total Loans and Advances to Banks							
High Grade	P18,736,119	P–	P–	P–	P–	P–	P18,736,119

As of December 31, 2019 and 2018, the following table shows the credit quality of the Bank's investment securities (in thousands):

	2019						Total
	Stage 1		Stage 2		Stage 3	POCI	
	Individual	Collective	Individual	Collective			
FVTPL – Government Debt Securities							
High Grade	P44	P–	P–	P–	P–	P–	P44
FVTPL – Derivative Asset							
High Grade	10,073	–	–	–	–	–	10,073
	10,107	–	–	–	–	–	10,107
FVOCI – Government Debt Securities							
High Grade	1,855,048	–	–	–	–	–	1,855,048
	1,855,048	–	–	–	–	–	1,855,048
FVOCI – Private Debt Securities							
Standard Grade	2,908,569	–	–	–	–	–	2,908,569
	2,908,569	–	–	–	–	–	2,908,569
Investment Securities at Amortized Cost							
Government Debt Securities							
High Grade	30,806,854	–	–	–	–	–	30,806,854
	30,806,854	–	–	–	–	–	30,806,854
Investment Securities at Amortized Cost							
Private Debt Securities							
Standard Grade	3,452,646	–	–	–	–	–	3,452,646
	3,452,646	–	–	–	–	–	3,452,646
Total Investment Securities							
High Grade	32,661,946	–	–	–	–	–	32,661,946
Standard Grade	6,361,215	–	–	–	–	–	6,361,215
	P39,023,161	P–	P–	P–	P–	P–	P39,023,161



	2018						
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
FVTPL – Government Debt Securities							
High Grade	P34	P–	P–	P–	P–	P–	P34
FVTPL – Derivative Asset							
High Grade	10,073	–	–	–	–	–	10,073
	10,107	–	–	–	–	–	10,107
FVOCI – Government Debt Securities							
High Grade	8,956,764	–	–	–	–	–	8,956,764
	8,956,764	–	–	–	–	–	8,956,764
FVOCI – Private Debt Securities							
High Grade	3,964,612	–	–	–	–	–	3,964,612
	3,964,612	–	–	–	–	–	3,964,612
Investment Securities at Amortized Cost							
Government Debt Securities							
High Grade	31,604,530	–	–	–	–	–	31,604,530
	31,604,530	–	–	–	–	–	31,604,530
Investment Securities at Amortized Cost							
Private Debt Securities							
Standard Grade	4,071,281	–	–	–	–	–	4,071,281
	4,071,281	–	–	–	–	–	4,071,281
Total Investment Securities							
High Grade	44,536,013	–	–	–	–	–	44,536,013
Standard Grade	4,071,281						4,071,281
	P48,607,294	P–	P–	P–	P–	P–	P48,607,294

All of the Bank's loan commitments and financial guarantees amounting to P84.0 and P70.5 million as of December 31, 2019 and 2018, respectively, are classified as high grade under Stage 1.

ECL Methodology Overview

ECL represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

The objective of the new impairment standard is to record lifetime losses on all financial instruments which have experienced a SICR since their initial recognition. As a result, ECL allowances will be measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument. In comparison, the incurred loss model recognizes lifetime credit losses only when there is objective evidence of impairment.

Staging assessment

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.



For credit-impaired financial instruments:

- Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial instruments.

Two modelling approaches were employed to build a consistent framework for the development of all ECL models of the Bank. Both modeling approaches consider past events, current conditions and forecast of economic conditions in assessing impairment.

The complex model approach is used for portfolios with a significant number of historical defaults. This approach was applied to the consumer loan portfolios. These quantitative models are built by applying statistical, economic, financial or mathematical theories, techniques and assumptions to calculate provisions. Where historical data are insufficient to develop statistical models, such as for Business Loans, Account Receivables, Sales Contract Receivables, etc. the simplified ECL approach was employed. The Bank observed the historical PD and LGD of the portfolio, and applied forward looking economic data on PD to calculate the ECL.

Classification of Individual/Collective Impairment

The Bank calculates provisions either in a collective or individual basis.

Collective impairment calculates risk provisions by grouping exposures into smaller homogeneous portfolios based on a combination of borrower and account characteristics. Accounts with similar risk attributes (i.e. facility, security, credit rating, months-on-books, utilization and collateral type, etc.) are pooled together for calculating provisions based on the expected credit loss models. All Stage 1 and 2 accounts of the Bank are categorized under collective impairment.

Individual impairment is applicable for all accounts under Stage 3 or accounts deemed as significant exposures and show objective evidence of impairment. The indicators may be default in payment, restructuring, litigation or probable foreclosure.

As of December 31, 2019 and 2018, an analysis by past due status of receivables from customers wherein the SICR is based only on the past due information is as follows:

	2019					
	Number of days past due					
	Up to 30 days	31-60 days	61-90 days	91-180 days	180 days	Total
Receivables from customers						
Consumption loans	P360,449	P3,200,910	P1,301,109	P1,381,059	P1,010,401	P7,253,928
Real estate loans	449,432	1,718,691	405,482	317,712	675,717	3,567,034
Commercial loans	635,520	52,688	80,300	15,607	171,120	955,235
Personal loans	125,988	30,957	19,514	41,404	321,394	539,257
Total	P1,571,389	P5,003,246	P1,806,405	P1,755,782	P2,178,632	P12,315,454

	2018					
	Number of days past due					
	Up to 30 days	31-60 days	61-90 days	91-180 days	180 days	Total
Receivables from customers						
Consumption loans	P651,578	P2,754,634	P1,121,446	P1,248,078	P1,360,688	P7,136,424
Real estate loans	631,142	1,407,772	381,450	329,619	703,352	3,453,335
Commercial loans	464,354	30,784	2,097	74,564	136,357	708,156
Personal loans	224,070	26,490	16,215	41,650	296,123	604,548
Total	P1,971,144	P4,219,680	P1,521,208	P1,693,911	P2,496,520	P11,902,463



b. Market risk

Market risk management covers the areas of trading and interest rate risks. The Bank utilizes various measurement and monitoring tools to ensure that risk-taking activities are managed within instituted market risk parameters. The Bank revalues its trading portfolios on a daily basis and checks the revenue or loss generated by each portfolio in relation to their level of market risk.

The Bank's risk policies and implementing guidelines are regularly reviewed by the Assets and Liabilities Committee (ALCO), ROC and BOD to ensure that these are up-to-date and in line with changes in the economy, environment and regulations. The ROC and the BOD set the comprehensive market risk limit structure and define the parameters of market activities that the Bank can engage in.

Market risk is the risk to earnings and capital arising from changes in the value of traded portfolios of financial instruments (trading market risk) and from movements in interest rates (interest rate risk). The Bank's market risk originates primarily from holding peso and dollar-denominated debt securities. The Bank utilizes Value-at-Risk (VaR) to measure and manage market risk exposure. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, for a given confidence level over a specified holding period.

Trading activities

The Bank's trading portfolios are currently composed of peso and dollar-denominated fixed income securities that are marked-to-market daily. The Bank also uses VaR to measure the extent of market risk exposure arising from these portfolios.

VaR is a statistical measure that calculates the maximum potential loss from a portfolio over a holding period, within a given confidence level. The Bank's current VaR model uses historical simulation for Peso and USD HFT portfolios with confidence level at 99.00% and a 1 day holding period. It utilizes a 250 days rolling data most recently observed daily percentage changes in price for each asset class in its portfolio.

VaR reports are prepared on a daily basis and submitted to Treasury Group and RMO. VaR is also reported to the ROC and BOD on a monthly basis. The President, ROC and BOD are advised of potential losses that exceed prudent levels or limits.

When there is a breach in VaR limits, Treasury Group is expected to close or reduce their position and bring it down within the limit unless approval from the President is obtained to retain the same. All breaches are reported to the President for regularization. In addition to the regularization and approval of the President, breaches in VaR limits and special approvals are likewise reported to the ROC and BOD for their information and confirmation.

Back-testing is employed to verify the effectiveness of the VaR model. The Bank performs back-testing to validate the VaR model and stress testing to determine the impact of extreme market movements on the portfolios. Results of backtesting are reported to the ROC and BOD on a monthly basis. Stress testing is also conducted, based on historical maximum percentage daily movement and on an ad-hoc rate shock to estimate potential losses in a crisis situation.

The Bank has established limits, VaR, stop loss limits and loss triggers, for its trading portfolios. Daily profit or losses of the trading portfolios are closely monitored against loss triggers and stop-loss limits.



Responsibility for managing the Bank's trading market risk remains with the ROC. With the support of RMO, the ROC recommends to the BOD changes in market risk limits, approving authorities and other activities that need special consideration.

Discussed below are the limitations and assumptions applied by the Bank on its VaR methodology:

- VaR is a statistical estimate and thus, does not give the precise amount of loss;
- VaR is not designed to give the probability of bank failure, but only attempts to quantify losses that may arise from a bank's exposure to market risk;
- Historical simulation does not involve any distributional assumptions, scenarios that are used in computing VaR are limited to those that occurred in the historical sample; and
- VaR systems are backward-looking. It attempts to forecast likely future losses using past data. As such, this assumes that past relationships will continue to hold in the future. Major shifts therefore (i.e., an unexpected collapse of the market) are not captured and may inflict losses much bigger than anything the VaR model may have calculated.

The Bank's interest rate VaR follows (in thousands):

	December 31, 2019		December 31, 2018	
	Peso	USD	Peso	USD
Year-end	1	–	2	–
Average	2	–	495	855
High	2	–	12,171	12,141
Low	1	–	1	–

Non-trading activities

The Bank follows a prudent policy on managing its assets and liabilities to ensure that fluctuations in interest rates are kept within acceptable limits.

One method by which the Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of "gap" analysis. This analysis provides the Bank with a static view of the maturity and repricing characteristics of the positions in its statement of condition. An interest rate gap report is prepared by classifying all assets and liabilities into various time period categories according to contracted maturities or anticipated repricing dates, whichever is earlier. Non-maturing deposits are considered as rate sensitive liabilities; no loan pre-payments assumptions are used. The difference in the amount of assets and liabilities maturing or being repriced in any time period category would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The interest rate sensitivity gap report measures interest rate risk by identifying gaps between the repricing dates of assets and liabilities. The Bank's sensitivity gap model calculates the effect of possible rate movements on its interest rate profile.

The Bank uses sensitivity gap model to estimate Earnings-at-Risk (EaR) should interest rates move against its interest rate profile. The Bank's EaR limits are based on a percentage of the Bank's projected earnings for the year or capital whichever is lower. The Bank also performs stress-testing to measure the impact of various scenarios based on interest rate volatility and shift in the yield curve. The EaR and stress testing reports are prepared on a monthly basis.

The ALCO is responsible for managing the Bank's structural interest rate exposure. The ALCO's goal is to achieve a desired overall interest rate profile while remaining flexible to interest rate movements and changes in economic conditions. The RMO and ROC review and oversee the Bank's interest rate risks.



The table below demonstrates the sensitivity of equity. Equity sensitivity was computed by calculating mark-to-market changes of debt securities at FVOCI, assuming a parallel shift in the yield curve.

	2019		2018	
	Change in basis points	Sensitivity of equity	Change in basis points	Sensitivity of equity
Currency				
PHP	+10	(P11,182,809)	+10	(P36,263,592)
USD	+10	(988,516)	+10	(27,912,113)
Currency				
PHP	-10	11,232,671	-10	35,105,505
USD	-10	994,210	-10	27,537,680

The table below demonstrates the sensitivity of net interest income using the EAR model. Net interest income sensitivity was computed by calculating the changes in the banking book gaps assuming a parallel shift in the yield curve.

	2019		2018	
	Change in basis points	Sensitivity of NII	Change in basis points	Sensitivity of NII
Currency				
PHP	+10	(52,113,451)	+10	(67,659,502)
USD	+10	(9,332,602)	+10	(14,895,126)
Currency				
PHP	-10	52,113,451	-10	67,659,502
USD	-10	9,332,602	-10	14,895,126

Foreign Currency Risk

Foreign currency risk is the risk of an investment's value changing due to an adverse movement in currency exchange rates. It arises due to a mismatch in the Bank's foreign currency assets and liabilities.

The Bank's policy is to maintain foreign currency exposure within the approved position, stop loss, loss trigger, VaR limits and to remain within existing regulatory guidelines. To compute for VaR, the Bank uses historical simulation model for USD/PHP FX position, with confidence level at 99.00% and a 1 day holding period. The Bank's VaR for its foreign exchange position for trading and non-trading activities are as follows (in thousands):

	2019 ¹	2018 ¹
As of year-end	P978	P864
Average	751	919
High	1,326	3,641
Low	8	116

¹ Using METRISK Historical Simulation VaR



The table below summarizes the Bank's exposure to foreign exchange risk as of December 31, 2019 and 2018. Included in the table are the Bank's assets and liabilities at carrying amounts (in thousands):

	2019	2018
Assets		
Cash	\$27	\$4
Due from other banks	1,759	6,700
Financial assets at FVOCI	–	45,083
Other assets	–	1,113
Total assets	1,786	52,900
Liabilities		
Deposit liabilities		
Savings	113	128
Time	–	3
Other liabilities	5,331	4,023
Total liabilities	5,444	4,154
Net exposure	(\$3,658)	\$48,746

c. Liquidity risk

The Bank's policy on liquidity management emphasizes on three elements of liquidity, namely, cashflow management, ability to borrow in the interbank market, and maintenance of a stock of high-quality liquid assets. These three approaches complement one another with greater weight being given to a particular approach, depending upon the circumstances. The Bank's objective in liquidity management is to ensure that the Bank has sufficient liquidity to meet obligations under normal and adverse circumstances and is able to take advantage of lending and investment opportunities as they arise.

The main tool that the Bank uses for monitoring its liquidity is the Maximum Cumulative Outflow (MCO) reports, which is also called liquidity gap or maturity matching gap reports. The MCO is a useful tool in measuring and analyzing the Bank's cash flow projections and monitoring liquidity risks. The liquidity gap report shows the projected cash flows of assets and liabilities representing estimated funding sources and requirements under normal conditions, which also forms the basis for the Bank's Liquidity Contingency Funding Plan (LCFP). The LCFP projects the Bank's funding position during stress to help evaluate the Bank's funding needs and strategies under various stress conditions.

The Bank discourages dependence on Large Funds Providers (LFPs) and monitors the deposit funding concentrations so that it will not be vulnerable to a substantial drop in deposit level should there be an outflow of large deposits and there is enough high-quality liquid assets to fund LFP withdrawals. ALCO is responsible for managing the liquidity of the Bank while RMO and ROC review and oversee the Bank's overall liquidity risk management.

To mitigate potential liquidity problems caused by unexpected withdrawals of significant deposits, the Bank takes steps to cultivate good business relationships with clients and financial institutions, maintains high level of high-quality liquid assets, monitors the deposit funding concentrations and regularly updates the Liquidity Contingency Funding Plan. Beginning 2019, the Bank manages and monitors its Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) on a daily basis to ensure compliance with the required regulatory ratios.



Financial assets

Analysis of equity and debt securities at FVTPL and financial assets at FVOCI into maturity groupings is based on the expected date on which these assets will be realized. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

Financial liabilities

The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date and does not consider the behavioral pattern of the creditors. When the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Bank can be required to pay.

Analysis of Financial Assets and Liabilities by Remaining Maturities

The tables below show the maturity profile of the Bank's financial assets and liabilities based on contractual undiscounted repayment obligations (in millions):

	2019							Total
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	
Financial Assets								
FVTPL investments								
HFT - government securities	P-	P-	P-	P-	P-	P-	P-	P-
Derivatives	-	-	-	-	-	-	-	-
Financial assets at FVOCI								
Government securities	-	61	3	865	83	1,012	1,123	2,135
Private securities	-	-	30	25	79	134	3,407	3,541
Quoted equity securities	-	-	-	-	-	-	12	12
Investment securities at amortized cost								
Government bonds	-	25	109	159	1,890	2,183	38,484	40,667
Private securities	-	1	37	49	236	323	3,692	4,015
Loans and receivables								
Loans and advances to banks								
Due from BSP	6,816	-	-	-	-	6,816	-	6,816
Due from other banks	1,140	-	-	-	-	1,140	-	1,140
Interbank loans receivable and SPURA	-	-	-	-	-	-	-	-
Receivables from customers								
Consumption loans	137	1,298	2,713	4,490	10,375	19,013	126,054	145,067
Real estate loans	154	469	1,086	1,738	3,714	7,161	88,853	96,014
Commercial loans	880	840	927	1,109	1,926	5,682	11,548	17,230
Personal loans	1,092	159	358	611	1,484	3,704	1,807	5,511
Other receivables								
Accrued interest receivable	726	1,182	251	90	-	2,249	-	2,249
Accounts receivable	500	9	7	10	1,375	1,901	-	1,901
Sales contract receivable	4	-	-	1	1	6	37	43
Bills purchased	9	-	-	-	-	9	-	9
Other assets								
Security deposits	-	-	1	4	8	13	172	185
RCOCI	29	-	-	-	-	29	-	29
	P11,487	P4,044	P5,522	P9,151	P21,171	P51,375	P275,189	P326,564

	2019							Total
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	
Financial Liabilities								
Deposit liabilities								
Demand	P22,491	P-	P-	P-	P-	P22,491	P-	P22,491
Savings	35,692	-	-	-	-	35,692	-	35,692
Time	-	72,496	11,071	4,438	2,490	90,495	17,511	108,006
LTNCD	-	-	-	-	-	-	9,647	9,647
	58,183	72,496	11,071	4,438	2,490	148,678	27,158	175,836
Bills payable	-	1,201	-	3,219	-	4,420	-	4,420
Bonds payable	-	-	-	-	353	353	6,653	7,006
Treasurer's, cashier's and manager's checks	1,298	-	-	-	-	1,298	-	1,298
Accrued interest payable	-	-	366	-	68	434	-	434
Accrued other expenses payable	-	666	-	-	178	844	-	844
Other liabilities								
Accounts payable	-	-	-	2,384	-	2,384	-	2,384
Lease liability	-	38	75	110	209	432	1,378	1,810
Other credits	171	-	-	-	-	171	-	171
Bills purchased - contra	9	-	-	-	-	9	-	9
Deposit for keys	1	-	-	-	-	1	-	1
Payment order payable and overages	15	-	-	-	-	15	2	17
	P59,677	P74,401	P11,512	P10,151	P3,298	P159,039	P35,191	P194,230



	2018							
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	Total
Financial Assets								
FVTPL investments								
HFT - government securities	P-	P-	P-	P-	P-	P-	P-	P-
Derivatives	-	3	7	-	-	10	-	10
Financial assets at FVOCI								
Government securities	-	67	20	40	2,201	2,328	9,834	12,162
Private securities	-	1	40	25	1,113	1,179	3,916	5,095
Quoted equity securities	-	-	-	-	-	-	10	10
Investment securities at amortized cost								
Government bonds	-	26	109	159	800	1,094	41,785	42,879
Private securities	-	1	18	205	505	729	4,102	4,831
Loans and receivables								
Loans and advances to banks								
Due from BSP	15,159	-	-	-	-	15,159	-	15,159
Due from other banks	1,685	-	-	-	-	1,685	-	1,685
Interbank loans receivable and SPURA	1,892	-	-	-	-	1,892	-	1,892
Receivables from customers								
Consumption loans	145	1,205	2,485	4,042	9,308	17,185	120,679	137,864
Real estate loans	126	421	1,019	1,630	3,532	6,728	82,479	89,207
Commercial loans	604	1,002	1,110	924	1,513	5,153	11,576	16,729
Personal loans	1,026	157	349	554	1,376	3,462	1,746	5,208
Other receivables								
Accrued interest receivable	649	855	358	377	67	2,306	-	2,306
Accounts receivable	987	19	5	6	30	1,047	480	1,527
Sales contract receivable	4	-	-	-	2	6	65	71
Bills purchased	13	-	-	-	-	13	-	13
Other assets								
Security deposits	-	2	2	5	6	15	191	206
RCOCI	20	-	-	-	-	20	-	20
	P22,310	P3,759	P5,522	P7,967	P20,453	P60,011	P276,863	P336,874

	2018							
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	Total
Financial Liabilities								
Deposit liabilities								
Demand	P20,367	P-	P-	P-	P-	P20,367	P-	P20,367
Savings	33,400	-	-	-	-	33,400	-	33,400
Time	-	70,024	34,425	13,799	4,143	122,391	16,796	139,187
LTNCD	-	-	-	-	-	-	9,792	9,792
	53,767	70,024	34,425	13,799	4,143	176,158	26,588	202,746
Bills payable	-	-	53	53	106	212	3,188	3,400
Subordinated notes	-	-	41	41	83	165	3,784	3,949
Treasurer's, cashier's and manager's checks	1,616	-	-	-	-	1,616	-	1,616
Accrued interest payable	-	-	900	-	-	900	-	900
Accrued other expenses payable	-	589	191	200	-	980	-	980
Other liabilities								
Accounts payable	-	-	-	2,073	-	2,073	-	2,073
Other credits	245	-	-	-	-	245	-	245
Bills purchased - contra	13	-	-	-	-	13	-	13
Deposit for keys	1	-	-	-	-	1	-	1
Payment order payable and overages	6	-	-	-	-	6	-	6
	P55,648	P70,613	P35,610	P16,166	P4,332	P182,369	P33,560	P215,929

6. Segment Information

The Bank's operating segments are organized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit that offers different products and serves different markets. The Bank's reportable segments are as follows:

- Consumer Banking - principally provides consumer-type loans generated by the Home Office;
- Corporate Banking - principally handles loans and other credit facilities for small and medium enterprises, corporate and institutional customers acquired in the Home Office;
- Branch Banking - serves as the Bank's main customer touch point which offers consumer and corporate banking products; and



- d. Treasury - principally handles institutional deposit accounts, providing money market, trading and treasury services, as well as managing the Bank's funding operations by use of government securities and placements and acceptances with other banks.

These segments are the bases on which the Bank reports its primary segment information. The Bank evaluates performance on the basis of information about the components of the Bank that senior management uses to make decisions about operating matters. There are no other operating segments than those identified by the Bank as reportable segments. There were no inter-segment revenues and expenses included in the financial information. The Bank has no single customer with revenues from which is 10.00% or more of the Bank's total revenue.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Primary segment information (by business segment) for the years ended December 31, 2019, 2018 and 2017 follows (in thousands):

	2019				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	P5,683,072	P636,212	P7,944,839	P3,148,365	P17,412,488
Service fees and commission	751,205	46,520	1,154,217	-	1,951,942
Other operating income	402,361	39,901	647,700	289,877	1,379,839
Total operating income	6,836,638	722,633	9,746,756	3,438,242	20,744,269
Non-cash expenses					
Provision for credit and impairment losses	1,705,844	203,450	305,696	-	2,214,990
Depreciation	239,093	3,768	666,070	1,411	910,342
Amortization of intangible assets	47,584	1,833	83,938	1,700	135,055
Total non-cash expenses	1,992,521	209,051	1,055,704	3,111	3,260,387
Interest expense	-	-	3,256,615	2,797,004	6,053,619
Service fees and commission expense	34,035	2,107	52,295	-	88,437
Subtotal	34,035	2,107	3,308,910	2,797,004	6,142,056
Compensation and fringe benefits	902,472	74,994	2,503,848	39,300	3,520,614
Taxes and licenses	485,330	32,038	651,230	381,156	1,549,754
Occupancy and equipment-related costs	81,561	966	239,196	607	322,330
Security, messengerial and janitorial services	147,003	3,072	301,961	1,027	453,063
Miscellaneous	646,978	24,432	1,219,616	132,165	2,023,191
Subtotal	2,263,344	135,502	4,915,851	554,255	7,868,952
Income (loss) before share in net income of a joint venture and income tax	P2,546,738	P375,973	P466,291	P83,872	P3,472,874
Share in net income of a joint venture					105,905
Income before income tax					3,578,779
Provision for income tax					550,441
Net income					P3,028,338
Segment assets	P121,477,767	P7,663,702	P53,884,306	P39,727,128	P222,752,903
Investment in a joint venture					755,781
Deferred tax assets					1,398,137
Total assets					P224,906,821
Segment liabilities	P1,133,833	P70,337	P134,505,605	P54,739,773	P190,449,548



	2018				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	P5,605,523	P350,615	P6,733,222	P3,684,617	P16,373,977
Service fees and commission	675,356	42,309	1,004,080	–	1,721,745
Other operating income	648,822	23,260	614,175	(45,265)	1,240,992
Total operating income	6,929,701	416,184	8,351,477	3,639,352	19,336,714
Non-cash expenses					
Provision for (reversal of) credit and impairment losses	2,021,119	(66,778)	139,320	44,312	2,137,973
Depreciation	240,779	4,522	375,577	1,304	622,182
Amortization of other intangible assets	56,911	2,368	98,568	1,242	159,089
Total non-cash expenses	2,318,809	(59,888)	613,465	46,858	2,919,244
Interest expense	–	–	1,956,224	3,085,803	5,042,027
Service fees and commission expense	37,698	2,362	56,048	–	96,108
Subtotal	37,698	2,362	2,012,272	3,085,803	5,138,135
Compensation and fringe benefits	814,171	72,626	2,443,558	33,473	3,363,828
Taxes and licenses	456,707	31,165	585,031	554,838	1,627,741
Occupancy and equipment-related costs	77,577	1,074	684,687	429	763,767
Security, messengerial and janitorial services	168,186	4,306	320,250	996	493,738
Miscellaneous	691,451	26,730	1,242,453	180,263	2,140,897
Subtotal	2,208,092	135,901	5,275,979	769,999	8,389,971
Income before share in net income of a joint venture and income tax	P2,365,102	P337,809	P449,761	(P263,308)	P2,889,364
Share in net income of a joint venture					82,377
Income before income tax					2,971,741
Provision for income tax					309,595
Net income					P2,662,146
Segment assets	P125,143,953	P7,969,875	P45,507,895	P57,088,476	P235,710,199
Investment in a joint venture					691,426
Deferred tax assets					1,327,667
Total assets					P237,729,292
Segment liabilities	P1,591,964	P98,175	P130,004,402	P81,640,603	P213,335,144

	2017				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	P4,811,338	P321,494	P6,777,057	P2,633,888	P14,543,777
Service fees and commission	561,436	40,482	868,284	–	1,470,202
Other operating income	898,009	15,705	529,289	(8,754)	1,434,249
Total operating income	6,270,783	377,681	8,174,630	2,625,134	17,448,228
Non-cash expenses					
Provision for (reversal of) credit and impairment losses	2,111,031	(36,167)	195,315	–	2,270,179
Depreciation	242,252	5,852	386,310	1,022	635,436
Amortization of other intangible assets	50,347	2,638	81,673	774	135,432
Total non-cash expenses	2,403,630	(27,677)	663,298	1,796	3,041,047
Interest expense	–	–	1,653,833	1,810,844	3,464,677
Service fees and commission expense	36,060	2,600	55,768	–	94,428
Subtotal	36,060	2,600	1,709,601	1,810,844	3,559,105
Compensation and fringe benefits	802,955	63,842	2,365,493	28,316	3,260,606
Taxes and licenses	410,454	31,874	438,575	388,005	1,268,908
Occupancy and equipment-related costs	68,023	1,022	670,795	211	740,051
Security, messengerial and janitorial services	115,856	4,649	355,784	1,244	477,533
Miscellaneous	709,485	37,715	1,336,751	167,383	2,251,334
Subtotal	2,106,773	139,102	5,167,398	585,159	7,998,432
Income before share in net income of a joint venture and income tax	P1,724,320	P263,656	P634,333	P227,335	P2,849,644
Share in net income of a joint venture					71,837
Income before income tax					2,921,481
Benefit from income tax					267,062
Net income					P2,654,419
Segment assets	P113,797,984	P8,297,700	P39,017,294	P60,174,574	P221,287,552
Investment in a joint venture					607,163
Deferred tax assets					1,429,327
Total assets					223,324,042
Segment liabilities	P1,123,077	P77,620	P119,740,151	P79,989,870	P200,930,718



7. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

This account consists of the following:

	2019	2018
SPURA	P–	P1,892,000,000
Interbank call loans (IBCL) receivable	–	–
	–	1,892,000,000
Less allowance for impairment losses (Note 15)	–	180,000
	P–	P1,891,820,000

SPURA are lending to counterparties collateralized by government securities ranging from one to four days. As of December 31, 2018, the fair value of government securities held as collateral amounted to P1.9 billion. The Bank is not permitted to sell or repledge the related collateral in the absence of default by the counterparty.

IBCL represents short-term lending with counterparty banks and other financial institutions. These are highly liquid instruments which mature within one to five days.

SPURA of the Bank bears annual interest rate ranging from 4.00% to 4.75% in 2019 and from 3.00% to 4.75% in 2018, while peso-denominated IBCL of the Bank bear annual interest rate ranging from 4.00% to 5.16% in 2019 and from 3.03% to 5.06% in 2018. Foreign currency-denominated IBCL bear annual interest rates ranging from 0.02% to 2.48% in 2019 and from 1.25% to 2.18% in 2018.

Interest income on SPURA and IBCL are as follows:

	2019	2018	2017
IBCL (Note 29)	P24,821,923	P57,403,569	P11,798,252
SPURA	5,318,536	32,319,801	49,238,898
	P30,140,459	P89,723,370	P61,037,150

8. Investment Securities

Fair Value Through Profit or Loss (FVTPL) Investments

Fair value through profit or loss investments consist of the following:

	2019	2018
Derivatives with positive fair value	P–	P10,073,132
Investment securities at FVTPL	43,674	33,890
Financial assets at FVTPL	P43,674	P10,107,022
Derivatives with negative fair value	P–	P2,895,073
Financial liabilities at FVTPL	P–	P2,895,073

On August 19, 2009, the BSP approved the Bank's application for Type 3 Limited User Authority for plain vanilla foreign exchange (FX) forwards, which is limited to outright buying or selling of FX forwards at a specific price and date in the future and do not include non-deliverable forwards.



In 2018, the Bank entered into foreign currency swaps and forwards. As of December 31, 2018, the aggregate notional amounts of the outstanding foreign currency swaps with positive and negative fair value amounted to \$30.7 million and \$18.8 million, respectively.

Movements in fair value changes of derivative with positive fair value are as follows:

	2019	2018
Balance at beginning of year	P10,073,132	P73,159,561
Fair value changes during the year	–	83,811,949
Settled transactions	(10,073,132)	(146,898,378)
Balance at end of year	P–	P10,073,132

Movements in fair value changes of derivative with negative fair value are as follows:

	2019	2018
Balance at beginning of year	(P2,895,073)	P–
Fair value changes during the year	–	(97,713,762)
Settled transactions	2,895,073	94,818,689
Balance at end of year	P–	(P2,895,073)

As of December 31, 2019 and 2018, the Bank has outstanding ROP paired warrants amounting to \$1.5 million which give the Bank the option or right to exchange its holdings of ROP Global Bonds (Paired Bonds) into peso-denominated government securities upon occurrence of a pre-determined credit event. Paired Bonds shall be risk weighted at 0.00%, provided that the 0.00% risk weight shall be applied only to the Bank's holdings of Paired Bonds equivalent to not more than 50.00% of the total qualifying capital. Further, the Bank's holdings of said warrants, booked in the FVTPL category, are likewise exempted from capital charge for market risk as long as said instruments are paired with ROP Global Bonds up to a maximum of 50.00% of the total qualifying capital. As a result of the sale of its paired bonds in 2013, the Bank is holding ROP warrants without paired instruments and with no active market. As of December 31, 2019 and 2018, the Bank determined the market value of its warrants to be zero.

The unrealized portion of the trading securities gains (losses) on FVTPL investments amounted to P0.01 million, (P16.9 million) and P12.2 million for 2019, 2018 and 2017, respectively.

Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)

Financial assets at FVOCI consist of the following:

	2019	2018
Financial Assets at FVOCI		
Debt securities		
Government	P1,855,048,199	P8,956,764,357
Private	2,908,569,047	3,964,611,802
Equity securities		
Quoted	11,771,221	10,225,365
	P4,775,388,467	P12,931,601,524

As of December 31, 2019 and 2018, the ECL on financial assets at FVOCI (included in 'Fair value reserves on financial assets at FVOCI') amounted to P3.4 million and P10.0 million (Note 15), respectively.



Movements in the fair value reserves on financial assets at FVOCI follow:

	2019	2018
Balance at beginning of year, as previously reported	(P782,896,279)	(P411,510,218)
Effect of the adoption of PFRS 9	–	342,363,486
Balance at beginning of year, as restated	(782,896,279)	(69,146,732)
Loss/(Gain) from sale of financial assets at FVOCI		
realized in profit or loss	(224,424,552)	92,278,733
Changes in allowance for ECL (Note 15)	(6,538,008)	9,957,385
Fair value gain (loss) recognized in OCI	994,927,408	(815,985,665)
Balance at end of year	(P18,931,431)	(P782,896,279)

As of December 31, 2019 and 2018, the Bank deposited financial assets at FVOCI with total carrying value of P143.2 million and P84.2 million, respectively, in the form of government bonds with BSP, in compliance with trust regulations (Note 30).

Investment Securities at Amortized Cost

Investment securities at amortized cost consist of the following:

	2019	2018
Investment Securities at Amortized Cost		
Debt securities		
Government	P30,806,854,231	P31,604,530,066
Private	3,452,645,653	4,071,281,345
	34,259,499,884	35,675,811,411
Less allowance for credit losses (Note 15)	25,525,068	29,046,147
	P34,233,974,816	P35,646,765,264

As of December 31, 2019 and 2018, investment securities at amortized cost include Bureau of Treasury bonds pledged by the Bank to MBTC to secure its payroll account with MBTC with total carrying value of P66.3 million and P66.5 million, respectively.

Interest income on investment securities consists of:

	2019	2018	2017
Interest income recognized using EIR			
Investment securities at amortized cost	P1,424,666,633	P1,429,497,897	P–
Financial assets at FVOCI	471,590,813	555,859,754	–
HTM investments	–	–	1,165,451,432
AFS investments	–	–	607,568,926
	1,896,257,446	1,985,357,651	1,773,020,358
Interest income recognized using nominal interest rates			
FVTPL investments	2,152	9,088,886	50,570,958
	P1,896,259,598	P1,994,446,537	P1,823,591,316



Peso-denominated financial assets at FVOCI/AFS investments bear nominal annual interest rates ranging from 4.00% to 8.13% in 2019, from 2.13% to 8.13% in 2018 and from 2.13% to 9.50% in 2017 while foreign currency-denominated FVOCI/AFS investments bear nominal annual interest rates of 5.88% in 2019 and ranging from 3.00% to 10.63% in 2018 and from 3.70% to 9.50% in 2017.

EIR on financial assets at FVOCI/AFS investments as of December 31, 2019, 2018, and 2017 range from 4.08% to 8.46%, from 2.47% to 8.14% and 2.69% to 6.15%, respectively.

On the other hand, peso-denominated investment securities at amortized cost/HTM investments bear EIR ranging from 3.43% to 14.74% in 2019, from 3.70% to 4.87% in 2018 and from 3.70% to 5.61% in 2017, while foreign currency-denominated HTM investments bear EIR ranging from 3.05% to 9.97%, from 3.00% to 4.75%, and from 2.46% to 4.96% in 2019, 2018 and 2017, respectively.

Trading and securities gains (losses) - net on investment securities consist of:

	2019	2018	2017
FVTPL investments (Note 29)	(P432,107)	(P41,018,773)	(P15,481,460)
Financial assets at FVOCI	224,424,552	(92,278,733)	—
AFS investments	—	—	(49,756,366)
	P223,992,445	(P133,297,506)	(P65,237,826)

9. Loans and Receivables

This account consists of:

	2019	2018
Receivables from customers		
Consumption loans	P94,226,205,291	P90,291,868,218
Real estate loans	52,479,186,928	49,972,645,933
Commercial loans	13,685,986,537	12,902,967,013
Personal loans (Note 29)	3,723,190,784	3,525,922,782
	164,114,569,540	156,693,403,946
Less unearned discounts	711,180	130,275
	164,113,858,360	156,693,273,671
Other receivables		
Accrued interest receivable	2,249,493,941	2,306,049,469
Accounts receivable (Note 29)	1,901,309,701	1,526,155,791
Sales contract receivables	42,646,790	71,508,163
Bills purchased (Note 19)	8,798,803	13,077,760
	168,316,107,595	160,610,064,854
Less allowance for credit losses (Note 15)	3,931,905,382	4,349,702,079
	P164,384,202,213	P156,260,362,775

Personal loans comprise deposit collateral loans, employee salary and consumer loan products such as money card, multi-purpose loan and flexi-loan.

As of December 31, 2019, 2018 and 2017, 33.74%, 39.93% and 40.02%, respectively, of the total receivables from customers are subject to periodic interest repricing with average EIR of 7.66%, 7.41% and 14.06% in 2019, 2018 and 2017. Remaining receivables earn average annual fixed interest rates of 15.78%, 14.90% and 14.81% in 2019, 2018 and 2017, respectively.



Receivables from customers earned interest income at an effective interest rate ranging from 8.89% to 9.42%, from 8.76% to 9.46%, and from 8.94% to 9.17%, for the years ended December 31, 2019, 2018 and 2017, respectively.

Interest income on loans and receivables consists of:

	2019	2018	2017
Receivables from customers			
Consumption loans	P9,144,507,633	P8,608,117,368	P7,624,465,526
Real estate loans	3,974,463,324	3,482,931,036	3,273,928,199
Personal loans (Note 29)	1,422,610,233	1,388,759,417	820,957,546
Commercial loans	932,004,186	781,469,660	749,518,594
Other receivables			
Sales contract receivables	7,604,057	7,528,142	8,263,372
	P15,481,189,433	P14,268,805,623	P12,477,133,237

Interest income from restructured loans amounted to P8.3 million, P8.9 million and P11.0 million in 2019, 2018 and 2017, respectively.

BSP Reporting

The breakdown of loans and receivables from customers (gross of unearned discounts and allowance for credit losses) as to secured and unsecured and as to type of security follows:

	2019	%	2018	%
Secured by:				
Chattel	P84,573,541,229	51.53%	P90,291,940,808	57.62
Real estate	37,086,534,930	22.60%	35,067,463,726	22.38
Deposit hold-out	849,760,087	0.52%	739,239,948	0.47
Others	6,173,885	0.00%	12,409,828	0.01
	122,516,010,131	74.65%	126,111,054,310	80.48
Unsecured	41,598,559,409	25.35%	30,582,349,636	19.52
	P164,114,569,540	100.00%	P156,693,403,946	100.00

Details of non-performing loans (NPL) follow:

	2019	2018
Secured	P4,307,641,178	P4,947,136,614
Unsecured	1,609,454,115	1,668,789,592
	P5,917,095,293	P6,615,926,206

Generally, NPLs refer to loans, investments, receivables, or any financial asset, even without any missed contractual payments, that satisfy any of the following conditions:

1. Impaired under existing accounting standards;
2. Classified as doubtful or loss;
3. In litigation, and/or;
4. There is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any.

All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are:

1. Unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.



2. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due.
3. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

The NPLs of the Bank not fully covered by allowance for credit losses follow:

	2019	2018
Total NPLs	₱5,917,095,293	₱6,615,926,206
Less NPLs fully covered by allowance for credit losses	1,315,008,850	1,703,235,253
	₱4,602,086,443	₱4,912,690,953

Restructured loans as of December 31, 2019 and 2018 amounted to ₱104.6 million and ₱128.5 million, respectively. The Bank's loan portfolio includes non-risk loans as defined under BSP regulations totaling ₱0.9 billion and ₱2.6 billion as of December 31, 2019 and 2018, respectively.

Loan concentration as to economic activity follows (gross of unearned discounts and allowance for credit losses):

	2019	%	2018	%
Activities of households as employers and undifferentiated goods-and-services producing activities of households for own use	₱99,328,259,110	60.52	₱95,549,749,865	60.98
Real estate activities	47,435,436,567	28.90	45,068,932,504	28.76
Wholesale and retail trade, repair of motor vehicles and motorcycles	2,905,710,768	1.77	2,958,370,016	1.89
Electricity, gas, steam and air-conditioning supply	1,864,986,016	1.14	1,937,172,270	1.24
Financial and insurance activities	1,198,964,283	0.73	1,098,179,781	0.70
Transportation and storage	1,041,311,221	0.63	1,177,545,617	0.75
Manufacturing	805,033,894	0.49	974,159,507	0.62
Construction	741,251,226	0.45	872,655,404	0.56
Administrative and support service activities	702,200,790	0.43	825,978,162	0.53
Information and communication	546,048,174	0.33	565,650,294	0.36
Accommodation and food service activities	332,145,362	0.20	348,588,610	0.22
Human health and social work activities	248,280,198	0.15	283,481,970	0.18
Water supply, sewerage, waste management and remediation activities	243,086,738	0.15	233,874,590	0.15
Education	172,810,953	0.11	216,428,300	0.14
Professional, scientific and technical activities	159,731,330	0.10	141,462,881	0.09
Arts, entertainment and recreation	78,801,234	0.05	87,032,281	0.06
Agriculture, forestry and fishing	74,422,698	0.05	87,215,580	0.06
Mining and quarrying	13,178,977	0.01	16,087,623	0.01
Others	6,222,910,001	3.79	4,250,838,691	2.70
	₱164,114,569,540	100.00	₱156,693,403,946	100.00

Others relate to other service activities including the activities of membership organizations, repair of computers, personal and household goods and a variety of personal service activities not covered elsewhere in the classification above.



10. Investment in a Joint Venture

The Bank's investment in a joint venture represents its 30.00% interest in Sumisho Motor Finance Corporation (SMFC) as of December 31, 2019 and 2018.

SMFC is engaged in the business of lending or leasing to retail customers for their purchase of motorcycles.

Management has assessed that the Bank continues to have joint control over SMFC together with GT Capital, Sumitomo Japan and Sumitomo Corporation of the Philippines (Sumitomo Group), as all investors are bound by all terms and conditions of the original Joint Venture Agreement between the Bank and Sumitomo Group, where unanimous consent is required from all the parties for SMFC's relevant activities.

As of December 31, 2019 and 2018, the Bank's investment in a joint venture amounted to ₱755.8 million and ₱691.4 million, respectively.

Movement in this account follows (in thousands):

	2019	2018
Balance at beginning of year	₱691,426	₱607,163
Share in net income (Note 29)	105,905	82,377
Share in unrealized gain on remeasurement of retirement liability (Note 29)	(2,190)	1,886
Dividends paid	(39,360)	—
Ending balance	₱755,781	₱691,426

The following table illustrates the summarized financial information of SMFC (in thousands):

	2019	2018
Current assets	₱6,870,631	₱4,904,097
Non-current assets	254,305	149,507
Current liabilities	(4,502,607)	(2,689,159)
Non-current liabilities	(103,061)	(59,692)
Net assets	₱2,519,268	₱2,304,753

	2019	2018	2017
Revenues	₱1,684,260	₱1,104,277	₱818,915
Costs and expenses	1,174,697	701,455	524,426
	509,563	402,822	294,489
Provision for income tax	156,545	128,231	89,062
Net income	353,018	274,591	205,427
Other comprehensive income	(7,299)	6,288	541
Total comprehensive income	₱345,719	₱280,879	₱205,968

On June 21, 2019, SMFC declared dividends of ₱6.56 per share amounting to a total of ₱131.2 million. The same was paid to shareholders on July 1, 2019.

Cost of the investment as of December 31, 2019 and 2018 amounted to ₱600.0 million.



SMFC is a private company and there is no quoted market price available for its shares. The net assets of SMFC consist mainly of financial assets and financial liabilities.

The Bank has no share in any contingent liabilities or capital commitments of SMFC as of December 31, 2019 and 2018. There are also no agreements entered into by SMFC that may restrict dividends and other capital contributions to be paid, loans and advances to be made or repaid to or from the Bank as of the said dates.

Movement in equity in remeasurement gains (losses) on retirement plan of a joint venture amounted to (P2.2 million), P1.9 million and (P0.2 million) in 2019, 2018 and 2017, respectively.

11. Property and Equipment

The composition of and movements in this account follow:

	2019					Total
	Land	Building	Furniture, Fixtures and Equipment	Leasehold Improvements	Right-of-use Assets: Building	
Cost						
Balance at beginning of the period, as previously reported	P976,443,676	P1,125,200,479	P2,814,449,530	P1,012,800,699	P-	P5,928,894,384
Effect of the adoption of PFRS 16 (Note 2)	-	-	-	-	1,442,283,639	1,442,283,639
Balance at beginning of the period, as restated	976,443,676	1,125,200,479	2,814,449,530	1,012,800,699	1,442,283,639	7,371,178,023
Acquisitions/Additions	-	5,631,005	101,542,500	17,095,247	186,062,195	310,330,947
Disposals/Retirement	-	-	(79,673,882)	-	(31,979,925)	(111,653,807)
Balance at end of the period	976,443,676	1,130,831,484	2,836,318,148	1,029,895,946	1,596,365,909	7,569,855,163
Accumulated Depreciation						
Balance at beginning of the period	-	454,610,927	2,401,654,413	815,249,139	-	3,671,514,479
Depreciation	-	35,782,765	157,690,302	83,843,483	373,133,483	650,450,033
Disposals	-	-	(40,070,585)	-	(24,874,890)	(64,945,475)
Balance at end of the period	-	490,393,692	519,274,130	899,092,622	348,258,593	4,257,019,037
Net Book Value	P976,443,676	P640,437,792	P317,044,018	P130,803,324	P1,248,107,316	P3,312,836,126

	2018				Total
	Land	Building	Furniture, Fixtures and Equipment	Leasehold Improvements	
Cost					
Balance at beginning of year	P976,443,676	P1,126,593,369	P2,721,454,277	P976,140,270	P5,800,631,592
Acquisitions	-	2,802,669	142,887,490	36,660,429	182,350,588
Disposals	-	(4,195,559)	(49,892,237)	-	(54,087,796)
Balance at end of year	976,443,676	1,125,200,479	2,814,449,530	1,012,800,699	5,928,894,384
Accumulated Depreciation					
Balance at beginning of year	-	416,470,260	2,185,390,898	718,758,080	3,320,619,238
Depreciation	-	38,163,929	232,636,645	96,491,059	367,291,633
Disposals	-	(23,262)	(16,373,130)	-	(16,396,392)
Balance at end of year	-	454,610,927	2,401,654,413	815,249,139	3,671,514,479
Net Book Value	P976,443,676	P670,589,552	P412,795,117	P197,551,560	P2,257,379,905

Gain on sale of property and equipment amounted to P8.1 million, P7.9 million and P1.7 million in 2019, 2018 and 2017, respectively.



The details of depreciation under the statements of income follow:

	2019	2018	2017
Property and equipment	₱650,450,033	₱367,291,633	₱391,888,682
Chattel mortgage properties (Note 14)	166,109,603	155,549,227	150,298,384
Investment properties (Note 12)	93,782,188	99,341,223	93,249,037
	₱910,341,824	₱622,182,083	₱635,436,103

As of December 31, 2019 and 2018, property and equipment of the Bank with gross carrying amounts of ₱2.1 billion and ₱1.8 billion, respectively, are fully depreciated but are still being used.

12. Investment Properties

The composition of and movements in this account follow:

	2019		
	Land	Building Improvements	Total
Cost			
Balance at beginning of year	₱1,656,342,069	₱3,061,707,089	₱4,718,049,158
Additions (Note 32)	208,639,635	526,642,782	735,282,417
Disposals	(386,522,224)	(688,052,699)	(1,074,574,923)
Balance at end of year	1,478,459,480	2,900,297,172	4,378,756,652
Accumulated Depreciation			
Balance at beginning of year	–	438,004,523	438,004,523
Depreciation (Note 11)	–	93,782,188	93,782,188
Disposals	–	(98,606,574)	(98,606,574)
Balance at end of year	–	433,180,137	433,180,137
Allowance for Impairment Losses			
Balance at beginning of year	76,490,196	167,236,723	243,726,919
Provisions (reversals) for the year (Note 15)	(7,730,797)	7,975,841	245,044
Disposals	(2,085,274)	(62,058,870)	(64,144,144)
Balance at end of year	66,674,125	113,153,694	179,827,819
Net Book Value	₱1,411,785,355	₱2,353,963,341	₱3,765,748,696

	2018		
	Land	Building Improvements	Total
Cost			
Balance at beginning of year	₱1,626,841,652	₱2,930,621,176	₱4,557,462,828
Additions (Note 32)	259,427,845	532,358,484	791,786,329
Disposals	(229,927,428)	(401,272,571)	(631,199,999)
Balance at end of year	1,656,342,069	3,061,707,089	4,718,049,158
Accumulated Depreciation			
Balance at beginning of year	–	397,625,717	397,625,717
Depreciation (Note 11)	–	99,341,223	99,341,223
Disposals	–	(58,962,417)	(58,962,417)
Balance at end of year	–	438,004,523	438,004,523
Allowance for Impairment Losses			
Balance at beginning of year	166,817,379	62,702,253	229,519,632
Provisions (reversals) for the year (Note 15)	(87,113,024)	116,039,818	28,926,794
Disposals	(3,214,159)	(11,505,348)	(14,719,507)
Balance at end of year	76,490,196	167,236,723	243,726,919
Net Book Value	₱1,579,851,873	₱2,456,465,843	₱4,036,317,716



The details of the net book value of investment properties follow:

	2019	2018
Real estate properties acquired in settlement of loans and receivables	₱3,675,428,253	₱3,942,199,973
Bank premises leased to third parties and held for capital appreciation	90,320,443	94,117,743
	₱3,765,748,696	₱4,036,317,716

As of December 31, 2019 and 2018, the aggregate fair value of investment properties amounted to ₱5.8 billion and ₱5.9 billion, respectively. Fair value of the properties was determined using sales comparison approach. Fair values are based on valuations performed by accredited external and in-house appraisers.

Gain on foreclosure of investment properties amounted to ₱246.8 million, ₱278.0 million and ₱271.9 million in 2019, 2018 and 2017, respectively. The Bank realized gain on sale of investment properties amounting to ₱364.9 million, ₱144.0 million and ₱76.9 million in 2019, 2018 and 2017, respectively.

Rental income on investment properties included in miscellaneous income amounted to ₱37.5 million, ₱49.9 million and ₱48.7 million in 2019, 2018 and 2017, respectively (Notes 23 and 25).

Operating expenses incurred in maintaining investment properties (included under miscellaneous expense - 'Repairs and maintenance') amounted to ₱20.1 million, ₱21.4 million and ₱20.5 million in 2019, 2018 and 2017, respectively (Note 26).

13. Intangible Assets and Goodwill

This account consists of:

	2019	2018
Goodwill	₱53,558,338	₱53,558,338
Intangible assets		
Software costs	389,774,423	564,764,758
Branch licenses	37,123,737	37,123,737
	426,898,160	601,888,495
	₱480,456,498	₱655,446,833

Movements in intangible assets follow:

	2019		
	Software Costs	Branch Licenses	Total
Balance at beginning of year	₱564,764,758	₱37,123,737	₱601,888,495
Additions	44,356,459	—	44,356,459
Retirement and others	(84,291,800)	—	(84,291,800)
Amortization	(135,054,994)	—	(135,054,994)
Balance at end of year	₱389,774,423	₱37,123,737	₱426,898,160



	2018		
	Software Costs	Branch Licenses	Total
Balance at beginning of year	P624,241,981	P37,123,737	P661,365,718
Additions	99,611,845	–	99,611,845
Amortization	(159,089,068)	–	(159,089,068)
Balance at end of year	P564,764,758	P37,123,737	P601,888,495

14. Other Assets

This account consists of:

	2019	2018
Chattel mortgage properties - net	P895,829,635	P720,607,271
Prepayments (Note 29)	264,701,030	265,513,919
Security deposits (Note 29)	185,170,313	205,925,406
Documentary stamps on hand	146,202,615	136,098,118
Stationeries and supplies on hand	43,430,240	42,188,585
RCOCI	28,942,603	19,517,854
Creditable withholding tax	49,149	5,083,497
Sundry debits	1,853	9,690,932
Others	604,076	694,885
	P1,564,931,514	P1,405,320,467

Prepayments represent prepaid insurance, rent, taxes and other prepaid expenses. Creditable withholding tax (CWT) pertains to the excess credits after applying CWT against income tax payable.

Movements in chattel mortgage properties - net follow:

	2019	2018
Cost		
Balance at beginning of year	P813,592,771	P806,325,646
Additions (Note 32)	3,304,131,638	2,592,446,719
Disposals	(3,138,066,271)	(2,585,179,594)
Balance at the end of year	979,658,138	813,592,771
Accumulated Depreciation		
Balance at beginning of year	92,569,663	93,217,346
Depreciation (Note 11)	166,109,603	155,549,227
Disposals	(175,052,445)	(156,196,910)
Balance at the end of year	83,626,821	92,569,663
Allowance for Impairment Losses (Note 15)		
Balance at beginning of year	415,837	260,045
Provision	856,288	1,689,227
Disposals	(1,070,443)	(1,533,435)
Balance at end of year	201,682	415,837
Net Book Value	P895,829,635	P720,607,271



Gain on foreclosure of chattel mortgage properties amounted to ₱189.0 million, ₱313.5 million and ₱759.1 million in 2019, 2018 and 2017, respectively. The Bank realized loss on sale of chattel mortgage properties amounting to ₱273.9 million, ₱81.4 million and ₱174.2 million in 2019, 2018 and 2017, respectively.

15. Allowance for Credit and Impairment Losses

An analysis of changes in the ECL allowances for loans and advances to banks as of December 31, 2019 and 2018 follows (in thousands):

	2019						
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
Due from BSP							
Balance as of January 1, 2019	₱2,828	₱–	₱–	₱–	₱–	₱–	₱2,828
New assets originated or purchased	1,226	–	–	–	–	–	1,226
Assets derecognized or repaid	(2,828)	–	–	–	–	–	(2,828)
Balance at December 31, 2019	1,226	–	–	–	–	–	1,226
Due from other banks							
Balance at January 1, 2019	2,301	–	–	–	–	–	2,301
New assets originated or purchased	1,043	–	–	–	–	–	1,043
Assets derecognized or repaid	(2,301)	–	–	–	–	–	(2,301)
Balance at December 31, 2019	1,043	–	–	–	–	–	1,043
Interbank loans receivable							
Balance at January 1, 2018	180	–	–	–	–	–	180
New assets originated or purchased	–	–	–	–	–	–	–
Assets derecognized or repaid	(180)	–	–	–	–	–	(180)
Balance at December 31, 2019	–	–	–	–	–	–	–
Total loans and advances to banks							
Balance at January 1, 2019	5,309	–	–	–	–	–	5,309
New assets originated or purchased	2,269	–	–	–	–	–	2,269
Assets derecognized or repaid	(5,309)	–	–	–	–	–	(5,309)
Balance at December 31, 2019	₱2,269	₱–	₱–	₱–	₱–	₱–	₱2,269

	2018						
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
Due from BSP							
Balance as of January 1, 2018	₱–	₱–	₱–	₱–	₱–	₱–	₱–
New assets originated or purchased	2,828	–	–	–	–	–	2,828
Balance at December 31, 2018	2,828	–	–	–	–	–	2,828
Due from other banks							
Balance at January 1, 2018	–	–	–	–	–	–	–
New assets originated or purchased	2,301	–	–	–	–	–	2,301
Balance at December 31, 2018	2,301	–	–	–	–	–	2,301
Interbank loans receivable							
Balance at January 1, 2018	–	–	–	–	–	–	–
New assets originated or purchased	180	–	–	–	–	–	180
Balance at December 31, 2018	180	–	–	–	–	–	180
Total loans and advances to banks							
Balance at January 1, 2018	–	–	–	–	–	–	–
New assets originated or purchased	5,309	–	–	–	–	–	5,309
Balance at December 31, 2018	₱5,309	₱–	₱–	₱–	₱–	₱–	₱5,309



An analysis of changes in the ECL allowances for investment securities as of December 31, 2019 and 2018 follows (in thousands):

	2019						
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
Financial assets at FVOCI							
Balance at January 1, 2019	P9,957	P-	P-	P-	P-	P-	P9,957
New assets originated or purchased	2	-	-	-	-	-	2
Assets derecognized or repaid	(6,540)	-	-	-	-	-	(6,540)
Balance at December 31, 2019	3,419	-	-	-	-	-	3,419
Investment at amortized cost							
Balance at January 1, 2019	29,046	-	-	-	-	-	29,046
New assets originated or purchased	-	-	-	-	-	-	-
Assets derecognized or repaid	(3,521)	-	-	-	-	-	(3,521)
Balance at December 31, 2019	25,525	-	-	-	-	-	25,525
Total investment securities							
Balance at January 1, 2019	39,003	-	-	-	-	-	39,003
New assets originated or purchased	2	-	-	-	-	-	2
Assets derecognized or repaid	(10,061)	-	-	-	-	-	(10,061)
Balance at December 31, 2019	P28,944	P-	P-	P-	P-	P-	P28,944
	2018						
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
Financial assets at FVOCI							
Balance at January 1, 2018	P-	P-	P-	P-	P-	P-	P-
New assets originated or purchased	9,957	-	-	-	-	-	9,957
Balance at December 31, 2018	9,957	-	-	-	-	-	9,957
Investment at amortized cost							
Balance at January 1, 2018	-	-	-	-	-	-	-
New assets originated or purchased	29,046	-	-	-	-	-	29,046
Balance at December 31, 2018	29,046	-	-	-	-	-	29,046
Total investment securities							
Balance at January 1, 2018	-	-	-	-	-	-	-
New assets originated or purchased	39,003	-	-	-	-	-	39,003
Balance at December 31, 2018	P39,003	P-	P-	P-	P-	P-	P39,003

An analysis of changes in the ECL allowances for receivables from customers as of December 31, 2019 and 2018 follows (in thousands):

	2019						
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
Consumption Loans							
Balance at January 1, 2019	P-	P370,495	P-	P990,265	P1,066,421	P-	P2,427,181
New assets originated or purchased	-	896,795	-	99,972	462,158	-	1,458,925
Assets derecognized or repaid	-	(25,592)	-	(154,132)	(352,824)	-	(532,548)
Amounts written off	-	(887)	-	(96,334)	(793,449)	-	(890,670)
Transfers to Stage 1	-	498,391	-	(452,170)	(46,221)	-	-
Transfers to Stage 2	-	(48,561)	-	149,544	(100,983)	-	-
Transfers to Stage 3	-	(9,101)	-	(93,246)	102,347	-	-
Impact on year-end ECL exposures transferred between stages during the year	-	(1,069,295)	-	89,958	346,659	-	(632,678)
Balance at December 31, 2019	-	612,245	-	533,857	684,108	-	1,830,210
Real Estate Loans							
Balance at January 1, 2019	-	54,989	-	173,876	164,536	-	393,401
New assets originated or purchased	-	(32,382)	-	46,544	27,150	-	41,312
Assets derecognized or repaid	-	(2,947)	-	(17,237)	(33,808)	-	(53,992)
Amounts written off	-	-	-	-	-	-	-
Transfers to Stage 1	-	59,377	-	(51,511)	(7,866)	-	-

(Forward)



	2019						
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
Transfers to Stage 2	P=	(P6,893)	P=	P35,955	(P29,062)	P=	P=
Transfers to Stage 3	–	(873)	–	(21,951)	22,824	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(17,227)	–	(21)	–	–	(17,248)
Balance at December 31, 2019	–	54,044	–	165,655	143,774	–	363,473
Commercial Loans							
Balance at January 1, 2019	–	41,166	–	5,381	85,801	–	132,348
New assets originated or purchased	–	73,594	–	28,398	101,458	–	203,450
Assets derecognized or repaid	–	(15,178)	–	(190)	(12,452)	–	(27,820)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	1,545	–	(1,437)	(108)	–	–
Transfers to Stage 2	–	(2,430)	–	2,430	–	–	–
Transfers to Stage 3	–	(793)	–	(511)	1,304	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(1,300)	–	–	(81,269)	–	(82,569)
Balance at December 31, 2019	–	96,604	–	34,071	94,734	–	225,409
Personal Loans							
Balance at January 1, 2019	–	15,589	–	204,084	351,842	–	571,515
New assets originated or purchased	–	237,792	–	62,225	114,892	–	414,909
Assets derecognized or repaid	–	(3,862)	–	(30,975)	(17,429)	–	(52,266)
Amounts written off	–	(1,084)	–	(44,782)	(106,850)	–	(152,716)
Transfers to Stage 1	–	(13,346)	–	12,557	789	–	–
Transfers to Stage 2	–	4,106	–	(4,996)	890	–	–
Transfers to Stage 3	–	260	–	25,729	(25,989)	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(232,873)	–	(28,712)	74,249	–	(187,336)
Balance at December 31, 2019	–	6,582	–	195,130	392,394	–	594,106
Total Receivable from Customer							
Balance at January 1, 2019	–	482,239	–	1,373,606	1,668,600	–	3,524,445
New assets originated or purchased	–	1,175,799	–	237,139	705,658	–	2,118,596
Assets derecognized or repaid	–	(47,579)	–	(202,534)	(416,513)	–	(666,626)
Amounts written off	–	(1,971)	–	(141,116)	(900,299)	–	(1,043,386)
Transfers to Stage 1	–	545,967	–	(492,561)	(53,406)	–	–
Transfers to Stage 2	–	(53,778)	–	182,933	(129,155)	–	–
Transfers to Stage 3	–	(10,507)	–	(89,979)	100,486	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(1,320,695)	–	61,225	339,639	–	(919,831)
Balance at December 31, 2019	P=	P769,475	P=	P928,713	P1,315,010	P=	P3,013,198

	2018						
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
Consumption Loans							
Balance as of December 31, 2017	P=	P604,615	P=	P678,710	P674,038	P=	P1,957,363
PFRS 9 transition	–	(209,356)	–	165,955	507,100	–	463,699
Balance at January 1, 2018	–	395,259	–	844,665	1,181,138	–	2,421,062
New assets originated or purchased	–	248,741	–	498,898	100,480	–	848,119
Assets derecognized or repaid	–	(221,513)	–	(232,491)	(256,253)	–	(710,257)
Amounts written off	–	–	–	(12,087)	(446,738)	–	(458,825)
Transfers to Stage 1	–	310,554	–	(285,869)	(24,685)	–	–
Transfers to Stage 2	–	(60,846)	–	128,797	(67,951)	–	–
Transfers to Stage 3	–	(11,758)	–	(131,677)	143,435	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(289,942)	–	180,029	436,995	–	327,082
Balance at December 31, 2018	–	370,495	–	990,265	1,066,421	–	2,427,181
Real Estate Loans							
Balance as of December 31, 2017	–	335,661	–	189,022	107,419	–	632,102
PFRS 9 transition	–	(263,276)	–	72,271	63,894	–	(127,111)

(Forward)



	2018					
	Stage 1		Stage 2		Stage 3	POCI
	Individual	Collective	Individual	Collective		
Balance at January 1, 2018	P=	P72,385	P=	P261,293	P171,313	P=
New assets originated or purchased	–	16,085	–	20,521	6,635	–
Assets derecognized or repaid	–	(30,573)	–	(107,437)	(50,164)	–
Amounts written off	–	–	–	–	–	–
Transfers to Stage 1	–	70,341	–	(62,540)	(7,801)	–
Transfers to Stage 2	–	(6,485)	–	29,762	(23,277)	–
Transfers to Stage 3	–	(638)	–	(20,034)	20,672	–
Impact on year-end ECL exposures transferred between stages during the year	–	(66,126)	–	52,311	47,158	–
Balance at December 31, 2018	–	54,989	–	173,876	164,536	–
Commercial Loans						
Balance as of December 31, 2017	–	458,851	–	46,178	284,898	–
PFRS 9 transition	–	(433,518)	–	(40,815)	(182,386)	–
Balance at January 1, 2018	–	25,333	–	5,363	102,512	–
New assets originated or purchased	–	28,322	–	1,323	10,658	–
Assets derecognized or repaid	–	(11,817)	–	(1,353)	(35,022)	–
Amounts written off	–	–	–	–	–	–
Transfers to Stage 1	–	681	–	(681)	–	–
Transfers to Stage 2	–	(841)	–	2,186	(1,345)	–
Transfers to Stage 3	–	(323)	–	(85)	408	–
Impact on year-end ECL exposures transferred between stages during the year	–	(189)	–	(1,372)	8,590	–
Balance at December 31, 2018	–	41,166	–	5,381	85,801	–
Personal Loans						
Balance as of December 31, 2017	–	21,186	–	147,906	427,016	–
PFRS 9 transition	–	(7,289)	–	(26,496)	26,927	–
Balance at January 1, 2018	–	13,897	–	121,410	453,943	–
New assets originated or purchased	–	4,811	–	100,691	19,790	–
Assets derecognized or repaid	–	(14,250)	–	(3,319)	(14,831)	–
Amounts written off	–	(1,875)	–	(65,983)	(160,195)	–
Transfers to Stage 1	–	20,081	–	(14,525)	(5,556)	–
Transfers to Stage 2	–	(3,483)	–	52,138	(48,655)	–
Transfers to Stage 3	–	(645)	–	(9,957)	10,602	–
Impact on year-end ECL exposures transferred between stages during the year	–	(2,947)	–	23,629	96,744	–
Balance at December 31, 2018	–	15,589	–	204,084	351,842	–
Total Receivable from Customer						
Balance as of December 31, 2017	–	1,420,313	–	1,061,816	1,493,371	–
PFRS 9 transition	–	(913,439)	–	170,915	415,535	–
Balance at January 1, 2018	–	506,874	–	1,232,731	1,908,906	–
New assets originated or purchased	–	297,959	–	621,433	137,563	–
Assets derecognized or repaid	–	(278,153)	–	(344,600)	(356,270)	–
Amounts written off	–	(1,875)	–	(78,070)	(606,933)	–
Transfers to Stage 1	–	401,657	–	(363,615)	(38,042)	–
Transfers to Stage 2	–	(71,655)	–	212,883	(141,228)	–
Transfers to Stage 3	–	(13,364)	–	(161,753)	175,117	–
Impact on year-end ECL exposures transferred between stages during the year	–	(359,204)	–	254,597	589,487	–
Balance at December 31, 2018	P=	P482,239	P=	P1,373,606	P1,668,600	P=
						P3,524,445



An analysis of changes in the ECL allowances for other receivables as of December 31, 2019 and 2018 follows (in thousands):

	2019						
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
Accrued Interest Receivable							
Balance as of January 1, 2019	P-	P-	P-	P16,012	P340,322	P-	P356,334
New assets originated or purchased	-	12,290	-	4,108	28,431	-	44,829
Assets derecognized or repaid	-	(12,987)	-	(34,407)	(46,867)	-	(94,261)
Amounts written off	-	-	-	-	-	-	-
Transfers to Stage 1	-	120	-	(118)	(2)	-	-
Transfers to Stage 2	-	(27)	-	29	(2)	-	-
Transfers to Stage 3	-	(2)	-	(15)	17	-	-
Impact on year-end ECL exposures transferred between stages during the year	-	908	-	21,353	72,001	-	94,262
Balance at December 31, 2019	-	302	-	6,962	393,900	-	401,164
Sales Contract Receivable							
Balance as of January 1, 2019	-	402	-	-	563	-	965
New assets originated or purchased	-	-	-	-	-	-	-
Assets derecognized or repaid	-	(363)	-	-	(434)	-	(797)
Amounts written off	-	-	-	-	-	-	-
Transfers to Stage 1	-	110	-	-	(110)	-	-
Transfers to Stage 2	-	-	-	-	-	-	-
Transfers to Stage 3	-	(2)	-	-	2	-	-
Impact on year-end ECL exposures transferred between stages during the year	-	(133)	-	-	387	-	254
Balance at December 31, 2019	-	14	-	-	408	-	422
Total Other Receivables							
Balance as of January 1, 2019	-	402	-	16,012	340,885	-	357,299
New assets originated or purchased	-	12,290	-	4,108	28,431	-	44,829
Assets derecognized or repaid	-	(13,350)	-	(34,407)	(47,301)	-	(95,058)
Amounts written off	-	-	-	-	-	-	-
Transfers to Stage 1	-	230	-	(118)	(112)	-	-
Transfers to Stage 2	-	(27)	-	29	(2)	-	-
Transfers to Stage 3	-	(4)	-	(15)	19	-	-
Impact on year-end ECL exposures transferred between stages during the year	-	775	-	21,353	72,388	-	94,516
Balance at December 31, 2019	P-	P316	P-	P6,962	P394,308	P-	P401,586
	2018						
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
Accrued Interest Receivable							
Balance as of December 31, 2017	P-	P15,678	P-	P11,363	P142,815	P-	P169,856
PFRS 9 transition	-	-	-	-	(35,841)	-	(35,841)
Balance at January 1, 2018	-	15,678	-	11,363	106,974	-	134,015
New assets originated or purchased	-	72	-	639	5,770	-	6,481
Assets derecognized or repaid	-	(14,312)	-	(2,114)	(151,619)	-	(168,045)
Amounts written off	-	-	-	-	(270)	-	(270)
Transfers to Stage 1	-	1,494	-	(970)	(524)	-	-
Transfers to Stage 2	-	(1,041)	-	2,304	(1,263)	-	-
Transfers to Stage 3	-	(225)	-	(1,903)	2,128	-	-
Impact on year-end ECL exposures transferred between stages during the year	-	(1,666)	-	6,693	379,126	-	384,153
Balance at December 31, 2018	-	-	-	16,012	340,322	-	356,334
Sales Contract Receivable							
Balance as of December 31, 2017	-	19,754	-	2,743	11,339	-	33,836
PFRS 9 transition	-	-	-	-	(7,842)	-	(7,842)

(Forward)



	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Balance at January 1, 2018	P–	P19,754	P–	P2,743	P3,497	P–	P25,994
New assets originated or purchased	–	–	–	–	–	–	–
Assets derecognized or repaid	–	(5,952)	–	–	(3,264)	–	(9,216)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	27	–	(27)	–	–	–
Transfers to Stage 2	–	–	–	–	–	–	–
Transfers to Stage 3	–	(13,412)	–	(2,771)	16,183	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(15)	–	55	(15,853)	–	(15,813)
Balance at December 31, 2018	–	402	–	–	563	–	965
Total Other Receivables							
Balance as of December 31, 2017	–	35,432	–	14,106	154,154	–	203,692
PFRS 9 transition	–	-	–	-	(43,683)	–	(43,683)
Balance at January 1, 2018	–	35,432	–	14,106	110,471	–	160,009
New assets originated or purchased	–	72	–	639	5,770	–	6,481
Assets derecognized or repaid	–	(20,264)	–	(2,114)	(154,883)	–	(177,261)
Amounts written off	–	-	–	-	(270)	–	(270)
Transfers to Stage 1	–	1,521	–	(997)	(524)	–	–
Transfers to Stage 2	–	(1,041)	–	2,304	(1,263)	–	–
Transfers to Stage 3	–	(13,637)	–	(4,674)	18,311	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(1,681)	–	6,748	363,273	–	368,340
Balance at December 31, 2018	P–	P402	P–	P16,012	P340,885	P–	P357,299

The details of provisions under the statements of income follow:

	2019	2018
Loans and receivables	P2,213,888,525	P2,063,044,408
Chattel mortgage	856,288	1,689,227
Investment properties	245,044	28,926,794
Investment securities	202,619	39,003,532
Due from BSP	-	2,827,898
Due from other banks	-	2,300,673
Interbank loans receivable	-	180,000
	P2,215,192,476	P2,137,972,532

16. Deposit Liabilities

Interest expense on deposit liabilities consists of:

	2019	2018	2017
Time (Note 29)	P4,594,981,252	P4,239,706,713	P2,792,840,772
LTNCD	392,214,948	230,861,749	115,908,554
Demand (Note 29)	205,871,472	195,685,212	167,111,638
Savings	134,557,733	152,239,685	138,804,756
	P5,327,625,405	P4,818,493,359	P3,214,665,720



Peso-denominated deposit liabilities earn annual fixed interest rates ranging from 0.25% to 6.00% in 2019, from 0.25% to 7.56% in 2018 and from 0.25% to 6.00% in 2017, while foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.25% to 3.00% in 2019, 0.25% to 3.05% in 2018 and 0.50% to 2.00% in 2017. Effective interest rates on deposit liabilities range from 1.09% to 3.68% in 2019 and from 1.94% to 3.28% in 2018 and from 0.25% to 1.75% in 2017.

In 2019, the Bangko Sentral ng Pilipinas issued BSP Circular Nos. 1041, 1056, and 1063 reducing the reserve requirements against non-FCDU deposit and deposit substitute liabilities to 4% from 8%. As of December 31, 2019 and 2018, Due from BSP amounting to ₱6.3 billion and ₱14.5 billion, respectively, was set aside as reserves for deposit liabilities, as reported to the BSP. The Bank is in compliance with such regulations as of December 31, 2019 and 2018.

On December 8, 2016, the BSP authorized the Bank to issue LTNCDs up to ₱10.0 billion through one or multiple tranches over a period of one year. On January 30, 2017, the Bank issued the first tranche of LTNCDs amounting to ₱3.4 billion with a tenor of five (5) years and three (3) months and due on April 30, 2022 with interest rate of 3.50% per annum payable quarterly. The minimum investment size for the LTNCDs is ₱50,000 with increments of ₱50,000 thereafter. Subject to BSP Rules, the Bank has the option to pre-terminate the LTNCDs as a whole but not in part, prior to maturity and on any interest payment date at face value plus accrued interest covering the accrued and unpaid interest.

On July 13, 2018, the BSP authorized the Bank to issue LTNCDs up to ₱15.0 billion through one or multiple tranches over a period of one year. On August 9, 2018, the Bank issued the first tranche of LTNCDs amounting to ₱5.08 billion with a tenor of five (5) years and six (6) months and due on February 9, 2024 with interest rate of 5.00% per annum payable quarterly. The minimum investment size for the LTNCDs is ₱50,000 with increments of ₱50,000 thereafter. Subject to BSP Rules, the Bank has the option to pre-terminate the LTNCDs as a whole but not in part, prior to maturity and on any interest payment date at face value plus accrued interest covering the accrued and unpaid interest.

As of December 31, 2019 and 2018, deferred financing cost on LTNCDs amounted to ₱49.5 million and ₱64.2 million, respectively. Amortization of deferred financing cost amounted to ₱14.7 million in 2019 and ₱8.7 million in 2018.

17. Bills Payable, Bonds Payable and Subordinated Notes

Bills Payable

This account consists of the following:

	2019	2018
Medium term fixed rate notes (MTFNs)	₱2,989,736,932	₱2,968,567,431
Interbank borrowings	1,200,000,000	—
	₱4,189,736,932	₱2,968,567,431

On December 10, 2018, the Bank issued MTFNs amounting to ₱3.0 billion with a tenor of one (1) year and six (6) months and due on June 10, 2020 with interest rate of 7.07% per annum payable quarterly. Interest payment dates shall commence on March 10, 2019 and up to and including the maturity date. The minimum investment size for the MTFNs is ₱10.0 million with increments of ₱0.1 million thereafter.



Peso-denominated interbank borrowings of the Bank bear annual interest ranging from 3.94% to 5.25% in 2019, 3.00% to 4.69% in 2018 and 2.50% in 2017. Foreign currency-denominated interbank borrowings bear annual interest ranging from 2.35% to 2.50%, 1.28% to 2.38% and 1.00% to 1.55% in 2019, 2018, and 2017, respectively. Annual interest rate on dollar-denominated securities sold under resale agreement (SSURA) ranges from 2.70% to 2.79%, 1.00% to 2.35%, and 1.05% to 1.75% in 2019, 2018 and 2017, respectively.

As of December 31, 2019 and 2018, deferred financing cost on MTFNs amounted to ₱10.3 million and ₱31.4 million, respectively. Amortization of deferred financing cost amounted to ₱21.2 million and ₱1.1 million in 2019 and 2018, respectively.

Interest expense on bills payable in 2019, 2018 and 2017 amounted to ₱319.7 million, ₱55.9 million and ₱59.0 million, respectively (Note 29).

Bonds Payable

On July 24, 2019, the Bank issued fixed rate bonds amounting to ₱6.3 billion with a tenor of two (2) years and due on July 24, 2021 with interest rate of 5.6% per annum payable quarterly. The minimum investment size for the bonds payable is ₱0.5 million with increments of ₱0.1 million thereafter. As of December 31, 2019, the carrying amount of the bonds payable is ₱6.3 billion. Debt issuance cost related to the issuance amounted to ₱56.9 million.

Interest expense incurred on bonds payable amounted to ₱167.6 million. Amortization of debt issuance costs amounted to ₱11.6 million in 2019.

Subordinated Notes

This account consists of the following Peso Notes:

Maturity Date	Face Value	Carrying Value	
		2019	2018
August 23, 2024	₱3,000,000,000	₱–	₱2,981,673,382

Interest expense incurred on these notes amounted to ₱125.1 million, ₱167.7 million and ₱191.1 million in 2019, 2018 and 2017, respectively.

On February 15, 2019, the BOD approved the Bank's option to call the Tier 2 Notes issued in 2014 on its fifth year anniversary or on August 23, 2019. The request of the Bank to exercise the same was approved by the BSP on April 24, 2019. The redemption falls under the call provisions of the Tier 2 Notes worth ₱3.0 Billion, which had an original maturity of ten years or until 2024.

On August 23, 2019 the Bank exercised its call option and paid ₱3.0 billion to all noteholders.

18. Accrued Taxes, Interest and Other Expenses

This account consists of:

	2019	2018
Accrued interest payable	₱434,200,032	₱900,205,415
Accrued other taxes and licenses payable	130,618,997	134,131,140
Accrued other expenses payable (Note 29)	844,632,958	980,186,158
	₱1,409,451,987	₱2,014,522,713



Accrued other expenses payable consist of:

	2019	2018
Litigation	₱276,305,828	₱272,126,457
Compensation and fringe benefits	196,783,477	141,027,847
Insurance (Note 29)	178,230,395	200,274,397
Information technology (Note 29)	55,897,969	34,328,559
Security, messengerial and janitorial	51,608,230	48,448,406
Advertising	19,077,992	35,563,037
Professional and consultancy fees	10,552,469	14,599,349
ATM maintenance	10,469,566	11,894,674
Membership, fees & dues	5,161,321	5,161,321
Lease payable	–	190,565,729
Miscellaneous	40,545,711	26,196,382
	₱844,632,958	₱980,186,158

Compensation and fringe benefits include salaries and wages, as well as medical, dental and hospitalization benefits.

Miscellaneous include accruals for ATM rentals, utilities and maintenance and other expenses.

19. Other Liabilities

This account consists of:

	2019	2018
Accounts payable (Note 29)	₱2,383,631,295	₱2,072,599,423
Lease liability (Note 2)	1,467,103,825	–
Net retirement liability (Note 24)	440,394,816	112,659,016
Other credits	171,091,034	245,406,847
Sundry credits	101,382,063	417,299,168
Withholding taxes payable	90,033,709	128,716,646
Undrawn portion of committed credit lines	57,321,764	–
Due to the Treasurer of the Philippines	20,491,276	16,150,662
SSS, Medicare, ECP and HDMF premium payable	11,734,970	9,640,813
Bills purchased - contra (Note 9)	8,798,803	13,077,760
Miscellaneous (Note 29)	40,508,189	47,837,716
	₱4,792,491,744	₱3,063,388,051

Accounts payable includes payable to suppliers and service providers, and loan payments and other charges received from customers in advance.

Other credits represent long-outstanding unclaimed cashier's checks.

Miscellaneous liabilities include incentives for housing loan customers that are compliant with the payment terms amounting to ₱20.6 million and ₱19.4 million as of December 31, 2019 and 2018, respectively.



20. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from the statement of condition dates (in thousands):

	December 31					
	2019			2018		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and other cash items	₱2,281,813	₱–	₱2,281,813	₱3,776,087	₱–	₱3,776,087
Due from BSP - gross	6,816,092	–	6,816,092	15,159,012	–	15,159,012
Due from other banks - gross	1,139,685	–	1,139,685	1,685,107	–	1,685,107
Interbank loans receivable and SPURA - gross (Note 7)	–	–	–	1,892,000	–	1,892,000
FVTPL investments (Note 8)	44	–	44	10,107	–	10,107
Financial assets at FVOCI (Note 8)	976,272	3,799,116	4,775,388	2,973,540	9,958,062	12,931,602
Investment securities at amortized cost (Note 8)	1,267,247	32,992,253	34,259,500	563,506	35,112,306	35,675,812
Loans and receivables - gross (Note 9)	18,197,964	150,118,855	168,316,819	16,343,496	144,266,699	160,610,195
Other assets - gross* (Note 14)	42,486	171,745	214,231	34,213	191,482	225,695
	30,721,603	187,081,969	217,803,572	42,437,068	189,528,549	231,965,617
Nonfinancial Assets						
Investment in a joint venture (Note 10)	–	755,781	755,781	–	691,426	691,426
Property and equipment - gross (Note 11)	–	7,569,855	7,569,855	–	5,928,894	5,928,894
Investment properties - gross (Note 12)	–	4,378,757	4,378,757	–	4,718,049	4,718,049
Deferred tax assets (Note 27)	–	1,398,137	1,398,137	–	1,327,667	1,327,667
Goodwill and intangible assets (Note 13)	–	1,561,668	1,561,668	–	1,618,734	1,618,734
Other assets - gross** (Note 14)	454,870	979,658	1,434,528	399,424	873,186	1,272,610
	₱454,870	₱16,643,856	17,098,726	₱399,424	₱15,157,956	15,557,380
Less: Allowance for credit and impairment losses (Note 15)			4,139,729			4,628,199
Accumulated depreciation (Notes 11, 12 and 14)			5,855,037			5,165,376
Unearned discounts (Note 9)			711			130
			9,995,477			9,793,705
			₱224,906,821			₱237,729,292

* Others assets under financial assets comprise petty cash fund, shortages, RCOI and security deposits.

** Other assets under nonfinancial assets comprise inter-office float items, prepaid expenses, stationery and supplies on hand, sundry debits, documentary stamps on hand, deferred charges, postages stamps and chattel mortgage properties.

	December 31					
	2019			2018		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Liabilities						
Deposit liabilities (Note 16)	₱148,468,691	₱24,036,419	₱172,505,110	₱175,904,910	₱ 24,783,029	₱ 200,687,939
Bills payable (Note 17)	4,189,737	–	4,189,737	–	2,968,567	2,968,567
Bonds payable	–	6,254,702	6,254,702	–	–	–
Subordinated notes (Note 17)	–	–	–	–	2,981,673	2,981,673
Financial liabilities at FVTPL (Note 8)	–	–	–	2,895	–	2,895
Treasurer's, cashier's and manager's checks	1,297,680	–	1,297,680	1,615,520	–	1,615,520
Accrued other expenses payable (Note 18)	844,633	–	844,633	980,186	–	980,186
Accrued interest payable (Note 18)	434,200	–	434,200	900,206	–	900,206
Other liabilities (Note 19)	–	–	–	–	–	–
Accounts payable	2,383,631	–	2,383,631	2,072,599	–	2,072,599
Other credits	171,091	–	171,091	245,406	–	245,406
Lease liability	39,803	1,427,301	1,467,104	–	–	–
Bills purchased - contra	8,799	–	8,799	13,078	–	13,078
Deposits for keys – SDB	791	–	791	798	–	798
Others*	15,332	1,760	17,092	6,352	–	6,352
	157,854,388	31,720,182	189,574,570	181,741,950	30,733,269	212,475,219

(Forward)



	December 31					
	2019			2018		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Nonfinancial Liabilities						
Accrued other taxes and licenses payable (Note 18)	P130,619	P-	P130,619	P134,131	P-	P134,131
Income tax payable	375	-	375	638	-	638
Withholding taxes payable (Note 19)	90,034	-	90,034	128,717	-	128,717
Other liabilities (Note 19)**	193,064	440,395	633,459	467,628	112,659	580,287
	414,092	440,395	854,487	731,114	112,659	843,773
	P158,288,971	P32,160,577	P190,449,548	P182,489,215	P30,845,928	P213,335,143

* Others under financial liabilities comprise payment orders payable and overages.

** Other liabilities under nonfinancial liabilities comprise advance rentals on bank premises, sundry credits, SSS, Medicare, ECP & HDMF premium payable, net retirement liability, and miscellaneous liabilities.

21. Equity

Issued Capital

As of December 31, 2019 and 2018, the Bank's capital stock consists of:

	2019		2018	
	Shares	Amount	Shares	Amount
Authorized common stock - P10 par value	600,000,000	P6,000,000,000	425,000,000	P4,250,000,000
Issued and outstanding				
Beginning Balance	240,252,491	P2,402,524,910	240,252,491	P2,402,524,910
Stock right issuance	142,856,925	1,428,569,250	-	-
Ending Balance	383,109,416	P3,831,094,160	240,252,491	P2,402,524,910

The Bank became listed in the Philippine Stock Exchange (PSE) on October 10, 1994. Subsequently, the SEC approved the increase in the capital stock of the Bank. The summarized information on the Bank's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Type	Authorized Shares	Par Value
August 16, 1995	Common	300,000,000	P10
October 8, 1997	Common	425,000,000	P10

As of December 31, 2019 and 2018, the total number of stockholders is 1,458 and 1,465, respectively.

On November 28, 2018, the PSE approved the application of the Bank for the listing of additional 142,856,925 common shares to cover the Bank's 1:1.68177 stock rights offering at an offer price of P56.0 per share or additional capital of P8.0 billion. The Bank successfully completed P8.0 billion stock rights offer and shares were listed on January 18, 2019 in the PSE. Capital paid in excess of par related to the offering amounted to P6.5 billion, net of transactions costs of P101.5 million.

On April 15, 2019, by majority vote of the Board of Directors and by stockholders representing at least two-thirds of the outstanding capital stock, the amendment of Article VII of the Bank's Articles of Incorporation increasing its authorized capital stock from P4,250,000,000.00 divided into 425,000,000 common shares with a par value of P10.00 per share to P6,000,000,000.00 divided into 600,000,000 common shares with a par value of P10.00 per share has been approved. This was approved by the SEC on November 20, 2019.



Dividends Paid and Proposed

Details of the Bank's dividend distributions as approved by the Bank's BOD and the BSP follow:

Date of declaration	Cash Dividends		Record date	Payment date
	Per share	Total amount		
January 24, 2017	0.75	₱180,189,368.3	February 10, 2017	February 24, 2017
April 24, 2017	0.75	180,189,368.3	May 10, 2017	May 24, 2017
July 27, 2017	0.75	180,189,368.3	August 11, 2017	August 29, 2017
October 26, 2017	0.75	180,189,368.3	November 14, 2017	November 24, 2017
January 18, 2018	0.75	180,189,368.3	February 02, 2018	February 19, 2018
April 23, 2018	0.75	180,189,368.3	May 9, 2018	May 23, 2018
July 20, 2018	0.75	180,189,368.3	August 6, 2018	August 20, 2018
October 15, 2018	0.75	180,189,368.3	October 30, 2018	November 14, 2018
January 17, 2019	0.75	287,332,062.0	February 1, 2019	February 18, 2019
April 15, 2019	0.75	287,332,062.0	May 3, 2019	May 15, 2019
July 19, 2019	0.75	287,332,062.0	August 5, 2019	August 19, 2019
October 14, 2019	0.75	287,332,062.0	October 29, 2019	November 13, 2019

*The Bank's stock price closed at ₱58.35 per share as of December 31, 2019.

On October 9, 2015, the BSP issued Circular No. 888, *Amendments to Regulations on Dividend Declaration and Interest Payments on Tier 1 Capital Instruments*, which liberalized said rules in the sense that prior BSP verification and approval is no longer required except for banks with major supervisory concerns. However, banks are bound to comply with the provisions of Section X136 of the Manual of Regulations for Banks (MORB) and its subsections, including the submission of documentary requirements under Subsection X136.4 of the MORB. Otherwise, banks, subsequently found to have violated the provisions on dividend declaration or have falsely certified/submitted misleading statements shall be reverted to the prior BSP verification wherein the bank can only make an announcement or communication on the declaration of the dividends or payment of dividends thereon upon receipt of BSP advice thereof. The Bank is compliant with the said circular.

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines.

In compliance with BSP regulations, 10.00% of the Bank's profit from trust business is appropriated to surplus reserves. This annual appropriation is required until the surplus reserves for trust business equals 20.00% of the Bank's authorized capital stock.

A portion of the surplus corresponding to the accumulated net earnings of a joint venture is not available for dividend declaration (Note 10) until receipt of cash dividends from the investee.

Capital Management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements, as mandated by the BSP, and that the Bank maintains healthy capital ratios in order to support its business and maximize returns for its shareholders. The Bank considers its paid in capital and surplus as its capital.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders or issue capital securities. The major activities in this area include the following:

- The Bank issued additional common shares for its qualified stockholders in 2008 and 2006 through stock rights offerings that raised ₱2.0 billion and ₱750.0 million in capital, respectively.



- On October 21, 2016, the BOD approved the Bank's updated Dividend Policy which provides, among others, the declaration and payment of cash dividends at a rate of ₱0.75 per share on a quarterly basis unless approved by a majority vote of the BOD at a different rate or otherwise restricted/prohibited from declaring/paying dividends.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory capital) as reported to the BSP. This is determined on the basis of regulatory accounting policies which differ from PFRS in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis and consolidated basis. Qualifying capital and risk-weighted assets are computed based on BSP regulations.

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

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which states the implementing guidelines on the revised risk-based capital adequacy framework, particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The Circular took effect on January 1, 2014.

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

The CAR of the Bank as of December 31, as reported to the BSP, based on BSP Circular No. 781 and BSP Circular No. 538, respectively, are shown in the table below (amounts in millions).

	2019	2018
Tier 1 capital	₱32,807	₱22,132
CET1 capital	32,807	22,132
Less: Required deductions	3,146	3,444
Total Tier 1 Capital	29,661	18,688
Total Tier 2 capital	1,672	4,323
Total qualifying capital	31,333	23,011
Risk weighted assets	₱176,385	₱165,836
Tier 1 ratio	16.82%	11.27%
CET1 ratio	16.82%	11.27%
Capital adequacy ratio	17.76%	13.88%

Regulatory qualifying capital consists of Tier 1 (going concern) capital, which comprises capital stock, surplus, surplus reserves, net unrealized gains on AFS securities, cumulative foreign currency translation and remeasurements of net defined benefit asset. Certain adjustments are made to PFRS-based results and reserves, as prescribed by the BSP. The other component of regulatory capital is Tier 2 (gone-concern) capital, which is comprised of the Bank's general loan loss provision and unsecured subordinated debt (refer to Note 17). Certain items are deducted from the regulatory Gross



Qualifying Capital, such as but not limited to, outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, and unsecured loans, other credit accommodations, and guarantees granted to subsidiaries and affiliates (net of specific provisions), deferred tax assets, goodwill, other intangible assets and significant minority investments in a joint venture.

Risk-weighted assets are determined by assigning defined risk weights to amounts of on-balance sheet exposures and to the credit equivalent amounts of off-balance sheet exposures.

As of December 31, 2019 and 2018, the Bank has complied with the requirements of BSP Circular No. 781 and BSP Circular No. 538.

On October 29, 2014, the BSP issued Circular No. 856 which covers the implementing guidelines on the framework for dealing with domestic systemically important banks (DSIBs) in accordance with the Basel III standards. Banks identified as DSIBs shall be required to have higher loss absorbency, on top of the minimum CET1 capital and capital conservation buffer. Compliance with this requirement was phased-in starting January 1, 2017, with full compliance on January 1, 2019. On September 27, 2019, the BSP issued Circular No. 1051 which covers the enhancements in the assessment methodology of D-SIBs. The Bank has complied with this requirement.

The issuance of BSP Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) in 2009 supplements the BSP's risk-based capital adequacy framework under BSP Circular No. 538. In compliance with this new circular, the Metrobank Group has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget, as well as regulatory directives. The Bank follows the Group's ICAAP framework and submits the result of its assessment to the Parent Company. Per BSP Circular No. 869, effective January 31, 2015, submission of an ICAAP document is required by BSP every March 31 of each year. The Bank has complied with this requirement.

The Bank has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

BASEL III Leverage Ratio (BLR)

On June 9, 2015, the BSP issued Circular No. 881 covering the implementing guidelines on the Basel III Leverage Ratio Framework which is designed to act as a supplementary measure to the risk-based capital requirements and shall not be less than 5.0 percent. The monitoring period has been set every quarter starting December 31, 2014 and extended until June 30, 2018 under BSP Circular No. 990 issued on January 22, 2018. Effective July 1, 2018, the monitoring of the leverage ratio was implemented as a Pillar I minimum requirement.

The Basel III Leverage Ratio is designed to act as a supplementary measure to the risk-based capital requirements. The Basel III Leverage Ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), with this ratio expressed as percentage. Capital measure is the Tier 1 capital. Exposure measure is the sum of on-balance sheet exposures, derivative exposures, security financing exposures and off-balance sheet items. The leverage ratio shall not be less than 5.0 percent computed on both solo (head office plus branches) and consolidated bases (including subsidiary financial allied undertakings but excluding insurance companies).



As of December 31, 2019 and December 31, 2018, the Bank maintains these ratios above minimum requirements as shown in the table below (in millions):

	December 31, 2019	December 31, 2018
A. Capital Measure	₱29,661	₱18,688
B. Exposure Measure	221,774	234,510
C. Basel III Leverage Ratio (A/B)	13.37%	7.97%

Liquidity Coverage Ratio

On March 10, 2016 and February 8, 2018, the BSP issued Circular Nos. 905 and 996, respectively, which include guidelines on liquidity coverage ratio (LCR), and LCR disclosure standards that are consistent with the Basel III framework. The LCR is the ratio of high-quality liquid assets (HQLAs) to total net cash outflows. To promote the short-term resilience of the liquidity risk profile of the Bank, it shall maintain an adequate stock of unencumbered high-quality liquid assets (HQLAs) that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs under stressed conditions. The stock of liquid assets should enable the Bank to withstand significant liquidity shocks for at least thirty (30) calendar days, which would give time for corrective actions to be taken by the Bank's management and/or the Bangko Sentral.

On March 15, 2019, the BSP issued Circular No. 1035 which approved the: (1) extension of the observation period of the minimum Basel III Liquidity Coverage Ratio (LCR) requirement to December 31, 2019 for subsidiary banks and quasi-banks (QBs) of universal and commercial banks (U/KBs), (2) adoption of a seventy percent (70%) LCR floor for subsidiary banks and QBs during the observation period, (3) minimum requirement of one hundred (100%) starting January 1, 2020. As of December 31, 2019, the LCR in single currency as reported to the BSP, was at 130.22%.

Net Stable Funding Ratio

On June 6, 2018, the BSP issued Circular No. 1007, Implementing Guidelines on the adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio (NSFR). The NSFR limits overreliance on short-term wholesale funding and promotes enhanced assessment of funding risk across all on and off balance sheet accounts. The NSFR complements the LCR, which promotes short term resilience of the Bank's liquidity profile. The covered bank shall maintain an NSFR of at least 100.0 percent at all times. Compliance with this requirement was phased-in effective July 1, 2018, with full implementation of the minimum NSFR on January 1, 2019.

On March 15, 2019, the BSP issued Circular No. 1034 which approved the extension of the observation period for the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio (NSFR) for subsidiary banks/quasi-banks of universal and commercial banks (UBs/KBs).

The implementation of the minimum NSFR shall be phased in to help ensure that the covered banks/QBs can meet the standard through reasonable measures without disrupting credit extension and financial market activities. In order to facilitate compliance, covered banks/QBs shall undergo an observation period before the NSFR becomes a minimum requirement. Subsidiary banks/QBs of UBs/KBs shall be subject to an NSFR floor of seventy percent (70%) during the observation period. Starting January 1, 2020, the minimum NSFR for subsidiary banks/quasi-banks of universal and commercial banks (UBs/KBs) shall be 100%. As of December 31, 2019, the NSFR as reported to the BSP, was at 114.30%.



Basel III Countercyclical Capital Buffer

On December 6, 2018, the BSP issued Circular No. 1024 covering the Philippine adoption of the Basel III Countercyclical Capital Buffer (CCyB) which imposed the following capital buffers:

- Capital Conservation buffer (CCB) of two and a half percent (2.5%); and
- Countercyclical capital buffer (CCyB) of zero percent (0%) subject to upward adjustment to a rate determined by the Monetary Board of the BSP when systemic conditions warrant but not to exceed two and a half percent (2.5%). Any increase in the CCyB rate shall be effective 12 months after its announcements. Decreases shall be effective immediately.

The prescribed ratios shall be maintained at all times.

Financial Performance

The following basic ratios measure the financial performance of the Bank:

	2019	2018	2017
Return on average equity	10.29%	11.38%	12.51%
Return on average assets	1.31%	1.15%	1.26%
Net interest margin on average earning assets	5.82%	5.79%	6.10%
Liquidity ratio	19.70%	23.47%	20.70%
Debt-to-equity ratio	5.53:1	8.75:1	8.97:1
Asset-to-equity ratio	6.53:1	9.75:1	9.97:1
Interest rate coverage ratio	1.59:1	1.59:1	1.84:1

22. Net Service Fees and Commission Income

This account consists of:

	2019	2018	2017
Service Fees and Commission Income			
Credit-related fees and commissions	₱1,383,966,509	₱1,147,242,321	₱1,002,687,070
Deposit-related and other fees received (Note 29)	531,415,495	542,791,633	441,197,668
Trust fees	36,559,669	31,711,469	26,317,702
	1,951,941,673	1,721,745,423	1,470,202,440
Service Fees and Commission Expense			
Commissions	84,651,434	89,813,087	83,211,656
Brokerage	3,785,862	6,294,577	11,216,635
	88,437,296	96,107,664	94,428,291
Net Service Fees and Commission Income	₱1,863,504,377	₱1,625,637,759	₱1,375,774,149

23. Miscellaneous Income

This account consists of:

	2019	2018	2017
Recovery of charged-off assets	₱305,034,325	₱309,707,677	₱325,476,107
Insurance commission income	146,397,446	156,867,388	113,868,238
Rental income (Notes 12, 25 and 29)	38,164,311	50,548,338	50,137,646
Others (Note 29)	65,301,808	107,176,032	18,028,368
	₱554,897,890	₱624,299,435	₱507,510,359



Rental income arises from the lease of properties and safety deposit boxes of the Bank.

Others include income from renewal fees, checkbook charges, breakfunding cost and other miscellaneous income.

24. Retirement Benefits

The Bank has a funded, noncontributory defined benefit plan covering substantially all of its employees. The benefits are based on years of service and final compensation.

The plan administered by the Retirement Committee is composed of five (5) members appointed by the BOD of the Bank. The Retirement Committee have all the powers necessary or useful in the discharge of its duties of administration including, but not limited to determining the rights of Members under the Plan. The Retirement Committee may adopt such rules and regulations as it deems necessary and desirable, including those governing the establishment of procedures, the use of necessary forms, and the setting up of minimum periods where notice is required. The Retirement Committee may seek advice of counsel, and may appoint an independent accountant to audit the Plan and actuary to value the plan periodically, whose professional fees and expenses may be charged to the Fund.

Under the existing regulatory framework, Republic Act No. 7641, *Retirement Pay Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The date of the latest actuarial valuation is December 31, 2019.

The amounts of pension expense included in 'Compensation and fringe benefits' in the statements of income follow:

	2019	2018
Current service cost	P223,748,861	P225,888,075
Net interest cost	(7,346,183)	17,710,397
	P216,402,678	P243,598,472



The net retirement liability shown under ‘Other liabilities’ recognized in the Bank’s statements of condition follows (in thousands):

2019												
	Remeasurements in other comprehensive income											
		Net benefit cost				Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions		Contribution by employer	December 31, 2019
	January 1, 2019	Current service cost	Net Interest	Subtotal	Benefits paid					Subtotal		
Present value of defined benefit obligation	P2,452,459	P223,749	P174,993	P398,742	(P131,807)	P–	P52,870	(P66,706)	P634,758	P620,922	P–	P3,340,316
Fair value of plan assets	(2,339,800)	–	(182,339)	(182,339)	131,807	46,711	–	–	–	46,711	(556,300)	(2,899,921)
Net defined benefit liability	P112,659	P223,749	(P7,346)	P216,403	P–	P46,711	P52,870	(P66,706)	P634,758	P667,633	(P556,300)	P440,395
2018												
	Remeasurements in other comprehensive income											
		Net benefit cost				Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions		Contribution by employer	December 31, 2018
	January 1, 2018	Current service cost	Net Interest	Subtotal	Benefits paid					Subtotal		
Present value of defined benefit obligation	P2,415,551	P225,888	P130,937	P356,825	(P171,324)	P–	(P24,119)	P–	(P124,474)	(P148,593)	P–	P2,452,459
Fair value of plan assets	(1,899,698)	–	(113,227)	(113,227)	171,324	41,763	–	–	–	41,763	(539,962)	(2,339,800)
Net defined benefit liability	P515,853	P225,888	P17,710	P243,598	P–	P41,763	(P24,119)	P–	(P124,474)	(P106,830)	(539,962)	P112,659

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The Bank expects to contribute P334.0 million to its noncontributory defined benefit plan in 2020.



The fair values of plan assets by each class as at the statements of condition date are as follows:

	2019	2018
Investment in other debt securities	₱2,033,881,425	₱1,379,868,233
Cash and cash equivalents		
Special deposit account	753,284,758	859,638,302
Unit Investment Trust Fund (UITF)	55,533,465	50,585,860
Investment in equity securities	45,678,960	37,503,773
Other assets	17,388,012	18,679,990
	₱2,905,766,620	2,346,276,158
Expected withdrawals	2,186,497	4,470,674
Other liabilities	3,659,269	2,004,942
	5,845,766	6,475,616
	₱2,899,920,854	₱2,339,800,542

The person exercising voting right for the foregoing equity instruments is currently a senior officer of the Bank.

The principal actuarial assumptions used in determining retirement liability as of December 31, 2019 and 2018 are shown below:

	2019	2018
Discount rate	4.86%	7.33%
Turnover rate	3.72%, 7.03%	5.00%
Future salary increases	5.80%	6.00%

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

	December 31, 2019		December 31, 2018	
	Possible Fluctuations	Increase (decrease)	Possible Fluctuations	Increase (decrease)
Discount rate	+1.00%	(₱306,936,163)	+1.00%	(₱212,902,648)
	-1.00%	356,515,290	-1.00%	246,261,251
Turnover rate	+1.00%	(24,844,215)	+1.00%	(4,634,269)
	-1.00%	25,904,088	-1.00%	4,868,884
Future salary increase rate	+1.00%	365,875,807	+1.00%	264,768,869
	-1.00%	(320,611,308)	-1.00%	(232,248,283)

The Retirement Committee ensures that there will be sufficient assets to pay pension benefits as they fall due and maintains the plan on an actuarially sound basis considering the benefits to members.



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

	2019	2018
Less than one year	₱184,489,685	₱130,213,096
One to less than five years	968,188,477	788,373,808
Five to less than 10 years	1,984,484,132	1,698,994,154
10 to less than 15 years	2,385,120,244	2,395,814,240
15 to less than 20 years	3,514,621,971	3,546,955,267
20 years and above	3,998,539,092	5,280,083,077

The average duration of the expected benefit payments at the statement of condition date is 15.43 years.

25. Leases

The Bank leases the premises occupied by its branches for periods ranging from 1 to 20 years renewable under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 10.00%.

As of December 31, 2019, the carrying amounts of lease liabilities (included in 'Other Liabilities' in Note 19) are as follows:

	2019
Balance at beginning of year	₱1,631,376,370
Additions	186,062,195
Expiry/termination	(24,419,449)
Accretion of interest	113,560,729
Payments	(439,476,020)
	₱1,467,103,825

With the adoption of PFRS 16, as of December 31, 2019, the Bank recognized interest expense on lease liabilities (included in 'Interest expense' in the statements of income) amounting to ₱113.6 million and rent expense from short-term leases and leases of low-value assets amounting to ₱94.1 million. Prior to adoption of PFRS 16, rentals charged against profit or loss under these lease contracts (included in 'Occupancy and equipment-related costs') amounted to ₱579.9 million in 2018 and 2017.

Future minimum rentals payable under non-cancelable operating leases are as follows:

	2018
Within one year	₱423,674,780
After one year but not more than five years	1,329,902,440
More than five years	290,459,635
	₱2,044,036,855

The Bank has also entered into commercial property leases on its surplus office space. These non-cancelable leases have remaining non-cancelable lease terms between 1 and 5 years. As of December 31, 2019 and 2018, there is no contingent rental income. Rental income of the Bank related to these property leases amounting to ₱37.5 million, ₱49.9 million, and ₱48.7 million in 2019, 2018 and 2017, respectively are shown under 'Miscellaneous income' in the statements of income (Notes 12 and 23).



Future minimum rentals receivable under non-cancelable operating leases are as follows:

	2019	2018
Within one year	₱33,471,331	₱32,955,174
After one year but not more than five years	42,079,555	35,863,669
	₱75,550,886	₱68,818,843

26. Miscellaneous Expenses

This account consists of:

	2019	2018	2017
Insurance (Note 29)	₱526,287,475	₱595,158,658	₱646,175,766
Information technology (Note 29)	425,215,165	297,643,153	300,919,189
Litigation	282,384,260	297,754,941	311,326,367
Communications	177,856,164	179,193,852	171,980,030
Fines, penalties and other charges	128,331,742	234,341,527	193,083,359
Repairs and maintenance (Note 12)	110,547,531	135,470,468	145,685,402
Transportation and traveling	94,905,835	95,921,603	108,019,662
Supervision and examination fees	77,018,742	70,287,368	59,666,717
Advertising	69,277,788	69,805,497	134,701,913
Stationery and supplies	48,873,458	65,109,689	61,923,426
Management and professional fees	24,116,130	23,735,142	29,477,993
Donations and charitable contributions	11,477,405	10,490,700	11,391,445
Training and seminars	8,452,923	12,134,080	19,158,180
Banking activities expenses	8,038,978	12,549,672	9,032,636
Meeting allowance	4,702,558	6,325,640	6,731,295
Rewards and incentives	3,104,531	7,167,172	6,595,774
Membership fees and dues	2,983,128	5,671,411	3,508,422
Entertainment, amusement and recreation (EAR) (Note 27)	1,877,071	2,504,229	3,492,739
Others	17,740,398	19,632,920	28,463,191
	₱2,023,191,282	₱2,140,897,722	₱2,251,333,506

Insurance expense includes premiums paid to the Philippine Deposit Insurance Corporation (PDIC) amounting to ₱361.4 million, ₱398.4 million, and ₱368.2 million in 2019, 2018 and 2017, respectively.

Other expenses include sponsorship expenses, home free loan expenses, appraisal fees and notarial fees. It also includes payments to union members amounting to ₱11.1 million, ₱10.7 million and ₱10.8 million in 2019, 2018 and 2017, respectively, for the successful completion of the collective bargaining agreement.



27. Income and Other Taxes

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

Income taxes include corporate income tax, further discussed below, and final taxes paid at the rate of 20.00%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes.

The NIRC of 1997 also provides for rules on the imposition of a 2.00% MCIT on the gross income as of the end of the taxable year beginning on the fourth taxable year immediately following the taxable year in which the company commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the three (3) immediately succeeding taxable years.

Starting July 1, 2008, the Optional Standard Deduction (OSD) equivalent to 40.00% of gross income may be claimed as an alternative deduction in computing for the RCIT. The Bank elected to claim itemized expense deductions instead of the OSD in computing for the RCIT in 2019 and 2018.

Current tax regulations also provide for the ceiling on the amount of EAR expense that can be claimed as a deduction against taxable income. Under the regulations, EAR expense allowed as a deductible expense for a service company is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.00% income tax. In addition, interest income on deposit placements with other FCDUs and OBUs is taxed at 15.00% in 2019 and 2018.

Under current tax regulations, the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks, including branches of foreign banks, is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Provision for income tax consists of:

	2019	2018	2017
Current:			
Final tax	P260,917,208	P260,261,959	P259,181,580
RCIT	153,911,132	121,107,822	134,901,056
	414,828,340	381,369,781	394,082,636
Deferred	135,612,443	(71,774,541)	(127,021,129)
	P550,440,783	P309,595,240	P267,061,507



Net deferred tax assets consist of the following tax effects:

	2019	2018
Deferred tax assets on:		
Allowance for credit and impairment losses	₱1,243,297,588	₱1,367,526,527
Unamortized pension cost contribution	220,355,789	175,312,814
Difference between book base and tax base of investment property	112,799,780	131,401,357
Leases	68,373,851	—
Accrued rent	—	57,169,719
Net pension liability	132,118,445	33,797,705
	1,776,945,453	1,765,208,122
Deferred tax liabilities on:		
Net unrealized gain on investment properties	(375,267,861)	(388,319,920)
Unrealized foreign exchange gains	(1,774,776)	(49,221,118)
Others	(1,766,034)	—
	(378,808,671)	(437,541,038)
	₱1,398,136,782	₱1,327,667,084

As of December 31, 2019 and 2018, the Bank did not recognize deferred tax assets on allowance for credit losses amounting to ₱16.8 million and ₱23.9 million, respectively. Income tax effect recognized in OCI amounted to (₱200.3 million), (₱32.0 million) and ₱1.6 million in 2019, 2018 and 2017, respectively.

The reconciliation between the statutory income tax and effective income tax follows (in thousands):

	2019	2018	2017
Statutory income tax	₱1,073,634	₱891,522	₱876,444
Tax effect of:			
Tax-paid and tax-exempt income	(615,986)	(675,048)	(688,672)
Nondeductible expenses	215,415	364,875	365,298
FCDU income	(100,331)	(67,360)	(97,955)
Others	(22,291)	(204,394)	(188,053)
Effective income tax	₱550,441	₱309,595	₱267,062

28. Earnings Per Share

The following table presents information used to calculate basic EPS:

	2019	2018	2017
a. Net income	₱3,028,337,640	₱2,662,145,866	₱2,654,419,128
b. Weighted average number of common shares for basic earnings per share	377,064,998	253,332,198*	253,332,198*
c. Basic/Diluted EPS (a/b)	₱8.03	₱10.51	₱10.48

*Restated to show the effect of stock rights issued in January 2019

As of December 31, 2019, 2018 and 2017, there were no potential common shares with dilutive effect on the basic EPS of the Bank.



29. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Bank's related parties are as follows:

- Bank's Directors, Officers, Stockholders and their Related Interests (DOSRI) as defined per BSP's existing DOSRI rules and regulations;
- Close Family Members (i.e., 2nd degree relatives) of the Bank's Directors, Officers with rank of SVP and up, and Individual Substantial Stockholders;
- Bank's Subsidiaries and Affiliates as defined per BSP's existing rules and regulations on lending to subsidiaries and affiliates;
- Any party that the Bank exerts direct or indirect control over or that exerts direct or indirect control over the Bank;
- Subsidiaries, Affiliates and Special Purpose Entities (SPEs) of any party that the Bank exerts direct or indirect control over or that exerts direct or indirect control over the Bank;
- Corresponding Persons in Affiliated Companies as defined in the Bank's Related Party Transaction (RPT) Policy; and
- Any natural person or juridical entity whose interest may pose potential conflict with the Bank's interest.

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

Transactions with the Retirement Plan

On December 20, 2012, the SEC issued Memorandum Circular No. 12 providing for guidelines on the disclosure of transactions with retirement benefit funds. Under said circular, a reporting entity shall disclose information about any transaction with a related party (retirement fund, in this case) and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

Under PFRS, certain post-employment benefit plans are considered as related parties. The Bank has business relationships with its retirement plan pursuant to which it provides trust and management services to the said plan. The retirement plan of the employees of the Bank is being managed and maintained by the Trust Division of the Bank. The total fair value of the retirement fund as of December 31, 2019 and 2018 amounted to P2.9 billion and P2.3 billion, respectively. The details of the assets of the fund as of December 31, 2019 and 2018 are disclosed in Note 24.

The following table shows the amount of outstanding balances of related party transactions of the Bank with the retirement plan of the employees of the Bank as of December 31, 2019 and 2018:

Related Party	Nature of Transaction	2019	
		Statement of Condition	Statement of Income
Philippine Savings Bank	Savings Deposit	P3,685,981	
	Investment in Money Market Fund*	52,092,458	
	Income from UITF		P1,869,456
	Interest income		14,629
First Metro ETF	Equity investment	P26,352,764	

*Includes fair value gains of P0.3 million



Related Party	Nature of Transaction	2018	
		Statement of Condition	Statement of Income
Philippine Savings Bank	Savings Deposit	₱10,286	
	Investment in Money Market Fund*	50,122,781	
	Loss on sale of equity securities		₱900,961
	Income from UITF		7,816
	Interest income	25,019,522	
First Metro ETF	Equity investment	₱10,286	

*Includes fair value gains of ₱0.2 million

Transactions relating to the Bank's retirement plan are approved by its Retirement Committee. The voting right over the investments in the Bank's capital stocks is exercised by a member of the Retirement Committee as approved by all members of the Retirement Committee, whom are senior officers of the Bank.

Remunerations of Directors and Other Key Management Personnel

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

Total remunerations of key management personnel (covering assistant vice presidents and up) [included under 'Compensation and fringe benefits' in the statements of income are as follows:

	2019	2018
Short-term employee benefits	₱300,297,110	₱253,953,306
Post-employment pension benefits	35,761,294	7,858,066
	₱336,058,404	₱261,811,372

Short-term employee benefits include salaries and other non-monetary benefits.

Remunerations given to directors, as approved by the Board Remuneration Committee, amounted to ₱19.0 million, ₱19.3 million, and ₱19.3 million in 2019, 2018 and 2017, respectively.

The Bank also provides banking services to directors and other key management personnel and persons connected to them.

Other Related Party Transactions

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

The following tables show the amount and outstanding balances included in the financial statements (in thousands):

Category	December 31, 2019		
	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Significant Investor			
Due from other banks	(₱385,380)	₱730,409	Peso and foreign denominated deposit with 2.50% fixed interest rates and maturities ranging from 360 days
Interbank loans receivable		—	Peso-denominated lending with 4.00% to 5.09% fixed interest rates and maturities ranging from 1 to 3 days
Placements	35,778,000	—	
Maturities	(35,778,000)	—	
Investment securities at amortized cost	(202)	66,294	Pledged for security of payroll account with MBTC.
Accounts receivable (payable)	(5,691)	(959)	Outstanding ATM service fees, rental and utility receivables, non-interest bearing; no impairment
Miscellaneous assets	—	781	Security deposits on lease contracts
Miscellaneous liabilities	—	6,242	Advance payments of security deposits

(Forward)



December 31, 2019			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Bills Payable		—	Peso-denominated borrowing with fixed interest rate of 3.00% with 1 day maturity.
Deposits/placements	₱31,238,942	₱—	
Withdrawals/maturities	(31,238,942)	—	
Accrued other expense payable	(1,869)	32,460	Outstanding information technology expense payable, charges on current and savings accounts processing
Interest income	5,214	—	Income on deposits and interbank loans receivables
Rental income	418	—	Income from leasing agreements with various lease terms ranging from 2 to 5 years
Miscellaneous income	25,047	—	Income received from ATM service fees, rental and utilities
Information technology expense	294,813	—	Payment of information technology expenses
Trading and security loss	146,720	—	Loss from securities transactions
Interest expense	6,156	—	Interest expense on bills payable
Securities transactions			
Outright purchases	1,757,094	—	Outright purchase of FVTPL, FVOCI and investment at amortized cost
Outright sales	(4,921,605)	—	Outright sale of FVTPL, FVOCI and investment at amortized cost
Joint Venture			
Investment in a joint venture	—	755,781	Investment in SMFC
Share in net income of a joint venture	105,905	—	30% share in net income of SMFC
Dividends from joint venture	39,960	—	Dividends from SMFC
Share in unrealized gain on remeasurement of retirement liability	(2,189)	942	30% share in remeasurement of SMFC retirement liability taken up in OCI
Accounts receivable	(867)	866	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	8,938	23,877	Demand and short-term peso time deposits with annual fixed rates of 1.25%
Miscellaneous liabilities	—	4,630	Payment of security deposits
Rental income	13,900	—	Income from leasing agreements
Interest expense	254	—	Interest on deposit liabilities with 1.25% annual fixed rate
Other Related Parties			
Interbank loans receivable		—	Peso-denominated lending which earn 4.00% to 5.00%
Placements	36,850,000	—	fixed daily interest rate with maturity terms from 1 to 5
Maturities	(36,850,000)	—	days
Receivable from customers		994,425	Loans granted bear interest of ranging 7.05% to 7.38% with 1 to 10 years term.
Placements	985,000	—	
Maturities	992,700	—	
Miscellaneous assets	1,351	2,784	Three months advance security deposits
Accounts receivable	3,659	6,321	Outstanding ATM service fees, rental and utility receivables, non-interest bearing
Prepaid expense	(4,575)	9,993	Payment for various policy renewals
Deposit liabilities	(233,268)	688,847	Demand, savings and short-term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 3.50%
Bills Payable	—	—	Peso denominated borrowing with 4.00% to 5.00% fixed interest rates and maturities ranging from 1 to 3 days
Deposits/placements	83,019,000	—	
Withdrawals/maturities	(83,019,000)	—	
Accrued other expense payable	—	1,388	Outstanding group life insurance
Accounts payable	244	4,056	Various personal and car insurance payable
Miscellaneous liabilities	(3,530)	—	Advance payment of security deposits from various tenants
Interest income	68,986	—	Income on receivables from customers and interbank loans receivables
Trading and securities loss	4,605	—	Loss from securities transactions
Rental income	15,195	—	Income from leasing agreements with various lease terms
Bank commission	3,194	—	Commission income on ATM service fees
Miscellaneous income	617	—	Service income from referral fees on approved credit card issuances and bank insurance with rates ranging from 2.00% to 10.00%
Insurance expense	54,164	—	Payment of insurance premium
Interest expense	32,272	—	Interest on deposit liabilities and bills payable
Rent expense	6,003	—	Payment of rent expense to various lessors

(Forward)



December 31, 2019			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Securities transactions			
Outright purchases	P–	P–	Outright purchase of FVTPL and FVOCI
Outright sales	(300,000)	–	Outright sale of FVTPL and FVOCI
Key Personnel			
Receivables from customers	P–	P11,329	Unsecured, no impairment, with annual fixed interest rates of 6.00% and maturities ranging from 2 to 10 years
Placements	2,387	–	
Maturities	(4,188)	–	
Interest income	1,019	–	Interest income from loans
December 31, 2018			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Significant Investor			
Due from other banks	P203,044	P1,115,789	Peso-denominated lending with 2.50% fixed interest rates and maturities ranging from 360 days
Interbank loans receivable		–	Peso-denominated lending with 3.13% to 4.75% fixed interest rates and maturities ranging from 1 to 3 days
Placements	66,800,000	–	
Maturities	(66,800,000)	–	
Investment securities at amortized cost	66,496	66,496	Pledged for security of payroll account with MBTC.
Accounts receivable	(12,919)	4,732	Outstanding ATM service fees, rental and utility receivables, non-interest bearing; no impairment
Miscellaneous assets	–	781	Security deposits on lease contracts
Miscellaneous liabilities	–	6,242	Advance payments of security deposits
Bills Payable		–	Peso-denominated borrowing with fixed interest rate of 3.00% with 1 day maturity.
Deposits/placements	400,000	–	
Withdrawals/maturities	(400,000)	–	
Accrued other expense payable	(3,403)	34,329	Outstanding information technology expense payable, charges on current and savings accounts processing
Interest income	11,012	–	Income on deposits and interbank loans receivables
Rental income	20,140	–	Income from leasing agreements with various lease terms ranging from 2 to 5 years
Miscellaneous income	16,368	–	Income received from ATM service fees, rental and utilities
Information technology expense	150,406	–	Payment of information technology expenses
Trading and security loss	(11,934)	–	Loss from securities transactions
Interest expense	33	–	Interest expense on bills payable
Securities transactions			
Outright purchases	4,115,480	–	Outright purchase of FVTPL, FVOCI and Amortized cost investments
Outright sales	(1,274,420)	–	Outright sale of FVTPL and FVOCI investments
Joint Venture			
Investment in a joint venture	–	691,426	Capital investment in SMFC
Share in net income of a joint venture	82,377	–	30% share in net income of SMFC
Share in unrealized gain on remeasurement of retirement liability	1,886	3,131	30% share in remeasurement of SMFC retirement liability taken up in OCI
Accounts receivable	(247)	1,733	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	1,618	14,939	Demand and short-term peso time deposits with annual fixed rates of 1.25%
Miscellaneous liabilities	–	4,630	Payment of security deposits
Rental income	13,900	–	Income from leasing agreements
Interest expense	198	–	Interest on deposit liabilities with 1.25% annual fixed rate
Other Related Parties			
Interbank loans receivable		–	Peso-denominated lending which earn 2.50% to 3.25% fixed daily interest rate with maturity terms from 1 to 5 days
Placements	189,042,000	–	
Maturities	(189,542,000)	–	
Receivable from customers		1,002,125	Loans granted bear interest of ranging 7.05% to 8.75% with 1 to 10 years term.
Placements	998,406	–	
Maturities	6,522	–	

(Forward)



December 31, 2018			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Miscellaneous assets	₱43	₱1,433	Three months advance security deposits
Accounts receivable	192	2,662	Outstanding ATM service fees, rental and utility receivables, non-interest bearing
Prepaid expense	917	14,568	Payment for various policy renewals
Deposit liabilities	(690,572)	922,115	Demand, savings and short-term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 2.00%
Accounts payable	1,195	3,812	Various personal and car insurance payable
Miscellaneous liabilities	361	3,530	Advance payment of security deposits from various tenants
Interest income	60,746	–	Income on receivables from customers and interbank loans receivables
Trading and securities loss	16	–	Loss from securities transactions
Rental income	14,388	–	Income from leasing agreements with various lease terms
Bank commission	3,388	–	Commission income on ATM service fees
Miscellaneous income	18,353	–	Service income from referral fees on approved credit card issuances and bank insurance with rates ranging from 2.00% to 10.00%
Insurance expense	42,458	–	Payment of insurance premium
Interest expense	13,139	–	Interest on deposit liabilities and bills payable
Rent expense	3,263	–	Payment of rent expense to various lessors
Securities transactions			
Outright purchases	100,000	–	Outright purchase of FVTPL and AFS investments
Outright sales	(50,000)	–	Outright sale of FVTPL and AFS investments
Key Personnel			
Receivables from customers	–	13,130	Unsecured, no impairment, with annual fixed interest rates of 6.00% and maturities ranging from 2 to 10 years
Placements	3,761	–	
Maturities	(3,700)	–	
Interest income	1,065	–	Interest income from loans

Regulatory Reporting

As required under existing BSP rules and regulations, the Bank discloses loans and other credit accommodations granted to its DOSRI. These loans and other credit accommodations were made substantially on the same terms as with other individuals and businesses of comparable risks and were subject of prior BOD approval and entailing BSP reportorial requirements.

Existing banking regulations also limit the total amount of credit exposure to each of the Bank's DOSRIs, at least 70.00% of which must be secured, to the total of their respective deposits and book value of their respective unencumbered deposits and, if any, book value of their respective paid-in capital contribution in the Bank. In the aggregate, the Bank's total credit exposure to all its DOSRIs should not exceed its net worth or 15.00% of its total loan portfolio, whichever is lower, with any unsecured portion thereof not exceeding the lower between 30.00% of the aggregate limit or of the total actual exposure. However, loans and other credit accommodations to DOSRIs that are secured by assets considered by the BSP as non-risk are exempt from these ceilings. As of December 31, 2019 and 2018, the Bank's credit exposures to DOSRI are within the said regulatory limits.



BSP Circular No. 423 dated March 15, 2004, as amended by BSP Circular No. 914 dated June 23, 2016, provide the rules and regulations governing credit exposures to DOSRI. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to BSP Circular No. 423 and new DOSRI loans and other credit accommodations granted under said circular as of December 31, 2019 and 2018 (in thousands):

	2019		2018	
	DOSRI Loans	Related Party Loans	DOSRI Loans	Related Party Loans
Total outstanding loans	₱236,494	₱1,349,467	₱234,161	₱1,378,978
Percent of DOSRI/Related Party loans to total loan portfolio	0.1%	0.8%	0.1%	0.9%
Percent of unsecured DOSRI/Related Party loans to total DOSRI/Related Party loans	94.8%	89.7%	96.3%	88.8%
Percent of past-due DOSRI /Related Party loans to total DOSRI/Related Party loans	0.00%	0.00%	0.00%	0.00%
Percent of non-performing DOSRI/Related Party loans to total DOSRI /Related Party loans	0.00%	0.00%	0.00%	0.00%

Total interest income from DOSRI loans amounted to ₱5.7 million in 2019, and ₱5.8 million in 2018 and 2017.

30. Trust Operations

Securities and other resources held by the Bank in fiduciary or agency capacity for its customers are not included in the accompanying statements of condition since these are not assets of the Bank.

As of December 31, 2019 and 2018, the Bank deposited government securities with carrying value of ₱143.2 million and ₱84.2 million, respectively, in compliance with trust regulations (Note 8).

In compliance with existing banking regulations, the Bank transferred from surplus to surplus reserve the amount of ₱1.3 million and ₱0.5 million, which corresponds to 10.00% of the net income realized from the Bank's Trust Department in 2019 and 2018, respectively.

31. Commitments and Contingent Liabilities

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities such as guarantees and commitments to extend credit, which are not reflected in the accompanying financial statements. The Bank, however, does not anticipate significant losses as a result of these transactions.



The following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2019	2018
Trust department accounts (Note 30)	P6,981,353,030	P6,400,841,134
Stand-by credit lines	84,000,000	70,500,000
Swap forward exchange - sold	50,635,000	2,602,710,000
Late deposits/payments received	9,521,669	9,521,669
Items held for safekeeping	455,693	296,024
Others	488,280	124,429

Also, several suits and claims, in behalf of or against the Bank in relation to its banking operations and labor-related cases are pending before the courts and quasi-judicial bodies. The Bank and its legal counsel believe that any losses arising from suits and claims which are not specifically provided for will not have a material adverse effect on the financial statements.

32. Notes to Statements of Cash flows

The following is a summary of principal non-cash activities that relate to the analysis of the statements of cash flows:

	2019	2018	2017
Additions to chattel mortgage in settlement of loans (Note 14)	P3,304,131,638	P2,592,446,719	P2,577,163,081
Recognition of right-of-use assets (Note 2)	1,628,345,834	—	—
Recognition of lease liabilities (Note 2)	1,817,438,565	—	—
Fair value changes in financial assets at FVOCI / Change in net unrealized gain/loss on AFS investments (Note 8)	994,927,408	(815,985,665)	381,641,780
Additions to investment properties in settlement of loans (Note 12)	735,282,417	791,786,329	868,280,425
Cost adjustment on intangible assets (Note 13)	84,291,800	—	—
Net retirement of ROU/ (Lease liability)	(17,314,414)		
Cumulative translation adjustment	(181,095)	(6,116)	(5,292,411)



The table below provides for the changes in liabilities arising from financing activities in 2019 and 2018 (in millions):

	Subordinated Notes	Bills Payable	Bonds Payable	Lease Liability	Total Liabilities from Financing Activities
January 1, 2019	P2,982	P2,969	P–	P1,631	P7,582
Cash flows from availments	–	382,499	6,243	–	388,742
Cash flows from settlement	(3,000)	(381,299)	–	(439)	(384,738)
Foreign exchange movement	–	–	–	–	–
Others	18	21	11	275	325
December 31, 2019	P–	P4,190	P6,254	P1,467	P11,911

Others include amortization of subordinated notes, bills payable and bonds payable, additions to lease liability, and accretion and termination of lease liability.

	Subordinated Notes	Bills Payable	Total Liabilities from Financing Activities
January 1, 2018	P2,979	P1,492	P4,471
Cash flows from availments	–	87,841	87,841
Cash flows from settlement	–	(86,365)	(86,365)
Foreign exchange movement	–	–	–
Others	3	1	4
December 31, 2018	P2,982	P2,969	P5,951

Others include amortization of subordinated notes and bills payable.

As of December 31, 2019 and 2018, the Bank recognized allowance for credit losses from ‘Due from BSP’, ‘Due from other banks’ and ‘Interbank loans receivable and SPURA’ as follows:

	2019	2018
Due from BSP	P1,226,349	P2,827,898
Due from other banks	1,043,119	2,300,673
Interbank loans receivable and SPURA	–	180,000
	P2,269,468	P5,308,571

33. Offsetting of Financial Assets and Liabilities

PFRS 7 requires the Bank to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.



Financial assets

As of December 31, 2019, there were no derivative assets and SPURA.

December 31, 2018						
Financial assets recognized at the end of reporting period by type	Gross carrying amounts (before offsetting) [a]	Gross amounts offset in accordance with the offsetting criteria [b]	Net amount presented in statement of condition [a-b] [c]	Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d] [e]
				Financial instruments [d]	Fair value of financial collateral	
Derivative Assets (Note 8)	P1,620,584,984	P1,610,511,852	P10,073,132	P2,895,073	P-	P7,178,059
SPURA (Note 7)	1,892,000,000	-	1,892,000,000	-	1,883,224,805	8,775,195

Financial liabilities

As of December 31, 2019, there were no outstanding foreign currency swaps and forwards and SSURA.

December 31, 2018						
Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting) [a]	Gross amounts offset in accordance with the offsetting criteria [b]	Net amount presented in statement of condition [a-b] [c]	Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d] [e]
				Financial instruments [d]	Fair value of financial collateral	
Derivative Liabilities (Note 8)	P985,290,611	P982,395,538	P2,895,073	P10,073,132	P-	P-

34. Subsequent Events

Cash Dividend Declaration

On January 16, 2020, the BOD of the Bank approved the declaration of a 7.50% regular cash dividend for the fourth quarter of 2019 for stockholders on record as of January 31, 2020 amounting to P287.3 Million or P0.75 per share to be paid on February 17, 2020.

Stock Dividend Declaration

On November 20, 2019, the SEC approved the amendment to the Articles of Incorporation on the increase in authorized capital stock of the Bank.

On January 16, 2020, the Bank received the SEC Order fixing the Record Date of the 11.42% Stock Dividend involving 43,750,000 shares on January 31, 2020. Payment date of February 21, 2020 was set in accordance with the BOD approval and the rules of the PSE.

Issuance of Bonds

On February 4, 2020, the Bank issued P4.65 billion fixed rate bonds with an issue price at 100% face value, which bear an interest of 4.50% per annum and will mature on February 4, 2023.



35. Approval for the Release of the Financial Statements

The accompanying comparative financial statements by the Bank were authorized for issue by the BOD on February 20, 2020.

36. Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010 to amend certain provisions of RR No. 21-2002. The regulations provide that starting 2010, the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Bank reported and/or paid the following types of taxes for the year:

Taxes and Licenses

For the taxable year ended December 31, 2019, taxes and licenses of the Bank consist of:

Gross receipts tax	₱844,518,076
Documentary stamps tax	600,290,332
Local taxes	93,104,920
Fringe benefit tax	11,840,715
	<u>₱1,549,754,043</u>

Withholding Taxes

As of December 31, 2019, total remittances and balance of withholding taxes in 2019 are as follows:

	Total Remittances	Balance
Withholding taxes on compensation and benefits	₱416,622,286	₱22,547,368
Final withholding taxes	821,806,194	59,171,311
Expanded withholding taxes	92,743,942	9,794,806
	<u>₱1,331,172,422</u>	<u>₱91,513,485</u>

The Bank has no ongoing tax assessment as of December 31, 2019.



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Philippine Savings Bank
PSBank Center
777 Paseo de Roxas corner Sedeño Street
Makati City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Philippine 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, included in this Form 17-A, and have issued our report thereon dated February 20, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Bank's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Veronica Mae A. Arce

Partner

CPA Certificate No. 0117208

SEC Accreditation No. 1740-A (Group A),

February 7, 2019, valid until February 6, 2022

Tax Identification No. ~~XXXXXXXXXX~~

BIR Accreditation No. 08-001998-135-2018,

December 17, 2018, valid until December 16, 2021

PTR No. 8125206, January 7, 2020, Makati City

February 20, 2020



INDEPENDENT AUDITOR'S REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Stockholders and the Board of Directors
Philippine Savings Bank
PSBank Center
777 Paseo de Roxas corner Sedeño Street
Makati City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Philippine 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 and have issued our report thereon dated February 20, 2020. Our audits were 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.

SYCIP GORRES VELAYO & CO.



Veronica Mae A. Arce

Partner

CPA Certificate No. 0117208

SEC Accreditation No. 1740-A (Group A),

February 7, 2019, valid until February 6, 2022

Tax Identification No. ~~XXXXXXXXXX~~

BIR Accreditation No. 08-001998-135-2018,

December 17, 2018, valid until December 16, 2021

PTR No. 8125206, January 7, 2020, Makati City

February 20, 2020



PHILIPPINE SAVINGS BANK

INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES AS OF DECEMBER 31, 2019

Annex I.	Reconciliation of retained earnings available for dividend declaration
Annex II.	Map showing the relationships between and among the company and its ultimate parent company, middle parent, subsidiaries or co-subsidiaries, and associates, wherever located or registered
Annex III.	Supplementary schedules as required by Revised SRC Rule 68 - Annex 68- J
Annex IV.	Schedule of financial soundness indicators

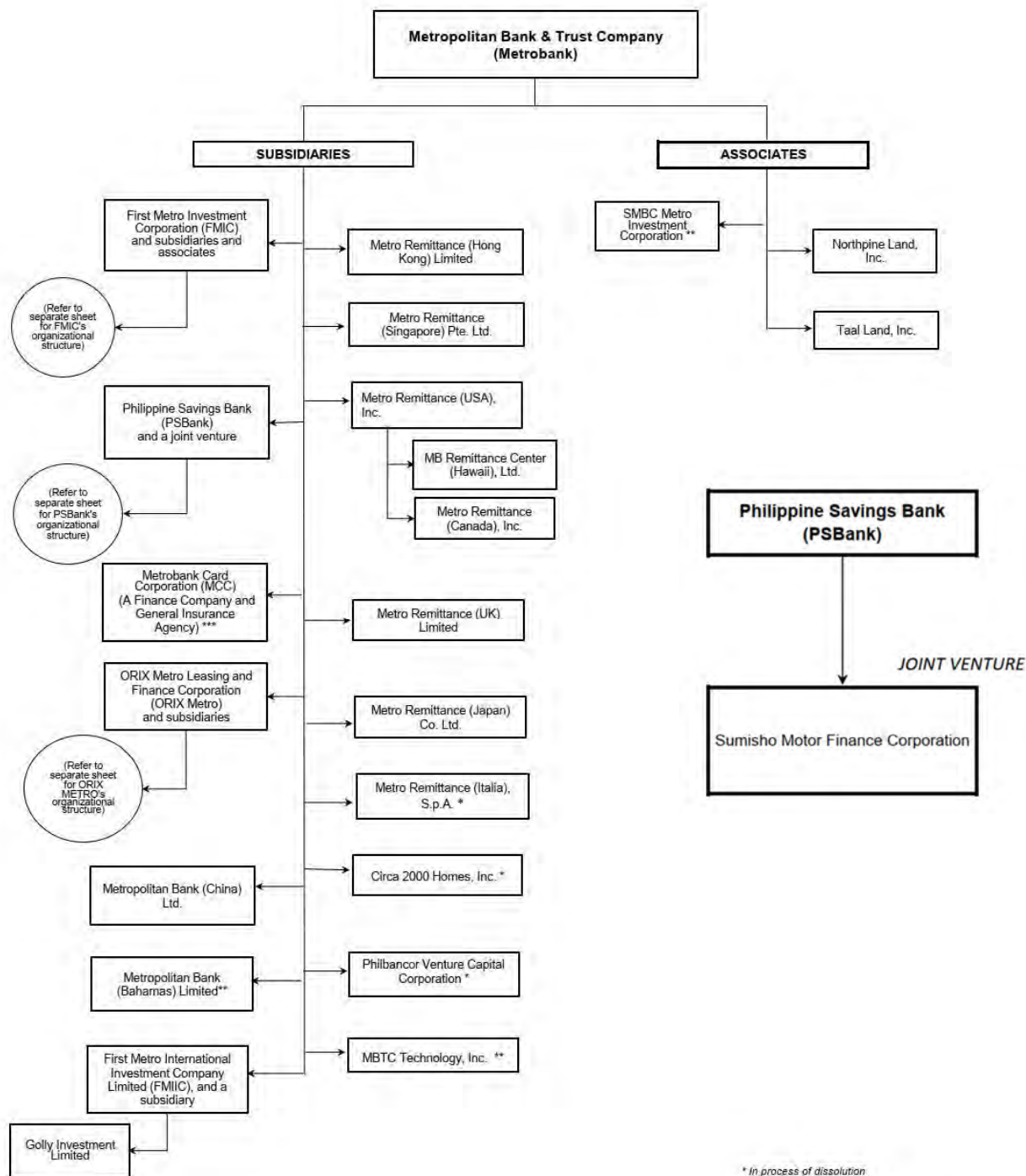
Annex I

PHILIPPINE SAVINGS BANK RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

Unappropriated Retained Earnings, 12/31/2018		₱19,391,850,112
Prior year adjustments		
Less: Non-accrual/unrealized income net of tax		
Equity in net income of a joint venture	(185,657,319)	
Unrealized foreign exchange gains – net	(584,711,822)	
Unrealized gains on investment properties	(940,694,231)	
Recognized deferred tax assets	(1,407,135,371)	
Mark to market gains on FVTPL	(6,476,341)	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	(52,981,190)	(3,177,656,274)
Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning		16,214,193,838
Net Income during the period closed to Retained Earnings		3,028,337,640
Less: Non-accrual/unrealized income net of tax		
Equity in net income of a joint venture	30,817,631	
Unrealized foreign exchange gains – net	580,570,678	
Mark to market gains on FVTPL	6,479,188	
Recognized deferred tax assets	410,979,127	
Unrealized gains on investment properties	65,069,222	1,093,915,846
Net income actually earned during the period		4,122,253,486
Less:		
Dividend declarations during the period		(1,149,328,248)
Retained earnings available for dividend distribution		₱19,187,119,076

Annex II

PHILIPPINE SAVINGS BANK MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANY AND ITS ULTIMATE PARENT COMPANY, MIDDLE PARENT, SUBSIDIARIES OR CO-SUBSIDIARIES, AND ASSOCIATES, WHEREVER LOCATED OR REGISTERED



* In process of dissolution

** In process of liquidation

*** The SEC approved the merger of MCC into the Bank effective January 3, 2020

Annex III

PHILIPPINE SAVINGS BANK SCHEDULE A – FINANCIAL ASSETS As of December 31, 2019

Name of Issuing entity and association of each issue (i)	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet (ii)	Valued based on market quotation at end of reporting period (iii)	Income accrued
Fair Value Through Profit or Loss (FVTPL) Investments				
Government Bonds	P46,521	P43,674	P43,674	P669
Derivatives with positive fair value	-	-	-	-
	P46,521	P43,674	P43,674	P669
Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)				
Debt Securities				
Government Bonds				
Peso – denominated	P1,804,686,467	P1,855,048,199	P1,855,048,199	P10,797,612
Dollar – denominated				
	1,804,686,467	1,855,048,199	1,855,048,199	10,797,612
Private Corporation				
Peso – denominated	2,755,300,000	2,685,319,332	2,685,319,332	20,113,768
Dollar – denominated	202,540,000	223,249,715	223,249,715	3,437,556
	4,762,526,467	4,763,617,246	4,763,617,246	34,348,936
Equity Securities	6,594,720	11,771,221	11,771,221	-
	P4,769,121,187	P4,775,388,467	P4,775,388,467	P34,348,936
Investment Securities at Amortized Cost				
Government Bonds				
Peso – denominated	P26,262,242,820	P30,784,497,489	P31,500,652,622	P503,769,779
Private Corporation				
Peso – denominated	2,271,950,000	2,278,642,235	2,208,118,093	14,758,510
Dollar – denominated	1,139,186,230	1,170,835,092	1,213,211,905	17,621,464
	3,411,136,230	3,449,477,327	3,421,329,998	32,379,974
	P29,673,379,050	P34,233,974,816	P34,921,982,620	P536,149,753

- i. Each issue shall be stated separately, except that reasonable grouping, without enumeration may be made of (a) securities issued or guaranteed by the Philippine Government or its agencies and (b) securities issued by others for which the amounts in the aggregate are not more than two percent of total assets.
- ii. State the basis of determining the amounts shown in the column. This column shall be totaled to correspond to the respective balance sheet caption or captions.
- iii. This column may be omitted if all amounts that would be shown are the same as in the immediate preceding column.

PHILIPPINE SAVINGS BANK
SCHEDULE B – AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS,
EMPLOYEES, RELATED PARTIES, AND PRINCIPAL STOCKHOLDERS
(OTHER THAN RELATED PARTIES)
As of December 31, 2019

Name and Designation of Debtor (i)	Balance at Beginning of the Period	Additions	Amounts Collected (ii)	Amounts Written-off (iii)	Current	Not Current	Balance at End of the Period
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NONE TO REPORT

Note: Transactions to these parties are made in the ordinary course of business.

- i. Show separately accounts receivables and note receivable. In case of notes receivable, indicate pertinent information such as the due date, interest rate, terms or repayment and collateral, if any.
- ii. If collection was other than in cash, explain.
- iii. Give reasons for write-off.

PHILIPPINE SAVINGS BANK
SCHEDULE C – AMOUNTS RECEIVABLE FROM RELATED PARTIES
WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL
STATEMENTS
As of December 31, 2019

Name and Designation of debtors	Balance at beginning of period	Additions	Amounts collected (i)	Amounts written off (ii)	Current	Not Current	Balance at end of the period
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NOT APPLICABLE

- (i) If collection was other than in cash, explain.
(ii) Give reasons for write off.

PHILIPPINE SAVINGS BANK
SCHEDULE D – LONG TERM DEBT
As of December 31, 2019

Title of Issue and type of obligation (i)	Amount authorized by indenture	Amount shown under caption “Current portion of Long- Term Debt” in related balance sheet (ii)	Amount shown under caption “Long-Term Debt” in related balance sheet (iii)	Interest Rate	Maturity Date
Medium Term Fixed rate Notes (MTFNs)	₱3,000,000,000	₱2,989,736,932	–	7.07%	June 10, 2020
Bonds Payable	₱6,300,000,000	–	₱6,254,701,780	5.60%	July 21, 2021

- (i) Include in this column each type of obligation authorized.
(ii) This column is to be totaled to correspond to the related balance sheet caption.
(iii) Include in this column details as to interest rates, amounts or number of periodic installments, and maturity dates.

PHILIPPINE SAVINGS BANK
SCHEDULE E – INDEBTEDNESS TO RELATED PARTIES
(LONG TERM LOANS FROM RELATED PARTIES)
As of December 31, 2019

Name of Related Party (i)	Balance at Beginning of the Period	Balance at the End of the Period (ii)
--------------------------------------	---	--

NONE TO REPORT

- (i) The related parties named shall be grouped as in Schedule D. The information called for shall be stated separately for any persons whose investments were shown separately in such related schedule.
- (ii) For each affiliate named in the first column, explain in a note hereto the nature and purpose of any material increase during the period that is in excess of 10 percent of the related balance sheet at either the beginning or end of the period.

PHILIPPINE SAVINGS BANK
SCHEDULE F – GUARANTEES OF SECURITIES OF OTHER ISSUES
As of December 31, 2019

Name of issuing entity of securities guaranteed by the company for which the statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding (i)	Amount owned by person for which statement if filed	Nature of guarantee (ii)
--	--	--	--	-------------------------------------

NONE TO REPORT

- i. Each issue shall be stated separately, except that reasonable grouping, without enumeration may be made of (a) securities issued or guaranteed by the Philippine Government or its agencies and (b) securities issued by others for which the amounts in the aggregate are not more than two percent of total assets.
- ii. State the basis of determining the amounts shown in the column. This column shall be totaled to correspond to the respective balance sheet caption or captions.
- iii. This column may be omitted if all amounts that would be shown are the same as in the immediate preceding column.

PHILIPPINE SAVINGS BANK
SCHEDULE G – CAPITAL STOCK
As of December 31, 2019

Title of Issue (i)	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 (ii)	Directors, Officers, and Employees	Others (iii)
Common Stock - P10 par value	600,000,000	383,109,416	–	338,610,090	4,002,569	40,496,757

(i) Include each type of issue authorized.

(ii) Related parties referred to include persons for which separate financial statements are filed and those included in consolidated financial statements, other than the issuer of the particular security.

(iii) Indicate in a note any significant changes since the date of the last balance sheet filed.

Annex IV

PHILIPPINE SAVINGS BANK SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS FOR THE PERIODS INDICATED

	December 31, 2019	December 31, 2018
PROFITABILITY RATIOS		
Return on Assets		
<u>Net Income</u>	1.31%	1.15%
Average Total Resources		
Return on Equity		
<u>Net Income</u>	10.29%	11.38%
Average Stockholders' Equity		
Net Interest Margin		
<u>Net Interest Income</u>	5.82%	5.79%
Average Earning Assets		
Cost to Income Ratio		
Operating Expenses Excluding Provision for <u>Impairment and Credit Losses and Income Taxes</u>	61.28%	64.83%
Net Interest Income + Operating Income		
SOLVENCY RATIOS		
Debt to Equity Ratio		
<u>Total Liabilities</u>	5.53:1	8.75:1
Total Stockholders' Equity		
Asset-to-Equity Ratio		
<u>Total Assets</u>	6.53:1	9.75:1
Total Stockholders' Equity		
Interest Rate Coverage Ratio		
<u>Earnings Before Interest and Taxes</u>	1.59:1	1.59:1
Interest Expense		
LIQUIDITY RATIOS		
Liquidity Ratio		
<u>Current Assets</u>	19.70%	23.47%
Current Liabilities		
Loans to Deposit Ratio		
<u>Gross Loans</u>	95.14%	78.08%
Total Deposits		
CAPITAL ADEQUACY RATIO		
<u>Total Qualifying Capital</u>	17.76%	13.88%
Total Risk-Weighted Assets		

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Attached are the following:

Interim Statements of Condition

Annex D

Interim Statements of Income

Annex E

Interim Statements of Changes in Equity

Annex F

Interim Statements of Cash Flows

Annex G

ITEM II. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION

Annex H

Annex D**PHILIPPINE SAVINGS BANK****ITEM I. FINANCIAL STATEMENTS****UNAUDITED INTERIM STATEMENTS OF CONDITION****(With Comparative Audited Figures as at December 31, 2019)**

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
ASSETS		
Cash and Other Cash Items	₱3,270,011,466	₱2,281,813,055
Due from Bangko Sentral ng Pilipinas	10,484,225,282	6,814,865,832
Due from Other Banks	2,358,224,546	1,138,642,148
Fair Value Through Profit or Loss (FVTPL) Investments	4,833,585,092	43,674
Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)	9,643,925,457	4,775,388,467
Investment Securities at Amortized Cost	34,127,910,380	34,233,974,816
Loans and Receivables	164,031,561,756	164,384,202,213
Investment in a Joint Venture	788,345,874	755,781,369
Property and Equipment	3,258,794,249	3,312,836,126
Investment Properties	3,727,351,387	3,765,748,696
Deferred Tax Assets	1,473,962,489	1,398,136,782
Goodwill and Intangible Assets	537,250,824	480,456,498
Other Assets	1,792,395,417	1,564,931,514
	₱240,327,544,219	₱224,906,821,190
LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities		
Demand	₱23,703,025,495	₱22,490,617,234
Savings	36,914,995,325	35,691,639,304
Time	114,616,334,759	105,912,878,349
Long-term Negotiable Certificates of Deposits	8,413,712,538	8,409,975,273
	183,648,068,117	172,505,110,160
Bills Payable	4,168,117,625	4,189,736,932
Bonds Payable	10,871,038,203	6,254,701,780
Treasurer's, Cashier's and Manager's Checks	1,317,878,911	1,297,680,147
Accrued Taxes, Interest and Other Expenses	1,315,107,502	1,409,451,987
Income Tax Payable	99,375,662	374,977
Other Liabilities	4,121,195,046	4,792,491,744
	205,540,781,066	190,449,547,727
Equity		
Common Stock	4,268,594,160	₱3,831,094,160
Capital Paid in Excess of Par Value	11,418,563,257	9,287,650,873
Surplus Reserves	1,037,214,639	1,037,214,639
Surplus	19,055,943,157	21,269,544,274
Fair Value Reserves on Financial Assets at FVOCI	(44,109,118)	(18,931,431)
Remeasurement Losses on Retirement Plan	(937,954,589)	(937,954,589)
Equity in Remeasurement Gains on Retirement Plan of a Joint Venture	941,681	941,681
Cumulative Translation Adjustment	(12,430,034)	(12,286,144)
	34,786,763,153	34,457,273,463
	₱ 240,327,544,219	₱224,906,821,190

Annex E**PHILIPPINE SAVINGS BANK****UNAUDITED INTERIM STATEMENTS OF INCOME**

	For the Quarters ended March 31	
	2020	2019
INTEREST INCOME		
Loans and receivables	P 3,905,537,526	P3,779,441,041
Financial assets at FVOCI and investment securities at amortized cost	434,282,618	524,732,755
Interbank loans receivable and securities purchased under resale agreements	10,927,368	5,857,463
Due from Bangko Sentral ng Pilipinas	24,650,879	375,417
FVTPL investments	17,922,587	538
Due from other banks	694,456	772,463
	4,394,015,434	4,311,179,677
INTEREST EXPENSE		
Deposit liabilities	944,696,222	1,513,118,190
Bonds Payable	130,142,069	
Bills payable	59,415,419	71,793,467
Subordinated notes	—	41,942,609
Lease liability	26,200,950	29,539,068
	1,160,454,660	1,656,393,334
NET INTEREST INCOME	3,233,560,774	2,654,786,343
Service fees and commission income	478,059,886	488,562,664
Service fees and commission expense	19,964,953	20,086,133
NET SERVICE FEES AND COMMISSION INCOME	458,094,933	468,476,531
OTHER OPERATING INCOME (CHARGES)		
Gain on foreclosure and sale of investment properties	125,494,644	117,166,973
Gain on foreclosure and sale of chattel mortgage properties	(89,700,317)	20,785,471
Foreign exchange gain - net	3,830,700	19,020,291
Trading and securities gains (losses) - net	(62,989,298)	14,635,280
Gain on sale of property and equipment	782,357	654,798
Miscellaneous	132,280,788	118,602,257
	109,698,874	290,865,070
TOTAL OPERATING INCOME	3,801,354,581	3,414,127,944
OTHER EXPENSES		
Compensation and fringe benefits	947,095,323	813,497,840
Provision for credit and impairment losses	789,147,244	514,866,512
Taxes and licenses	403,015,329	365,563,222
Depreciation	225,001,637	238,037,911
Security, messengerial and janitorial services	129,679,795	94,247,141
Occupancy and equipment-related costs	74,022,849	80,824,198
Amortization of intangible assets	29,551,584	43,176,943
Miscellaneous	493,310,862	518,108,582
	3,090,824,623	2,668,322,349
INCOME BEFORE SHARE IN NET INCOME OF A JOINT VENTURE AND INCOME TAX	710,529,958	745,805,595
SHARE IN NET INCOME OF A JOINT VENTURE	32,564,505	23,272,008
INCOME BEFORE INCOME TAX	743,094,463	769,077,603
PROVISION FOR (BENEFIT FROM) INCOME TAX		
Current	172,689,225	95,582,553
Deferred	(75,825,707)	(7,234,746)
	96,863,518	88,347,807
NET INCOME	P 646,230,945	P680,729,796
Basic/Diluted Earnings Per Share	P1.60**	P1.91*

* To reflect the stock rights issued in January 2019.

** To reflect stock rights issued in January 2019 and stock dividend issued in February 2020.

Annex F

PHILIPPINE SAVINGS BANK

UNAUDITED INTERIM STATEMENTS OF CHANGES IN EQUITY

	Common Stock	Capital Paid in Excess of Par Value	Surplus Reserves	Surplus	Fair Value Reserves on Financial Assets at FVOCI	Remeasurement Losses on Retirement Plan	Equity in Remeasurement Gains on Retirement Plan of a Joint Venture	Cumulative Translation Adjustment	Total
Balance at December 31, 2019	P3,831,094,160	P9,287,650,873	P1,037,214,639	P21,269,544,274	(P18,931,431)	(P937,954,589)	P941,681	(P12,286,144)	P34,457,273,463
Issuance of stock rights	—	—	—	—	—	—	—	—	—
Total comprehensive income for the period	—	—	—	646,230,945	25,177,687	—	—	(143,890)	620,909,368
Stock dividends	437,500,000	2,130,912,384	—	(2,572,500,000)	—	—	—	—	(4,087,616)
Cash dividends	—	—	—	(287,332,062)	—	—	—	—	(287,332,062)
Appropriation of Surplus to Trust Business	—	—	—	—	—	—	—	—	(287,332,062)
Balance at March 31, 2020 (Unaudited)	P4,268,594,160	P11,418,563,257	P1,037,214,639	P19,055,943,157	(P44,109,118)	(P937,954,589)	P941,681	(P12,430,034)	P34,786,763,153
Balance at January 1, 2019	P2,402,524,910	P2,818,083,506	P1,035,899,409	P19,391,850,112	(P782,896,279)	(P470,611,677)	P3,131,435	(P3,833,206)	P24,394,148,210
Issuance of stock rights	1,428,569,250	6,469,567,367	—	—	—	—	—	—	7,898,136,617
Total comprehensive income (loss) for the period	—	—	—	3,028,337,640	763,964,848	(467,342,912)	(2,189,754)	(8,452,938)	3,314,316,884
Cash dividends (Note 18)	—	—	—	(1,149,328,248)	—	—	—	—	(1,149,328,248)
Appropriation of Surplus to Trust Business	—	—	1,315,230	(1,315,230)	—	—	—	—	—
Balance at December 31, 2019	P3,831,094,160	P9,287,650,873	P1,037,214,639	P21,269,544,274	(P18,931,431)	(P937,954,589)	P941,681	(P12,286,144)	P 34,457,273,463

Annex G**PHILIPPINE SAVINGS BANK****UNAUDITED INTERIM STATEMENTS OF CASH FLOWS**

	Quarters ended March 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P743,094,463	P769,077,603
Adjustments to reconcile income before income tax to net cash provided by operations:		
Provision for credit and impairment losses	787,118,644	514,866,512
Depreciation	225,001,637	238,037,911
Amortization of premium (discount) on financial assets at fair value through other comprehensive income and investment securities at amortized cost	79,852,933	(322,548,692)
Gain on foreclosure and sale of:		
Investment properties	(125,494,644)	(117,166,973)
Chattel mortgage properties	(89,700,371)	(20,785,471)
Amortization of:		
Intangible assets	29,551,584	43,176,943
Debt issuance costs	14,217,010	692,609
Lease Liabilities	26,200,950	—
Realized loss (gain) on sale of financial assets at (FVOCI)	—	473,759,510
Share in net income of a joint venture	(32,564,505)	(23,272,008)
Fair value (gains) on fair value through profit or loss investments	65,406,056	(7,083)
Gain on sale of property and equipment	(782,357)	(654,798)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Fair value through profit or loss investments	(4,898,947,474)	8,315,838
Loans and receivables	(1,378,818,278)	(2,854,207,293)
Other assets	(60,706,330)	(73,229,105)
Increase (decrease) in:		
Deposit liabilities	11,142,891,731	(15,709,646,613)
Treasurer's, cashier's and manager's checks	20,198,764	(197,596,556)
Accrued taxes, interest and other expenses	(94,344,729)	(491,710,721)
Other liabilities	(635,021,408)	(398,271,909)
Cash generated from operations	5,996,554,364	(18,161,170,296)
Income taxes paid	(73,688,540)	(70,583,522)
Net cash provided by operating activities	5,922,865,824	(18,231,753,818)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of:		
Financial assets at FVOCI	(4,966,026,941)	(1,046,572,486)
Investment securities at amortized cost	—	—
Property and equipment	(48,687,286)	(50,956,138)
Other intangible assets	(94,627,699)	32,734,293
Proceeds from sale/maturities of:		
Financial assets at FVOCI	60,000,000	1,011,990,036
Investment securities at amortized cost	25,317,500	—
Chattel mortgage properties	558,964,896	600,282,788
Investment properties	232,902,886	224,353,295
Other intangible assets	8,281,789	—
Property and equipment	7,184,014	6,392,017
Net cash used in investing activities	(4,216,690,841)	778,223,805
(Forward)		

	For the Quarters ended March 31	
	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of bills payable	₱3,582,441,902	₱55,995,678,831
Settlement of bills payable	(3,609,674,000)	(50,991,000,000)
Payment of lease liabilities	(116,076,526)	—
Dividends paid	(287,332,062)	(287,332,062)
Issuance of bonds payable	4,607,732,204	—
Issuance of stock dividends	(4,087,616)	—
Issuance of stock rights – net of issue cost	—	7,899,437,134
Net cash provided by (used in) financing activities	4,173,003,902	12,616,783,903
Effect of exchange rate differences	(10,026)	5,153
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,879,168,859)	(4,836,740,957)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	2,281,813,055	3,776,087,269
Due from Bangko Sentral ng Pilipinas	6,816,092,181	15,156,184,418
Due from other banks	1,139,685,267	1,682,806,080
Interbank loans receivable and securities purchased under resale agreements	—	1,891,820,000
	10,237,590,503	22,506,897,767
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	3270,011,466	2,631,738,817
Due from Bangko Sentral ng Pilipinas	10,486,025,234	14,062,081,353
Due from other banks	2,360,722,662	976,336,640
	₱16,116,759,362	₱17,670,156,810
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest paid	₱1,204,055,298	₱1,870,678,170
Interest received	4,162,601,435	4,190,832,263

PHILIPPINE SAVINGS BANK

ITEM II. MANAGEMENT DISCUSSION AND ANALYSIS

Analysis of Statements of Condition

As of March 31, 2020 (Unaudited) and December 31, 2019 (Audited)

The Bank's Total Assets for the period ended March 31, 2020 was at ₱240.33 billion. This is 6.86% or ₱15.42 billion higher compared to the December 2019 level of ₱224.91 billion.

As of March 31, 2020, Loans and Receivables, net of allowance and unearned interest and discounts, representing 68.25% of total assets was lower by 0.21% to ₱164.03 billion from ₱164.38 billion as of December 31, 2019. Auto Loans increased by ₱871.37 million to ₱93.27 billion as of March 31, 2020 from ₱92.40 billion as of December 31, 2019. Mortgage Loans also climbed to ₱52.19 billion from ₱52.12 billion as of December 31, 2019.

Cash and Other Cash Items increased by ₱998.20 million or 43.31% to ₱3.27 billion from ₱2.28 billion. Due from Other Banks also increased by ₱1.22 billion or 107.11% from ₱1.14 billion. Further, Due from BSP went up by ₱3.67 billion to ₱10.48 billion from ₱6.81 billion.

As of March 31, 2020, Investment Securities at Amortized Cost representing 14.20% of total assets was recorded at ₱34.13 billion from ₱34.23 billion as of December 31, 2019.

Financial Assets at Fair Value through Other Comprehensive Income (FVOCI) amounted to ₱9.64 billion as of March 31, 2020 from ₱4.78 billion as of December 31, 2019. The increase in the account by 101.95% or ₱4.87 billion resulted from the acquisitions of FVOCI during first quarter of the year.

Financial Assets at Fair Value through Profit or Loss (FVTPL) increased to ₱4.83 billion as of March 31, 2020 from ₱43.67 thousand as of December 31, 2019. Increase was due to acquisitions during the period.

These investments securities represent 20.22% and 17.34% of total assets as of March 31, 2020 and December 31, 2019, respectively.

Investment in a Joint Venture increased by ₱32.56 million or 4.31% to ₱788.35 million from ₱755.78 million, due to the recognition of PSBank's share in the net earnings of Sumisho Motor Finance Corporation (SMFC), a joint venture between PSBank and Sumitomo Corporation. As of March 31, 2020 and December 31, 2019, the Bank's ownership interest in SMFC is 30.00%.

Property and Equipment decreased by 1.63% or ₱54.04 million to ₱3.26 billion as of March 31, 2020 from ₱3.31 billion as of December 31, 2019 due to Bank's recognition of depreciation expense for the first quarter of 2020.

Investment properties decreased by 1.02% or ₱38.40 million from ₱3.77 billion as of December 31, 2019 to ₱3.73 billion as of March 31, 2020.

Deferred Tax Assets increased by ₱75.83 million to ₱1.47 billion as of March 31, 2020 from ₱1.40 billion as of December 31, 2019.

Goodwill and Intangible Assets including software cost and license fees went up by 11.82% or ₱56.79 million to ₱537.25 million as of March 31, 2020 from ₱480.46 million as of December 31, 2019. Other Assets increased by 14.54% or ₱227.46 million to ₱1.79 billion as of March 31, 2020 from ₱1.56 billion as of December 31, 2019.

The Bank's deposits representing 89.35% of total liabilities increased by 6.46% or ₱11.14 billion to ₱183.65 billion as of March 31, 2020 from ₱172.51 billion as of December 31, 2019. Demand deposits and Savings Deposits improved by 5.39% and 3.43%, respectively to ₱23.70 billion and ₱36.91 billion, respectively. Time Deposits went up by 8.22% or ₱8.70 billion to ₱114.62 billion as of March 31, 2020.

As of March 31, 2020 and December 31, 2019, Long Term Negotiable Certificate of Time Deposits (LTNCTD) amounted to ₱8.41 billion.

As of March 31, 2020 and December 31, 2019, bills payable amounted to ₱4.17 billion and ₱4.19 billion, respectively.

Bonds payable increased by 73.81% or ₱4.62 billion from ₱6.25 billion as of December 31, 2019 to ₱10.87 billion as of March 31, 2020 due to issuance of 3-year fixed rate bonds amounting to ₱4.65 billion in February 2020.

Accrued Taxes, Interest and Other Expenses decreased by ₱94.34 million or 6.69% to ₱1.32 billion as of March 31, 2020. Treasurer's, Cashier's and Manager's Checks increased by 1.56% to ₱1.32 billion from ₱1.30 billion. Income tax payable was higher at ₱99.38 million as of March 31, 2020 versus ₱374.98 thousand as of December 31, 2019. Meanwhile, Other Liabilities which include Accounts Payables, Withholding tax payables, Net Retirement Liability and Lease Liability decreased by ₱671.30 million to ₱4.12 billion as of March 31, 2020 from ₱4.79 billion as of December 31, 2019.

As of March 31, 2020, Capital funds increased to ₱34.79 billion or 0.96% higher compared to December 31, 2019 level of ₱34.46 billion due net income recognized during quarter. On November 20, 2019, the SEC approved the amendment to the Articles of Incorporation on the increase in authorized capital stock of the Bank. On January 16, 2020, the Bank received the SEC Order fixing the Record Date of the 11.42% Stock Dividend involving 43,750,000 shares on January 31, 2020. Payment date of February 21, 2020 was set in accordance with the BOD approval and the rules of the PSE.

Fair Value Reserves on Financial Assets at FVOCI amounted to (₱44.11) million and (₱18.93) million as of March 31, 2020 and December 31, 2019, respectively.

As of March 31, 2020, Capital adequacy Ratio (CAR) was at 17.18%. This is above the minimum regulatory requirement of 10%. The Bank recorded loss on 'Cumulative Translation Adjustment' under equity amounting to (₱12.43 million) as of March 31, 2020 against the recorded balance of (₱12.29 million) as of December 31, 2019.

The Bank recorded Remeasurement Losses on Retirement Plan of ₱937.95 million as of March 31, 2020 and December 31, 2019. On the other hand, the Bank's share in the Remeasurement Gains on Retirement Plan of its joint venture was posted at ₱941.68 thousand as of March 31, 2020.

Meanwhile, Return on Average Equity (ROAE) decreased to 7.47% in 2020 versus 9.46% in 2019. Return on Average Assets (ROAA) decreased to 1.11% in 2020 from 1.15% in 2019.

Discussion of Results of Operations

For the three months ended March 31, 2020 (Unaudited) and March 31, 2019 (Unaudited)

For the three months ended March 31, 2020, the Bank recorded a Net Income after Tax of ₱646.23 million or 5.07% lower than the ₱680.73 million posted during the same period last year.

Total Interest Income for the three months ended March 31, 2020 increased by 1.92% or ₱82.84 million better than the ₱4.31 billion recorded during the same period last year.

Interest income on Loans and Receivables was 3.34% higher at ₱3.91 billion from ₱3.78 billion. Interest earned from Investment Securities decreased to ₱452.21 million or 13.82% lower than ₱524.73 million in 2019 mainly due to decrease in volume of investments, particularly for FVOCI and Investment Securities at Amortized Cost. Interest income from other banks was down by 10.10% to ₱694.46 thousand from ₱772.46 thousand. On the other hand, Interest income on Interbank Loans Receivable and SPURA increased by ₱5.07 million to ₱10.93 million from ₱5.86 million. Likewise, Interest earned from deposits with BSP increased by ₱24.28 million from ₱375.42 thousand to ₱24.65 million.

Interest Expense on the Bank's deposit liabilities decreased by 37.57% to ₱944.70 million from ₱1.51 billion while Interest Expense on Bills Payable decreased to ₱59.42 million from ₱71.79 million or ₱12.38 lower

compared with the same period last year. The Bank also recorded an Interest Expense on Bonds Payable amounting to ₱130.14 million during the first quarter of 2020. Meanwhile, the Bank posted an Interest Expense on Subordinated Notes amounting to ₱41.94 million during the first quarter of 2019. Last August 2019, the Bank exercised the call option of its ₱3.00 billion Basel III compliant Tier 2 Notes issued in May 2014.

The Bank recorded Interest Expense on Lease Liabilities for the three months ended March 31, 2020 and 2019 amounting to ₱26.20 million and ₱29.54 million, respectively.

The Bank's Net Interest Income grew 21.80% year-on-year, from ₱2.65 billion in 2019 to ₱3.23 billion in 2020. This was mainly a result of increases from Interest Income on Loans and Receivables and Due from BSP by ₱126.10 million and ₱24.28 million, respectively.

Net Service Fees and Commission Income decreased to ₱458.09 million, 2.22% lower than ₱468.48 million recorded during the same period last year.

On the other hand, Other Operating Income decreased by 62.29% or ₱181.17 million to ₱109.70 million from ₱290.87 million due to lower gain on foreclosure and sale of chattel mortgage recorded this quarter and trading loss recognized in 2020. For the period ended March 31, 2020 the Bank registered a net loss on foreclosure and sale of chattel mortgage amounting to ₱89.70 million from net gain of ₱20.79 million during the same period last year. For the three months ended March 31, 2020, the Bank posted a ₱125.49 million gains on foreclosure and sale of investment properties versus ₱117.17 million a year-ago. Miscellaneous Income went up by ₱13.68 million to ₱132.28 million from ₱118.60 million. The Bank recognized trading loss of ₱62.99 million versus ₱14.64 million trading gain recognized in the same period last year. Foreign Exchange gain was posted at ₱3.83 million compared to ₱19.02 million a year ago.

Other Operating Expenses, excluding provision for impairment, was higher by 6.88% to ₱2.30 billion from ₱2.15 billion. Taxes and Licenses increased by ₱37.45 million or 10.25% to ₱403.02 million from ₱365.56 million. Amortization of intangible assets was recorded at ₱29.55 million. Meanwhile, Depreciation and amortization of Bank's property and leasehold improvements decreased to ₱225.00 million from ₱238.04 million. Compensation and Fringe Benefits increased to ₱947.10 million for the three months ended March 31, 2020 compared to ₱813.50 million for the same period last year. On the other hand, Security, messengerial and janitorial services was at ₱129.68 million for the quarter ended March 2020, 37.60% or ₱35.43 million higher than the ₱94.25 million recorded in March 2019. Miscellaneous Expenses was registered at ₱493.31 million versus ₱518.11 million during the same period last year.

For the three months ended March 31, 2020, the Bank recognized ₱789.15 million provisions for credit and impairment losses.

For the three months ended March 31, 2020, the Bank also reported Share in net income of Sumisho Motor Finance Corporation (SMFC) amounting to ₱32.56 million from ₱23.27 million during the same period last year.