28 February 2020

PHILIPPINE STOCK EXCHANGE, INC.
Disclosure Department
6F PSE Tower One Bonifacio High Street
28th Street corner 5th Avenue Bonifacio Global City
Taguig City

Attention: **MS. JANET A. ENCARNACION**
Head - Disclosure Department

PHILIPPINE DEALING & EXCHANGE CORP.
Philippine Dealing System Holdings Corp. & Subsidiaries
29th Floor, BDO Equitable Tower
8751 Paseo de Roxas, Makati City, 1227
Telephone No: 884-4446

Attention: **ATTY. MARIE ROSE M. MAGALLEN-LIRIO**
Head- Issuer Compliance and Disclosure Department

Mesdames,

Please find attached Audited Financial Statements of China Banking Corporation and its Subsidiaries as of December 31, 2019 and the corresponding Notes to Financial Statements.

Thank you.

Very truly yours,

CAEscucha

ALEXANDER C. ESCUCHA
Senior Vice President & Head
Investor & Corporate Relations Group

China Banking Corporation and Subsidiaries

Financial Statements
December 31, 2019 and 2018
and for the years ended December 31, 2019, 2018 and 2017

and

Independent Auditor's Report

Building a better working world

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Building a better working world

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
China Banking Corporation

Report on the Consolidated and Parent Company Financial Statements

Opinion

We have audited the consolidated financial statements of China Banking Corporation and its subsidiaries (the Group) and the parent company financial statements of China Banking Corporation, which comprise the consolidated and parent company balance sheets as at December 31, 2019 and 2018, and the consolidated and parent company statements of income, consolidated and parent company statements of comprehensive income, consolidated and parent company statements of changes in equity and consolidated and parent company statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the consolidated and parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and parent company financial statements present fairly, in all material respects, the financial position of the Group and the Parent Company as at December 31, 2019 and 2018, and their financial performance and their 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 Consolidated and Parent Company Financial Statements* section of our report. We are independent of the Group and the Parent Company 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 consolidated and parent company 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 consolidated and parent company financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and parent company 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 Consolidated and Parent Company 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 consolidated and parent company 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 consolidated and parent company financial statements.

Applicable to the audit of the Consolidated and Parent Company Financial Statements

Recognition of Expected Credit Losses (ECL) on loans and receivables

The Group's and the Parent Company's adoption of the ECL model is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Group's and the Parent Company'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 for loans and receivables as of December 31, 2019 for the Group and the Parent Company amounted to ₱8.56 billion and ₱6.94 billion, respectively. Provision for credit losses of the Group and the Parent Company in 2019 amounted to ₱2.57 billion and ₱2.21 billion, respectively.

Refer to Note 16 of the financial statements for 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 Group's and the Parent Company'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 (a) assessed the Group's and the Parent Company's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) verified 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, (c) tested the Group's and the Parent Company's application of internal credit risk rating system by reviewing the ratings of sample credit exposures; (d) assessed whether expected life is different from the contractual life by testing the maturity dates reflected in the system of record and considering management's assumptions regarding future payments, advances, extensions, renewals and modifications; (e) inspected financial information used to derive baseline probability of default; (f) performed simulation of baseline probability of default and tested its conversion to forward-looking probability of default; (g) performed trend analysis of expected default generated by third-party service providers and compared trend with the resulting expected credit loss (h) tested loss given default by inspecting historical recoveries and related costs, write-offs and collateral valuations; (i) verified exposure at default considering outstanding commitments and repayment scheme; and (j) tested the effective interest rate used in discounting the expected loss.

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

Impairment testing of goodwill

Under PFRS, the Group and the Parent Company are required to annually test the amount of goodwill for impairment. As of December 31, 2019, the goodwill recognized in the consolidated and parent company financial statements amounting to ₱222.84 million is attributed to the Parent Company's Retail Banking Business (RBB) segment, while goodwill of ₱616.91 million in the consolidated financial statements is attributed to the subsidiary bank, China Bank Savings, Inc. (CBSI). The impairment assessment process requires significant judgment and is based on assumptions, specifically loan and deposit growth rates, discount rate and the long-term growth rate.

The Group's disclosures about goodwill are included in Notes 3 and 14 to the financial statements.

Audit Response

We involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include loan and deposit growth rates, discount rate and the long-term growth rate. We compared the key assumptions used, such as loan and deposit growth and long-term growth rates against the historical performance of the RBB and CBSI, industry/market outlook and other relevant external data. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of goodwill.

Accounting for disposals of investment securities under a hold-to-collect business model

In 2019, the Group and the Parent Company disposed investment securities managed under the hold-to-collect (HTC) business model with aggregate carrying amount of ₱18.62 billion and ₱13.32 billion, respectively. The disposals resulted to a gain of ₱1.38 billion for the Group and ₱1.30 billion for the Parent Company. Investment securities held under a hold-to-collect business model, which are classified as 'Investment securities at amortized cost', are managed to realize cash flows by collecting contractual payments over the life of the instrument.

The accounting for the disposals is significant to our audit because the amounts involved are material (9.97% and 7.50% of the total investment securities at amortized cost of the Group and the Parent Company, respectively and 4.00% and 4.35% of the total operating income of the Group and Parent Company, respectively). Moreover, it involves the exercise of significant judgment by management in assessing that the disposals are consistent with the HTC business model and that it would not impact the measurement of the remaining securities in the affected portfolios.

The disclosures related to the disposals of investment securities are included in Notes 3 and 9 to the financial statements.

Audit response

We obtained an understanding of the Group's and Parent Company's objectives for disposals of investment securities at amortized cost through inquiries with management and review of approved internal documentations, including governance over the disposals. We evaluated management's assessment of the impact of the disposals in reference to the Group's and the Parent Company's business models and the provisions of the relevant accounting standards and regulatory issuances. We also reviewed the calculation of the gains on the disposals and the measurement of the remaining securities in the affected portfolios.

We reviewed the disclosures related to the disposals based on the requirements of PFRS 7, *Financial Instruments: Disclosures* and Philippine Accounting Standard (PAS 1), *Presentation of Financial Statements*.

Adoption of PFRS 16, Leases

Effective January 1, 2019, the Group adopted PFRS 16, *Leases*, under the modified retrospective approach which resulted in significant changes in the Group's accounting policy for leases. The Group's adoption of PFRS 16 is significant to our audit because the Group 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 Group is reasonably certain to exercise options to extend or terminate the lease, and in determining the incremental borrowing rate. This resulted in the recognition of right of use assets amounting to ₱3.43 billion and ₱2.73 billion for the Group and the Parent Company, respectively, and lease liability amounting to Php3.67 billion and ₱2.92 billion, for the Group and the Parent Company, respectively, as of January 1, 2019, and the recognition of depreciation expense of ₱670.78 million and ₱505.53 million, for the Group and the Parent Company, respectively, and interest expense of ₱265.54 million and ₱207.74 million, for the Group and the Parent Company, respectively, for the year ended December 31, 2019.

The disclosures related to the adoption of PFRS 16 are included in Note 2 to the financial statements.

Audit response

We obtained an understanding of the Group's process in implementing the new standard on leases, including the determination of the population of the lease contracts covered by PFRS 16, the application of the short-term and low value assets exemption, 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 database. On a test basis, we inspected lease agreements (i.e., lease agreements existing prior to the adoption of PFRS 16 and new lease agreements), 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 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 Group 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.*

Applicable to the audit of the Consolidated Financial Statements

Recoverability of deferred tax assets

The Group has recognized and unrecognized deferred tax assets. The recoverability of deferred tax assets recognized depends on the Group's ability to continuously generate sufficient future taxable income. The analysis of the recoverability of deferred tax assets was significant to our audit because the assessment process is complex and judgmental, and is based on assumptions that are affected by expected future market or economic conditions and the expected performance of the Group.

The disclosures in relation to deferred income taxes are included in Notes 3 and 28 to the financial statements.

Audit Response

We reviewed the management's assessment on the availability of future taxable income in reference to financial forecast and tax strategies. We evaluated management's forecast by comparing the loan portfolio and deposit growth rates with that of the industry and the historical performance of the Group. We also reviewed the timing of the reversal of future taxable and deductible temporary differences.

Other Information

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

Our opinion on the consolidated and parent company 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 consolidated and parent company 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 consolidated and parent company 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 Consolidated and Parent Company Financial Statements

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

In preparing the consolidated and parent company financial statements, management is responsible for assessing the Group's and Parent 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 Group and the Parent Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and Parent Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and parent company 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 consolidated and parent company 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 consolidated and parent company 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 Group's and Parent Company'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 Group's and Parent Company'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 consolidated and parent company 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 Group and the Parent Company to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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 consolidated and parent company 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 Bangko Sentral ng Pilipinas (BSP) Circular No. 1074 and Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 37 and Revenue Regulations 15-2010 in Note 38 to the financial statements is presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of China Banking Corporation. 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.

Building a better working world

The engagement partner on the audit resulting in this independent auditor's report is Ray Francis C. Balagtas.

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas

Ray Francis C. Balagtas
Partner
CPA Certificate No. 108795
SEC Accreditation No. 1510-AR-1 (Group A),
September 18, 2019, valid until September 17, 2021
Tax Identification No. 216-950-288
BIR Accreditation No. 08-001998-107-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 8125208, January 7, 2020, Makati City

February 26, 2020

CHINA BANKING CORPORATION AND SUBSIDIARIES

BALANCE SHEETS

(Amounts in Thousands)

	Consolidated		Parent Company	
	December 31			
	2019	2018	**2019**	2018
ASSETS				
Cash and Other Cash Items	**₱16,839,755**	₱15,639,474	**₱14,856,844**	₱13,705,304
Due from Bangko Sentral ng Pilipinas (Notes 7 and 17)	**100,174,398**	101,889,773	**88,109,650**	95,092,944
Due from Other Banks (Note 7)	**9,900,642**	9,455,447	**8,645,547**	7,837,894
Interbank Loans Receivable and Securities Purchased under Resale Agreements (Note 8)	**17,036,460**	11,998,040	**10,027,609**	8,998,040
Financial Assets at Fair Value through Profit or Loss (Note 9)	**18,500,111**	7,596,261	**18,444,101**	6,689,796
Financial Assets at Fair Value through Other Comprehensive Income (Note 9)	**26,133,360**	10,101,527	**24,170,629**	8,213,010
Investment Securities at Amortized Cost (Note 9)	**168,202,728**	172,537,036	**164,231,583**	163,824,466
Loans and Receivables (Notes 10 and 29)	**568,919,164**	505,804,955	**502,930,197**	441,432,156
Accrued Interest Receivable	**7,158,494**	5,697,181	**6,526,475**	5,126,127
Investment in Subsidiaries (Notes 11 and 30)	–	–	**15,129,118**	14,333,567
Investment in Associates (Note 11)	**704,169**	335,092	**704,169**	335,092
Bank Premises, Furniture, Fixtures and Equipment and Right-of-use Assets (Note 12)	**9,155,234**	6,450,458	**7,468,646**	5,265,386
Investment Properties (Note 13)	**4,337,184**	4,789,602	**1,496,987**	1,188,797
Deferred Tax Assets (Note 28)	**3,370,949**	2,514,889	**2,287,956**	1,739,219
Intangible Assets (Note 14)	**4,066,078**	4,202,599	**945,916**	915,531
Goodwill (Note 14)	**839,748**	839,748	**222,841**	222,841
Other Assets (Note 15)	**6,887,505**	6,219,558	**3,982,129**	3,332,763
	₱962,225,979	₱866,071,640	**₱870,180,397**	₱778,252,933
LIABILITIES AND EQUITY				
Liabilities				
Deposit Liabilities (Notes 17 and 30)				
Demand	**₱186,955,056**	₱161,239,669	**₱170,279,879**	₱145,559,564
Savings	**224,872,421**	239,539,817	**210,191,063**	226,943,962
Time	**363,600,383**	321,343,811	**307,293,511**	265,739,836
	775,427,860	722,123,297	**687,764,453**	638,243,362
Bills Payable (Note 19)	**33,381,406**	39,826,532	**33,381,406**	39,826,532
Manager's Checks	**1,998,678**	2,577,175	**1,535,936**	2,069,812
Income Tax Payable	**540,662**	477,585	**479,923**	414,233
Accrued Interest and Other Expenses (Note 20)	**4,121,302**	3,842,525	**3,650,339**	3,342,152
Bonds Payable (Note 18)	**37,394,398**	–	**37,394,398**	–
Derivative Liabilities (Note 26)	**1,036,052**	455,150	**1,036,052**	455,150
Derivative Contracts Designated as Hedges (Note 26)	**51,949**	–	**51,949**	–
Deferred Tax Liabilities (Note 28)	**1,083,378**	1,231,145	–	–
Other Liabilities (Notes 21 and 24)	**11,014,701**	7,681,644	**8,722,696**	6,049,812
	866,050,386	778,215,053	**774,017,153**	690,401,053
Equity				
Equity Attributable to Equity Holders of the Parent Company				
Capital stock (Note 24)	**26,858,998**	26,858,998	**26,858,998**	26,858,998
Capital paid in excess of par value (Note 24)	**17,122,625**	17,122,625	**17,122,626**	17,122,625
Surplus reserves (Notes 24 and 29)	**3,598,274**	4,031,008	**3,598,275**	4,031,008
Surplus (Notes 24 and 29)	**48,558,760**	40,497,256	**48,558,760**	40,497,256
Net unrealized gain (loss) on financial assets at fair value through other comprehensive income (Note 9)	**417,576**	(702,509)	**417,576**	(702,509)
Remeasurement gain (loss) on defined benefit asset (Note 25)	**(368,531)**	117,047	**(368,531)**	117,047
Cumulative translation adjustment	**6,835**	(91,699)	**6,835**	(91,699)
Remeasurement gain on life insurance reserves	**20,655**	19,154	**20,655**	19,154
Cash flow hedge reserve	**(51,949)**	–	**(51,949)**	–
	96,163,243	87,851,880	**96,163,244**	87,851,880
Non-controlling Interest	**12,350**	4,707		–
	96,175,593	87,856,587	**96,163,244**	87,851,880
	₱962,225,979	₱866,071,640	**₱870,180,397**	₱778,252,933

See accompanying Notes to Financial Statements.

CHINA BANKING CORPORATION AND SUBSIDIARIES

STATEMENTS OF INCOME

(Amounts in Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018	2017	**2019**	2018	2017
INTEREST INCOME						
Loans and receivables (Notes 10 and 30)	**₱36,051,051**	₱28,195,915	₱21,751,647	**₱30,824,138**	₱23,488,872	₱17,537,017
Investment securities at amortized costs and at FVOCI (Note 9)	**9,828,076**	5,875,928	3,556,110	**9,362,427**	5,559,557	3,275,025
Financial assets at FVPL	**692,482**	413,323	410,889	**692,482**	413,323	398,777
Due from Bangko Sentral ng Pilipinas and other banks and securities purchased under resale agreements (Notes 7 and 8)	**1,113,206**	727,337	820,699	**702,422**	516,645	634,906
	47,684,814	35,212,503	26,539,345	**41,581,468**	29,978,697	21,845,725
INTEREST EXPENSE						
Deposit liabilities (Notes 17 and 29)	**18,567,168**	11,621,063	6,521,935	**15,915,107**	9,736,014	5,210,803
Bonds payable, bills payable and other borrowings (Note 18 and 19)	**2,802,104**	665,254	391,007	**2,800,843**	665,254	391,007
Lease payable (Note 21)	**264,246**	–	–	**207,744**	–	–
	21,633,519	12,286,317	6,912,942	**18,923,694**	10,401,268	5,601,810
NET INTEREST INCOME	**26,051,295**	22,926,186	19,626,403	**22,657,774**	19,577,428	16,243,915
Service charges, fees and commissions (Note 22)	**3,296,673**	2,777,283	2,441,724	**1,624,703**	1,529,727	1,394,998
Gain on disposal of investment securities at amortized cost (Note 9)	**1,381,871**	–	–	**1,299,360**	–	–
Trading and securities gain (loss) - net (Notes 9 and 22)	**884,482**	(271,552)	479,960	**837,875**	(275,964)	399,760
Gain on sale of investment properties	**864,383**	1,015,622	670,612	**721,893**	925,831	614,587
Trust fee income (Note 29)	**357,080**	305,753	376,312	**357,080**	305,338	371,947
Foreign exchange gain - net (Note 26)	**221,104**	215,963	386,015	**243,764**	187,064	389,692
Share in net income of an associate (Note 11)	**184,661**	101,009	73,133	**184,661**	101,009	73,133
Gain on asset foreclosure and dacion transactions (Note 13)	**47,479**	252,477	157,415	**81,294**	57,676	71,888
Share in net income of subsidiaries (Note 11)	–	–	–	**770,628**	695,356	836,004
Miscellaneous (Notes 22 and 30)	**1,193,056**	1,261,741	1,516,523	**1,062,795**	1,130,134	1,391,657
TOTAL OPERATING INCOME	**34,482,085**	28,584,482	25,728,097	**29,841,828**	24,233,599	21,787,581
Compensation and fringe benefits (Notes 25 and 30)	**6,622,664**	6,139,001	5,708,948	**5,029,191**	4,610,265	4,288,096
Taxes and licenses	**3,884,183**	2,925,870	2,264,025	**3,155,849**	2,307,948	1,819,331
Provision for impairment and credit losses (Note 16)	**2,570,168**	141,076	754,171	**2,205,062**	(1,957)	423,922
Depreciation and amortization (Notes 12, 13 and 14)	**1,942,660**	1,297,685	1,217,489	**1,463,092**	947,908	877,240
Insurance	**1,875,977**	1,669,618	1,440,153	**1,624,065**	1,447,890	1,241,575
Occupancy cost (Notes 27 and 30)	**1,801,154**	2,336,639	2,112,602	**1,308,482**	1,713,888	1,528,876
Transportation and traveling	**566,572**	484,514	378,703	**432,157**	370,980	289,903
Entertainment, amusement and recreation	**477,761**	380,166	287,105	**342,034**	262,489	182,172
Professional fees, marketing and other related services	**412,146**	352,159	312,042	**329,959**	261,931	222,509
Stationery, supplies and postage	**258,425**	284,436	268,901	**194,990**	220,651	197,567
Repairs and maintenance	**159,814**	131,158	104,298	**120,242**	102,834	69,276
Miscellaneous (Notes 22 and 30)	**2,322,938**	2,054,634	1,867,552	**1,890,022**	1,619,159	1,490,658
TOTAL OPERATING EXPENSES	**22,894,462**	18,196,956	16,715,989	**18,095,147**	13,863,986	12,631,125
INCOME BEFORE INCOME TAX	**11,587,621**	10,387,526	9,012,108	**11,746,680**	10,369,613	9,156,456
PROVISION FOR INCOME TAX (Note 28)	**1,512,650**	2,271,422	1,489,177	**1,677,720**	2,259,233	1,642,484
NET INCOME	**₱10,074,972**	₱8,116,104	₱7,522,931	**₱10,068,960**	₱8,110,380	₱7,513,972
Attributable to:						
Equity holders of the Parent Company (Note 33)	**₱10,068,960**	₱8,110,379	₱7,513,972			
Non-controlling interest	**6,012**	5,725	8,959			
	₱10,074,972	₱8,116,104	₱7,522,931			
Basic/Diluted Earnings Per Share (Note 32)	**₱3.75**	₱3.02	₱2.91			

CHINA BANKING CORPORATION AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018	2017	**2019**	2018	2017
NET INCOME	**₱10,074,972**	₱8,116,104	₱7,522,931	**₱10,068,960**	₱8,110,380	₱7,513,972
OTHER COMPREHENSIVE INCOME (LOSS)						
Items that recycle to profit or loss in subsequent periods:						
Changes in fair value of:						
Financial assets at fair value through other comprehensive income:						
Fair value gain (loss) for the year, net of tax	**1,163,009**	(451,866)	–	**940,851**	(381,791)	–
Loss (gain) taken to profit or loss (Note 22)	**(269,478)**	2,104	–	**(240,310)**	2,451	–
Available-for-sale financial assets:						
Fair value gain for the year, net of tax	–	–	158,946	–	–	113,020
Gains taken to profit or loss (Note 22)	–	–	(365,145)	–	–	(342,146)
Share in changes in other comprehensive income of an associate (Note 11)	**152,452**	(126,713)	(8,049)	**152,452**	(126,713)	(8,049)
Share in changes in other comprehensive income of subsidiaries (Note 11)		–	–	**207,510**	(64,109)	35,552
Cumulative translation adjustment	**98,830**	(52,900)	(15,972)	**81,518**	(58,792)	(29,255)
Loss on cash flow hedges	**(51,949)**	–	–	**(51,949)**	–	–
Items that do not recycle to profit or loss in subsequent periods:						
Share in changes in other comprehensive income of subsidiaries (Note 11)	–	–	–	**(56,353)**	88,642	20,140
Share in changes in other comprehensive income of associate (Note 11)	**4,486**	31,374	(12,221)	**4,486**	31,374	(12,221)
Remeasurement gain (loss) on defined benefit asset, net of tax (Note 25)	**(489,722)**	(165,213)	30,149	**(432,210)**	(255,359)	9,678
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	**607,627**	(763,214)	(212,292)	**605,996**	(764,297)	(213,281)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**₱10,682,599**	₱7,352,890	₱7,310,639	**₱10,674,956**	₱7,346,083	₱7,300,691
Total comprehensive income attributable to:						
Equity holders of the Parent Company	**₱10,674,956**	₱7,346,083	₱7,300,691			
Non-controlling interest	**7,643**	6,807	9,948			
	₱10,682,599	₱7,352,890	₱7,310,639			

See accompanying Notes to Financial Statements.

CHINA BANKING CORPORATION AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands)

	Consolidated												
	Equity Attributable to Equity Holders of the Parent Company												
	Capital Stock (Note 23)	Capital Paid in Excess of Par Value (Note 23)	Surplus Reserves (Notes 23 and 28)	Surplus (Notes 23 and 28)	Net Unrealized (Losses) on Financial Assets at Fair Value through Other Comprehensive Income (Note 9)	Net Unrealized Gains (Losses) on Available-for-Sale Financial Assets (Note 9)	Remeasurement Gain on Defined Benefit Asset or Liability (Note 24)	Cumulative Translation Adjustment	Remeasurement Loss on Life Insurance Reserve	Cash Flow Hedge Reserve	Total Equity	Non-Controlling Interest (Note 11)	Total Equity
Balance at January 1, 2019	**₱26,858,998**	**₱17,122,625**	**₱4,031,008**	**₱40,497,256**	**(₱702,509)**	**₱–**	**₱117,047**	**(₱91,699)**	**₱19,154**	**₱–**	**₱87,851,880**	**₱4,707**	**₱87,856,587**
Total comprehensive income (loss) for the year	–	–	–	**10,068,960**	**1,043,488**	–	**(485,578)**	**98,534**	**1,501**	**(51,949)**	**10,674,956**	**7,643**	**10,682,599**
Transfer from surplus to surplus reserves	–	–	**35,708**	**(35,708)**	–	–	–	–	–	–	–	–	–
Appropriation of retained earnings (Note 16)	–	–	**(468,442)**	**468,442**	–	–	–	–	–	–	–	–	–
Realized loss on sale of equity securities at FVOCI	–	–	–	**(76,597)**	**76,597**	–	–	–	–	–	–	–	–
Cash dividends - ₱0.88 per share	–	–	–	**(2,363,592)**	–	–	–	–	–	–	**(2,363,592)**	–	**(2,363,592)**
Balance at December 31, 2019	**₱26,858,998**	**₱17,122,625**	**₱3,598,275**	**₱48,558,760**	**₱417,576**	**₱–**	**(₱368,531)**	**₱6,835**	**₱20,655**	**(₱51,949)**	**₱96,163,244**	**₱12,351**	**₱96,175,595**
Balance at January 1, 2018	₱26,847,717	₱17,096,228	₱926,689	₱40,360,563	₱–	(₱1,813,280)	₱283,763	(₱38,698)	(₱12,221)	–	₱ 83,650,761	₱4,736	83,655,497
Effect of initial application of PFRS 9 (Note 2)	–	–	2,732,628	(5,372,699)	(126,556)	1,813,280	–	–	–	–	(953,346)	(6,835)	(960,181)
Balance at January 1, 2018, as restated	26,847,717	17,096,228	3,659,317	34,987,864	(126,556)	–	283,763	(38,698)	(12,221)	–	82,697,415	(2,099)	82,695,316
Total comprehensive income (loss) for the year	–	–	–	8,110,379	(575,953)	–	(166,716)	(53,001)	31,375	–	7,346,084	6,806	7,352,890
Transfer from surplus to surplus reserves	–	–	371,691	(371,691)	–	–	–	–	–	–	–	–	–
Issuance of common shares (₱31.00 per share)	11,281	26,397	–	–	–	–	–	–	–	–	37,678	–	37,678
Transaction cost on the issuance of common shares	–	(52,089)	–	–	–	–	–	–	–	–	(52,089)	–	(52,089)
Cash dividends - ₱0.83 per share	–	–	–	(2,229,297)	–	–	–	–	–	–	(2,229,297)	–	(2,229,297)
Balance at December 31, 2018	₱26,858,998	₱17,122,625	₱4,031,008	₱40,497,256	(₱702,509)	₱–	₱117,047	(₱91,699)	₱19,154	–	₱87,851,880	₱4,707	₱87,856,587
Balance at January 1, 2017	₱20,020,278	₱6,987,564	₱861,630	₱36,889,099	–	(₱1,598,600)	₱253,945	(₱22,500)	₱–	–	₱63,391,416	(₱5,212)	₱63,386,204
Transfer from surplus to surplus reserves	–	–	65,059	(65,059)	–	–	–	–	–	–	–	–	–
Total comprehensive income (loss) for the year	–	–	–	7,513,972	–	(214,680)	29,818	(16,198)	(12,221)	–	7,300,691	9,948	7,310,639
Issuance of common shares (₱31.00 per share)	4,838,710	10,160,753	–	–	–	–	–	–	–	–	14,999,463	–	14,999,463
Transaction cost on the issuance of common shares	–	(52,089)	–	–	–	–	–	–	–	–	(52,089)	–	(52,089)
Stock dividends - 8.00%	1,988,729	–	–	(1,988,729)	–	–	–	–	–	–	–	–	–
Cash dividends - ₱0.80 per share	–	–	–	(1,988,720)	–	–	–	–	–	–	(1,988,720)	–	**(1,988,720)**
Balance at December 31, 2017	₱26,847,717	₱17,096,228	₱926,689	₱40,360,563	–	(₱1,813,280)	₱283,763	(₱38,698)	(₱12,221)	–	₱83,650,761	₱4,736	**₱83,655,497**

See accompanying Notes to Financial Statements.

CHINA BANKING CORPORATION AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands)

	Parent Company											
	Capital Stock (Note 23)	**Capital Paid in Excess of Par Value** (Note 23)	**Surplus Reserves** (Notes 23 and 28)	**Surplus** (Notes 23 and 28)	**Net Unrealized (Losses) on Financial Assets at Fair Value through Other Comprehensive Income** (Note 9)	**Net Unrealized Gains (Losses) on Available-for-Sale Financial Assets** (Note 9)	**Remeasurement Gain on Defined Benefit Asset or Liability** (Note 24)	**Cumulative Translation Adjustment**	**Remeasurement Loss on Life Insurance Reserve**	**Cash Flow Hedge Reserve**	**Total Equity**
Balance at January 1, 2019	**₱26,858,998**	**₱17,122,626**	**₱4,031,008**	**₱40,497,256**	**(₱702,510)**	**₱–**	**₱117,047**	**(₱91,699)**	**₱19,153**	**₱–**	**₱87,851,880**
Total comprehensive income (loss) for the year	–	–	–	**10,068,960**	**1,043,488**	–	**(485,578)**	**98,534**	**1,501**	**(51,949)**	**10,674,956**
Transfer from surplus to surplus reserves	–	–	**35,708**	**(35,708)**	–	–	–	–	–	–	–
Appropriation of retained earnings (Note 16)	–	–	**(468,442)**	**468,442**	–	–	–	–	–	–	–
Realized loss on sale of equity securities at FVOCI	–	–	–	**(76,597)**	**76,597**	–	–	–	–	–	–
Cash dividends - ₱0.88 per share	–	–	–	**(2,363,592)**	–	–	–	–	–	–	**(2,363,592)**
Balance at December 31, 2019	**₱26,858,998**	**₱17,122,626**	**₱3,598,275**	**₱48,558,760**	**₱417,576**	**₱–**	**(₱368,531)**	**₱6,835**	**₱20,655**	**(₱51,949)**	**₱96,163,244**
Balance at January 1, 2018	₱26,847,717	₱17,096,228	₱926,689	₱40,360,563	₱–	(₱1,813,280)	₱283,763	(₱38,698)	(₱12,221)	–	₱83,650,761
Effect of initial application of PFRS 9 (Note 2)	–	–	2,732,628	(5,372,699)	(126,556)	1,813,280	–	–		–	(953,346)
Balance at January 1, 2019, as restated	₱26,847,717	₱17,096,228	3,659,317	34,987,864	(126,556)	–	₱283,763	(₱38,698)	(₱12,221)	–	82,697,417
Total comprehensive income (loss) for the year	–	–	–	8,110,379	(575,954)	–	(166,716)	(53,001)	31,374	–	7,346,081
Transfer from surplus to surplus reserves	–	–	371,691	(371,691)	–	–	–	–	–	–	
Issuance of common shares (₱31.00 per share)	11,281	26,397	–	–	–	–	–	–	–	–	37,678
Cash dividends - ₱0.83 per share	–		–	(2,229,297)	–	–	–	–	–	–	(2,229,297)
Balance at December 31, 2018	₱26,858,998	₱17,122,626	₱4,031,008	₱40,497,256	(₱702,510)	₱–	₱117,047	(₱91,699)	₱19,153	–	₱87,851,880
Balance at January 1, 2017	₱20,020,278	₱6,987,564	₱861,630	₱36,889,099	–	(₱1,598,600)	₱253,945	(₱22,500)	₱–	–	₱63,391,416
Transfer from surplus to surplus reserves	–	–	65,059	(65,059)	–	–	–	–	–	–	–
Total comprehensive income (loss) for the year	–	–	–	7,513,972	–	(214,680)	29,818	(16,198)	(12,221)	–	7,300,691
Issuance of common shares (₱31.00 per share)	4,838,710	10,160,753	–	–	–	–	–	–	–	–	14,999,463
Transaction cost on the issuance of common shares	–	(52,089)	–	–	–	–	–	–	–	–	(52,089)
Stock dividends - 8.00%	1,988,729	–	–	(1,988,729)	–	–	–	–	–	–	–
Cash dividends - ₱0.80 per share	–	–	–	(1,988,720)	–	–	–	–	–	–	(1,988,720)
Balance at December 31, 2017	₱26,847,717	₱17,096,228	₱926,689	₱40,360,563	–	(₱1,813,280)	₱283,763	(₱38,698)	(₱12,221)	–	₱83,650,761

See accompanying Notes to Financial Statements.

CHINA BANKING CORPORATION AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018	2017	**2019**	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱11,587,621**	₱10,387,526	₱9,012,108	**₱11,746,680**	₱10,369,613	₱9,156,456
Adjustments for:						
Depreciation and amortization (Notes 12, 13 and 14)	**1,942,661**	1,297,685	1,217,489	**1,463,092**	947,908	877,240
Provision for impairment and credit losses (Note 16)	**2,570,168**	141,076	754,171	**2,205,062**	(1,957)	423,922
Amortization of transaction costs on bonds payable	**200,852**	–	–	**200,852**	–	–
Securities gain on financial assets at fair value through other comprehensive income and investment securities at amortized cost (Note 21)	**(1,651,349)**	(9,624)	–	**(1,539,670)**	(9,277)	–
Trading and securities gain on available-for-sale and held-to-maturity financial assets (Note 21)	–	–	(365,145)	–	–	(342,146)
Gain on sale of investment properties	**(864,383)**	(1,015,622)	(670,612)	**(721,893)**	(925,831)	(614,587)
Gain on asset foreclosure and dacion transactions (Note 13)	**(47,479)**	(252,477)	(157,415)	**(81,294)**	(57,676)	(71,888)
Share in net losses (income) of an associate (Notes 2 and 11)	**(184,661)**	(101,009)	(73,133)	**(184,661)**	(101,009)	(73,133)
Share in net (income) of subsidiaries (Notes 2 and 11)	–	–	–	**(770,628)**	(695,356)	(836,004)
Changes in operating assets and liabilities:						
Decrease (increase) in the amounts of:						
Financial assets at FVPL	**(10,322,948)**	8,830,244	(8,510,654)	**(14,085,388)**	9,554,643	(8,799,606)
Loans and receivables	**(64,140,453)**	(60,828,559)	(63,393,487)	**(64,112,157)**	(57,994,624)	(57,873,074)
Other assets	**(3,844,834)**	(1,263,617)	6,159	**(2,708,132)**	(2,544,975)	275,322
Increase (decrease) in the amounts of:						
Deposit liabilities	**53,304,563**	87,029,904	93,510,375	**49,521,091**	79,007,383	88,273,987
Manager's checks	**(578,497)**	136,133	411,264	**(533,876)**	360,564	263,663
Accrued interest and other expenses	**278,777**	1,214,906	759,429	**308,187**	1,058,204	722,597
Other liabilities	**433,649**	1,960,943	177,618	**3,262,497**	2,393,869	(540,630)
Net cash generated from operations	**(11,316,313)**	47,527,509	32,678,167	**(16,030,238)**	41,361,482	30,842,119
Income taxes paid	**(2,143,644)**	(1,732,819)	(1,554,045)	**(1,840,519)**	(1,511,638)	(1,274,667)
Net cash provided by operating activities	**(13,459,957)**	45,794,690	31,124,122	**(17,870,757)**	39,849,844	29,567,452
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions of/Additions to:						
Bank premises, furniture, fixtures and equipment (Note 12)	**(873,688)**	(1,058,002)	(1,752,173)	**(709,808)**	(825,096)	(1,387,684)
Equity investments (Note 11)	**(40,000)**	–	–	**(40,363)**	(500,000)	(500,000)
Investment securities at amortized cost	**(24,382,774)**	(172,348,552)	–	**(23,616,210)**	(167,337,112)	–
Financial assets at fair value through other comprehensive income	**(27,081,539)**	(44,399,340)	–	**(27,081,539)**	(44,477,104)	–
Held-to-maturity financial assets	–	–	(23,618,560)	–	–	(23,599,743)
Available-for-sale financial assets	–	–	(54,304,672)	–	–	(53,171,027)
Proceeds from sale of:						
Investment securities at amortized cost	**18,616,553**	–	–	**13,324,227**	–	–
Financial assets at fair value through other comprehensive income	**10,972,736**	80,729,853	–	**12,141,368**		–
Available-for-sale financial assets	–	–	41,891,950	–	–	41,500,714
Investment properties	**2,074,400**	1,810,112	1,335,946	**802,118**	1,458,379	846,974
Bank premises, furniture, fixtures and equipment	**62,943**	258,136	275,109	**26,990**	51,642	242,202
Proceeds from maturity of:						
Investment securities at amortized cost	**11,482,400**	65,109,637	–	**11,184,226**	65,060,529	–
Held-to-maturity financial assets	–	–	15,737,093	–	–	16,135,271
Cash dividends from a subsidiary (Note 11)	–	50,000	–	**50,000**	50,000	–
Net cash used in investing activities	**(9,168,969)**	(69,898,150)	(20,435,307)	**(13,918,991)**	(66,023,900)	(19,933,293)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from bills payable	**180,468,980**	184,568,424	252,268,556	**180,468,980**	184,568,424	252,268,556
Settlement of bills payable	**(186,914,106)**	(164,859,923)	(249,105,524)	**(186,914,106)**	(164,859,923)	(249,105,524)
Proceeds from issuance of bonds payable	**37,193,546**	–	–	**37,193,546**	–	–
Payments of cash dividends (Note 23)	**(2,363,592)**	(2,229,297)	(1,988,720)	**(2,363,592)**	(2,229,297)	(1,988,720)
Proceeds from issuance of common shares (Note 23)	–	37,678	14,999,463	–	37,678	14,999,463
Transaction cost on the issuance of common shares (Note 23)	–	–	(52,089)	–	–	(52,089)
Payments of principal portion lease liabilities	**(787,381)**	–	–	**(589,613)**	–	–
Net cash provided by (used in) financing activities	**27,597,447**	17,516,882	16,121,687	**27,795,215**	17,516,882	16,121,687
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**4,968,521**	(6,586,585)	26,810,502	**(3,994,533)**	(8,657,174)	25,755,846

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018	2017	**2019**	2018	2017
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**₱15,639,474**	(₱6,586,585)	₱26,810,502	**(₱3,994,533)**	(₱8,657,174)	₱25,755,846
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**15,639,474**	12,685,984	12,010,543	13,705,304	11,160,173	10,580,748
Due from Bangko Sentral ng Pilipinas (Note 7)	**101,889,773**	98,490,014	91,964,495	95,092,944	91,717,037	85,307,128
Due from other banks (Note 7)	**9,455,447**	15,641,476	11,332,236	7,837,894	14,066,620	9,689,165
Interbank Loans Receivable and SPURA (Note 8)	**11,998,040**	18,751,845	3,451,543	8,998,040	17,347,522	2,958,465
	138,982,734	145,569,319	118,758,817	₱125,634,182	134,291,352	108,535,506
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**16,839,755**	15,639,474	12,685,984	**14,856,844**	13,705,304	11,160,173
Due from Bangko Sentral ng Pilipinas (Note 7)	**100,174,398**	101,889,773	98,490,014	**88,109,650**	95,092,944	91,717,037
Due from other banks (Note 7)	**9,900,642**	9,455,447	15,641,476	**8,645,547**	7,837,894	14,066,620
Securities purchased under resale agreements (Note 8)	**17,036,460**	11,998,040	18,751,845	**10,027,609**	8,998,040	17,347,522
	₱143,951,255	₱138,982,734	₱145,569,319	**₱121,639,650**	₱125,634,182	₱134,291,352

OPERATING CASH FLOWS FROM INTEREST

	Consolidated			Parent Company		
	As of December 31					
	2019	2018	2017	**2019**	2018	2017
Interest paid	**₱20,557,295**	₱11,361,726	₱6,652,755	**₱17,928,838**	₱9,595,463	₱5,359,209
Interest received	**46,223,502**	33,233,827	25,835,369	**40,181,121**	28,041,653	21,322,995

See accompanying Notes to Financial Statements.

1. Corporate Information

China Banking Corporation (the Parent Company) is a publicly listed universal bank incorporated in the Philippines. The Parent Company acquired its universal banking license in 1991. It provides expanded commercial banking products and services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury products, trust products, foreign exchange, corporate finance and other investment banking services through a network of 473 and 458 local branches as of December 31, 2019 and 2018, respectively.

The Parent Company acquired its original Certification of Incorporation issued by the Securities and Exchange Commission (SEC) on July 20, 1920. On December 4, 1963, the Board of Directors (BOD) of the Parent Company approved the Amended Articles of Incorporation to extend the corporate term of the Parent Company for another 50 years or until July 20, 2020, which was confirmed by the stockholders on December 23, 1963, and approved by the SEC on October 5, 1964. On March 2, 2016, the BOD approved the amendment of the Third Article of the Parent Company's Articles of Incorporation, to further extend the corporate term for another 50 years from and after July 20, 2020, the expiry date of its extended term. The approval was ratified by the stockholders during their scheduled annual meeting on May 5, 2016. On November 7, 2016, the SEC issued the Certificate of Filing of Amended Articles of Incorporation, amending the Third Article thereof to extend the term of corporate existence of the Parent Company.

The Parent Company has the following subsidiaries:

Subsidiary	Effective Percentages of Ownership 2019	2018	Country of Incorporation	Principal Activities
Chinabank Insurance Brokers, Inc. (CIBI)	**100.00%**	100.00%	Philippines	Insurance brokerage
CBC Properties and Computer Center, Inc. (CBC-PCCI)	**100.00%**	100.00%	Philippines	Computer services
China Bank Savings, Inc. (CBSI)	**98.29%**	98.29%	Philippines	Retail and consumer banking
China Bank Capital Corporation (CBCC)	**100.00%**	100.00%	Philippines	Investment house
CBC Assets One (SPC) Inc.	**100.00%**	100.00%	Philippines	Special purpose corporation
China Bank Securities Corporation (CBCSec)	**100.00%**	100.00%	Philippines	Stock brokerage

The Parent Company has no ultimate parent company. SM Investments Corporation, its significant investor, has effective ownership in the Parent Company of 22.55%and 20.30% as of December 31, 2019 and 2018, respectively.

The Parent Company's principal place of business is at 8745 Paseo de Roxas cor. Villar St., Makati City.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying consolidated financial statements include the financial statements of the Parent Company and its subsidiaries (collectively referred to as "the Group").

The accompanying financial statements have been prepared on a historical cost basis except for financial instruments at fair value through profit or loss (FVTPL) and financial assets at fair value through other comprehensive income (FVOCI). The financial statements are presented in Philippine peso, and all values are rounded to the nearest thousand except when otherwise indicated.

The financial statements of the Parent Company reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The financial statements of these units are combined after eliminating inter-unit accounts.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of the Parent Company's subsidiaries is the Philippine peso.

Statement of Compliance
The financial statements of the Group and the Parent Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements
The balance sheets of the Group and of the Parent Company are presented in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 23.

Financial assets and financial liabilities are offset and the net amount reported in the balance sheets 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 Group and the Parent Company assess that they have 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 insolvency or bankruptcy of the Group, the Parent Company and all of the counterparties.

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

Basis of Consolidation and Investments in Subsidiaries
The consolidated financial statements of the Group are prepared for the same reporting year as the Parent Company, using consistent accounting policies. All significant intra-group balances, transactions and income and expenses resulting from intra-group transactions are eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to the Parent Company. The Group controls an investee if and only if the Group has:

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

- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee
- rights arising from other contractual arrangements
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Group and to the non-controlling interests. When necessary, adjustments are made to the financial statements of the subsidiary to bring its accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the related OCI recorded in equity and recycle the same to profit or loss or surplus
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes the remaining difference in profit or loss
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be recognized if the Group had directly disposed of the related assets or liabilities

<u>Non-Controlling Interest</u>
Non-controlling interest represents the portion of profit or loss and net assets not owned, directly or indirectly, by the Parent Company.

Non-controlling interest is presented separately in the consolidated statement of income, consolidated statement of comprehensive income, and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Any losses applicable to the non-controlling interest are allocated against the interests of the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following new, amendments and improvements to PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretation which became effective as of January 1, 2019. Except as otherwise indicated, these changes in the accounting policies did not have any significant impact on the financial position or performance of the Group:

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

- *Annual Improvements to PFRS 2015-2018 Cycle*
  - Amendments to PFRS 3, *Business Combinations, and PFRS 11, Joint Arrangements, Previously Held Interest in a Joint Operation*
  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments*
  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

- *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.

The Group applies significant judgment in assessing whether it has uncertain tax position over its income tax treatments. Based on the assessment made, the Group determined that it has no uncertain tax position and the Interpretation did not have an impact on the consolidated financial statement.

Standard that has been adopted and that is deemed to have significant impact on the financial statements or performance of the Group is described below:

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 recognize most leases on the balance sheet.

Lessor accounting under PFRS 16 is substantially unchanged from the 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.

On January 1, 2019, the Group adopted PFRS 16 following the modified retrospective approach. Under the modified retrospective approach, the Group did not restate prior-period comparative financial statements which remain to be reported under PAS 17. Therefore, some accounts in the comparative financial statements are not comparable to the information presented for 2019. The Group elected to use the following transition practical expedients:

- Non-recognition of lease liability and right-of-use asset for low-value leases and leases ending within 12 months of the date of initial application; and
- Exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application.

As of January 1, 2019, the weighted average incremental borrowing rate applied to lease commitments ranges from 5% to 8.17% for the Group and 7.38% for the Parent Company. The reconciliation of the operating lease commitments to the total gross lease payments used in the measurement of the opening lease liabilities follows:

	Consolidated	**Parent Company**
Gross lease payments as of December 31, 2018	₱4,724,577	₱3,853,894
Gross lease payments pertaining to short-term or low-value leases	(557,275)	(543,366)
Total gross lease payments as of December 31, 2018	4,167,302	3,310,528
Weighted average incremental borrowing rate	5.00%-8.17%	7.38%
Lease liability as of January 1, 2019	**₱3,669,457**	**₱2,915,844**

The right-of-use assets are presented under bank premises, furniture, fixtures and equipment and the lease liabilities under other liabilities.

As a result of the adoption of PFRS 16, as at January 1, 2019:

a) total assets and total liabilities increased resulting from the recognition of right-of use assets and lease liability in the balance sheet amounting to ₱3.67 billion for the Group and ₱2.92 billion for the Parent Company; and
b) accrued rent payable relating to previous operating leases was recorded as an adjustment to right-of-use assets amounting to ₱238.18 million and ₱186.76 million for the Group and the Parent Company, respectively.

The adoption of PFRS 16 did not have an impact on equity on January 1, 2019, since the Group elected to measure the right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before the date of initial application

Significant Accounting Policies

Foreign Currency Translation
The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional currency.

Transactions and balances
The books of accounts of the RBU are maintained in Philippine peso, the RBU's functional currency, while those of the FCDU are maintained in United States (US) dollars (USD), the FCDU's functional currency. For financial reporting purposes, the foreign currency-denominated monetary assets and liabilities in the RBU are translated in Philippine peso based on the Bankers Association of the Philippines (BAP) closing rate (for 2019 and 2018) and the Philippine Dealing System (PDS) closing rate prevailing (for 2017) at end of the year, and foreign currency-denominated income and expenses, at the exchange rates on transaction dates. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities are credited to or charged against operations in the period 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 was determined.

FCDU
As at the reporting date, the assets and liabilities of the FCDU are translated into the Parent Company's presentation currency (the Philippine Peso) at the BAP closing rate (for 2019 and 2018) and the PDS closing rate prevailing (for 2017) at the reporting date, and its income and expenses are translated at the BAP weighted average rate for 2019 and 2018 while in 2017, the basis was PDSWAR for the year. Exchange differences arising on translation are taken directly to the statement of comprehensive income under 'Cumulative translation adjustment'. Upon actual remittance or transfer of the FCDU income to RBU, the related exchange difference arising from translation lodged under 'Cumulative translation adjustment' is recognized in the statement of income of the RBU books.

Fair Value Measurement
The Group measures financial instruments, such as financial instruments at FVPL and financial assets at FVOCI at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 5.

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

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

The principal or the most advantageous market must be accessible by the Group. 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, the price within 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 Group 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 Group 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.

<u>Cash and Cash Equivalents</u>
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP and other banks, interbank loans receivables and securities purchased under resale agreement (SPURA) that are convertible to known amounts of cash which have original maturities of three months or less from dates 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 Group considers as cash equivalents wherein withdrawals can be made to meet the Group's cash requirements as allowed by the BSP.

<u>SPURA</u>
Securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the balance sheet. The corresponding cash paid including accrued interest, is recognized in the balance sheet as SPURA. 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 EIR method.

<u>Financial Instruments - Initial Recognition</u>
Date of recognition
Purchases or sales of financial assets, except for derivative instruments, that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Group, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that such asset is delivered by the Group. Any change in fair value of a financial asset is recognized in the statement of income for assets classified as financial assets at FVPL, and in equity for assets classified as financial assets at FVOCI. Derivatives are recognized on a trade date

basis. Deposits, amounts due to banks and customers loans and receivables are recognized when cash is received by the Group or advanced to the borrowers.

Initial recognition of financial instruments
All financial instruments are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instruments includes transaction costs.

'Day 1' difference
Where the transaction price in a non-active market is different with 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 Group 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 Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Classification and measurement
Under PFRS 9, the classification and measurement of financial assets is driven by the contractual cash flow characteristics of the financial assets and the entity's business model for managing the financial assets.

As part of its classification process, the Group assesses the contractual terms of financial assets to identify whether they meet the 'solely payments of principal and interest' (SPPI) test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (e.g., if there are repayments of principal or amortization of the premium or discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

The Group 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 and is based on observable factors such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- the 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
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- the expected frequency, value and timing of sales are also important aspects of the Group's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case’ scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The Group’s measurement categories are described below:

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

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method, less any impairment in value. The amortization is included in ‘Interest income’ in the statement of income. Gains or losses are recognized in statement of income when these investments are derecognized or impaired, as well as through the amortization process. The ECL are recognized in the statement of income under provision for impairment and credit losses: The effects of revaluation or foreign currency-denominated investments are recognized in the statement of income. Gains or losses arising from disposals of these instruments are included in ‘Gains (losses) on disposal of investment securities at amortized cost’ in the statement of income.

The Group’s financial assets at amortized cost are presented in the statement of financial position as Due from BSP, Due from other banks, Interbank loans receivable and SPURA, Investment securities at amortized cost, Loans and receivables, Accrued interest receivables and certain financial assets under Other assets.

The Group may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost.

Financial Assets at FVTPL
Debt instruments that neither meet the amortized cost nor the FVOCI criteria, or that meet the criteria but the Group has chosen to designate as at FVTPL at initial recognition, are classified as financial assets at FVTPL. Equity investments are classified as financial assets at FVTPL, unless the Group irrevocably designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Group’s financial assets at FVTPL include government securities, corporate bonds and equity securities which are held for trading purposes and derivatives.

A financial asset is considered as held for trading if:
- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or,
- it is a derivative that is not designated and effective as a hedging instrument or financial guarantee.

Gains and losses arising from changes (mark-to-market) in the fair value of the financial assets at FVTPL and gains or losses arising from disposals of these instruments are included in ‘Gains (losses) on trading and investment securities’ account in the statement of income.

Interest recognized based on the modified effective interest rate of these investments is reported in statement of income under 'Interest income' account while dividend income is reported in statement of income under 'Miscellaneous income' account when the right of payment has been established.

Derivative instruments
The Parent Company is a party to derivative instruments, particularly, forward exchange contracts, interest rate swaps (IRS) and warrants. These contracts are entered into as a service to customers and as a means of reducing and managing the Parent Company's foreign exchange risk, and interest rate risk as well as for trading purposes, but are not designated as hedges. Such derivative financial instruments are stated at fair value through profit or loss.

Any gains or losses arising from changes in fair value of derivative instruments that do not qualify for hedge accounting are taken directly to the statement of income under 'Foreign exchange gain (loss) - net' for forward exchange contracts and 'Trading and securities gain-net' for IRS and warrants.

Embedded derivatives that are bifurcated from the host financial and non-financial contracts are also accounted for as financial instruments at FVPL.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not recognized at fair value through profit or loss.

The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows that would otherwise be required.

Financial Assets at FVOCI - Equity Investments
At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Group for trading. The Group has designated certain equity instruments as at FVOCI on January 1, 2018.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in Net unrealized fair value gain (loss) on financial assets at FVOCI in the balance sheet. When the asset is disposed of, the cumulative gain or loss previously recognized in the Net unrealized fair value gains (losses) on investment securities account is not reclassified to profit or loss, but is reclassified directly to Surplus account. Any dividends earned on holding these equity instruments are recognized in profit or loss under 'Miscellaneous Income' account.

Financial Assets at FVOCI - Debt Investments
The Group applies the category of debt instruments measured at FVOCI when both of the following conditions are met:

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value being recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss. Provision for credit and impairment losses is recognized in profit or loss with the corresponding ECL recognized in OCI.

On derecognition, ECL and cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

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

A change in business model occurs when the Group either begins or ceases to perform an activity that is significant to its operations. A change in the objective of the Group's business model will be effected only at the beginning of the next reporting period following the change in the business model.

Impairment of financial assets
ECL represent credit losses that reflect an unbiased and probability-weighted measure of expected cash shortfalls, discounted at an approximation to the EIR 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. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. ECL allowances are measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition (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.

For non-credit-impaired financial instruments:
- Stage 1 consists of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Group and the Parent Company recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 consists of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Group and the Parent Company 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.

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

ECL is a function of the probability of default (PD), exposure at default (EAD), and loss given default (LGD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

The PD represents the likelihood that a credit exposure will not be repaid and will go into default in either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. EAD 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 within the contractual availability period of the irrevocable commitments. LGD is the amount that may not be recovered in the event of default. LGD takes into consideration the amount and quality of any collateral held. Please refer to Note 6 for other information related to the Bank's models for PD, EAD, and LGD.

The calculation of ECLs, including the estimation of PD, EAD, LGD and discount rate, is made on an individual basis for most of the Group's financial assets, and on a collective basis for retail products such as credit card receivables. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

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

Hedge Accounting
For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when the risk being hedged is the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment.
- Cash flow hedges when the risk being hedged is the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment
- Hedges of a net investment in a foreign operation

At the inception of a hedge relationship, the Parent Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Parent Company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined).

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is an economic relationship between the hedged item and the hedging instrument.
- The effect of credit risk does not dominate the value changes that result from that economic relationship.

- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Parent Company actually hedges and the quantity of the hedging instrument that the Parent Company actually uses to hedge that quantity of hedged item.

An economic relationship exists when the hedging instrument and the hedged item have values that generally move in opposite directions in response to movements in the same risk (hedged risk). The Parent Company assesses economic relationship by performing prospective qualitative or quantitative hedge effectiveness assessment at each reporting date. In addition, the Parent Company measures ineffectiveness by comparing the cumulative change in the fair value of the hedging instrument with the cumulative change in the fair value of the hedged item.

Cash flow hedges
The effective portion of the gain or loss on the hedging instrument is recognized in OCI in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the statement of income. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

As of December 31, 2019, the Parent Company has outstanding interest rate swaps designated as effective hedging instruments in a cash flow hedge (Note 26).

Impairment of Financial Assets *(Policies applicable prior to January 1, 2018)*
The Group assesses at each reporting 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, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

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 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.

The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original EIR of the asset. The financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

If the Group determines that no objective evidence of impairment exists for 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type, past-due status and term. 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 on 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 Group to reduce any differences between loss estimates and actual loss experience.

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, the recovery is credited to 'Miscellaneous income'.

Financial assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Available-for-sale financial assets
For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where 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 statement of income - is removed from OCI and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in OCI.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for 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 profit or loss. Future interest income is based on the reduced carrying amount and is accrued based on 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 statement of income. If, in subsequent years, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

Restructured loans
Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, 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 subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for impairment and credit losses' in the statement of income.

When the loan has been restructured but not derecognized, the Group also reassesses whether there has been a SICR and considers whether the assets should be classified as Stage 3. If the restructuring terms are substantially different, the loan is derecognized and a new 'asset' is recognized at fair value using the revised EIR.

<u>Financial Liabilities</u>
Financial liabilities which include deposit liabilities, bills payable, notes and bonds payable, and other liabilities (except tax-related payables, pre-need reserves and post-employment defined benefit obligation) are recognized when the Group becomes a party to the contractual terms of the instrument.

Financial liabilities are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method, for those with maturities beyond one year, less settlement payments. All interest-related charges incurred on financial liabilities are recognized as an expense in the statements of income under the caption Interest expense.

Deposit liabilities are stated at amounts in which they are to be paid. Interest is accrued periodically and recognized in a separate liability account before recognizing as part of deposit liabilities.

Bills payable and Notes and bonds payable are recognized initially at fair value, which is the issue proceeds (fair value of consideration received) less any issuance costs. These are subsequently measured at amortized cost; any difference between the proceeds net of transaction costs and the redemption value is recognized in the statements of income over the period of the borrowings using the effective interest method.

Derivative liabilities are recognized initially and subsequently measured at fair value with changes in fair value recognized in the statements of income.

Other liabilities, apart from derivative liabilities, are recognized initially at their fair value and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or

- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred control of the asset.

Where the Group 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 transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, 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.

<u>Financial Guarantees and Undrawn Loan Commitments</u>
The Group issues financial guarantees and loan commitments. Financial guarantees are those issued by the Group 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 Group 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 Group estimates the expected portion of the undrawn loan commitments that will be drawn over their expected life. The ECL related to loan commitments is recognized in 'Miscellaneous liabilities'.

<u>Write-offs</u>
Financial assets are written off either partially or in their entirety when the Group no longer expects collections or recoveries within a foreseeable future. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

<u>Investment in Associates</u>
Associates pertain to all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20.00% and 50.00% of the voting rights. In the consolidated and parent company financial statements, investments in associates are accounted for under the equity method of accounting.

Under the equity method, an investment in an associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associates. Goodwill, if any, relating to an associate is included in the carrying value of the investment and is not amortized. The statement of income reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Profits or losses resulting from transactions between the Group and an associate are eliminated to the extent of the interest in the associate.

Dividends earned on this investment are recognized in the Parent Company's statement of income as a reduction from the carrying value of the investment.

The financial statements of the associate are prepared for the same reporting period as the Parent Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Investment in Subsidiaries
In the parent company financial statements, investment in subsidiaries is accounted for under the equity method of accounting similar to the investment in associates.

Business Combinations and Goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree' s identifiable net assets. Acquisition costs incurred are charged to profit or loss.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PFRS 9, either in profit or loss or as a charge to OCI. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of fair value of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as gain on bargain purchase under 'Miscellaneous income'.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the date of acquisition, allocated to each of the Group's CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or group of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment identified for segment reporting purposes.

Where goodwill forms part of a CGU (or group of CGUs) 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.

Cash Dividend and Non-cash Distribution to Equity Holders of the Parent Company

The Group recognizes a liability to make cash or non-cash distributions to equity holders of the Parent Company when the distribution is authorized and the distribution is no longer at the discretion of the Group. A corresponding amount is recognized directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value remeasurement recognized directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognized in the statement of income.

Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less any impairment in value while depreciable properties such as buildings, leasehold improvements, and furniture, fixtures and equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value. Such cost includes the cost of replacing part of the bank premises, furniture, fixtures and equipment when that cost is incurred and if the recognition criteria are met, but excluding repairs and maintenance costs.

Construction-in-progress is stated at cost less any impairment in value. The initial cost comprises its construction cost and any directly attributable costs of bringing the asset to its working condition and location for its intended use, including borrowing costs. Construction-in-progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Depreciation and amortization is calculated using the straight-line method over the estimated useful life (EUL) of the depreciable assets as follows:

	EUL
Buildings	50 years
Furniture, fixtures and equipment	3 to 5 years
Leasehold improvements	Shorter of 6 years or the related lease terms

The depreciation and amortization method and useful life are reviewed periodically to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic benefits from items of bank premises, furniture, fixtures and equipment and leasehold improvements.

An item of bank premises, furniture, fixtures 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.

Investment Properties

Investment properties include real properties acquired in settlement of loans and receivables which are measured initially at cost, including certain transaction costs. Investment properties acquired through a nonmonetary asset exchange is measured initially at fair value unless (a) the exchange lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The difference between the fair value of the investment property upon foreclosure and the carrying value of the loan is recognized under 'Gain on asset foreclosure and dacion transactions' in the statement of income. Subsequent to initial recognition, depreciable investment properties are stated at cost less accumulated depreciation and any accumulated impairment in value except for land which is stated at cost less impairment in value.

Expenditures incurred after the investment properties have been put into operation, such as repairs and maintenance costs, are normally charged to income in the period in which the costs are incurred.

Depreciation is calculated on a straight-line basis using the remaining EUL of the building and improvement components of investment properties which ranged from 10 to 33 years from the time of acquisition of the investment properties.

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

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.

Intangible Assets

Intangible assets include software cost and branch licenses resulting from the Parent Company's acquisition of CBSI, Unity Bank and PDB (Notes 11 and 14).

Software costs

Costs related to software purchased by the Group for use in operations are amortized on a straight-line basis over 3 to 10 years. The amortization method and useful life are reviewed periodically to ensure that the method and period of amortization are consistent with the expected pattern of economic benefits embodied in the asset.

Branch licenses

The branch licenses are initially measured at fair value as of the date of acquisition and are deemed to have an indefinite useful life as there is no foreseeable limit to the period over which they are expected to generate net cash inflows for the Group.

Such intangible assets are not amortized, instead they are tested for impairment annually either individually or at the CGU level. Impairment is determined by assessing the recoverable amount of each CGU (or group of CGUs) to which the intangible asset relates. Recoverable amount represents the CGU's value in use. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized.

Gains and losses arising from 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 earnings when the asset is derecognized.

Impairment of Nonfinancial Assets

At each reporting date, the Group assesses whether there is any indication that its nonfinancial assets (e.g., investment in associates, investment properties, bank premises, furniture, fixtures and equipment, goodwill and intangible assets) may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount.

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 (or CGU) 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 (or CGU).

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

For nonfinancial assets, excluding goodwill and branch licenses, an assessment is made at each reporting 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 recoverable amount is estimated. A previously recognized impairment loss is reversed, except for goodwill, 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. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a 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.

Accounting policy on Leases effective January 1, 2019

The Group 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.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group 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 Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized adjusted by lease payments made at or before the commencement date and lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the depreciable assets. The depreciation expense is presented under 'Depreciation and Amortization' in the statement of income.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in Impairment of Nonfinancial Assets.

ii) Lease liabilities
At the commencement date of the lease, the Group 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 Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group 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.

iii) Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases of ATM sites (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 ATM sites that are considered to be low value. 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.

Group as a lessor
Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising from leased properties is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of income due to its operating nature. Initial direct costs incurred in negotiating and arranging 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 revenue in the period in which they are earned.

Leases (Prior to January 1, 2019)
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. 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; or
(b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term; or
(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 gave rise to the reassessment for scenarios (a), (c), or (d) above, and at the date of renewal or extension period for scenario (b).

Group as a lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term and included in 'Occupancy cost' in the statement of income.

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

Capital Stock
Capital 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 balance sheet. 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

Revenues within the scope of PFRS 15, Revenue from Contracts with Customers
Revenue from contract with customers is recognized upon transfer of promised goods or services to customers at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Group and the Parent Company exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the five-step model to contracts with customers.

The following specific recognition criteria must be met before revenue is recognized for contracts within the scope of PFRS 15:

Fee and commission income
The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

a. *Fee income earned from services that are provided over a certain period of time*
   Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, commission income, credit related fees, asset management fees, portfolio and other management fees, and advisory fees.

b. *Fee income from providing transactions services*
   Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as underwriting fees, corporate finance fees and brokerage fees for the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Loan syndication fees are recognized in the statement of income when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same EIR as for the other participants.

Service charges and penalties
Service charges and penalties are recognized only upon collection or accrued where there is a reasonable degree of certainty as to their collectability.

Other income
Income from sale of service is recognized upon rendition of the service. Income from sale of properties is recognized when control has been transferred to the customer and when the collectability of the sales price is reasonably assured.

<u>*Revenues outside the scope of PFRS 15*</u>
Interest income
For all interest-bearing financial assets, interest income is recorded at either EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability, or at rate stated in the contract. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, as applicable, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income'. Loan commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan. If the commitment expires without the Group making the loan, the commitment fees are recognized as other income on expiry.

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.

Dividend income
Dividend income is recognized when the Group's right to receive payment is established.

Trading and securities gain
This represents results arising from trading activities and sale of AFS financial assets or FVOCI debt assets.

Gain on disposal of investment securities at amortized cost
This represents results arising from sale of investment securities measured at amortized cost.

Expense Recognition

Expense is recognized when it is probable that a decrease in future economic benefits 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 statement of income using the EIR of the financial liabilities to which they relate.

Other expenses

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

Retirement Benefits

Defined benefit plan

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets and adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The defined benefit obligation is calculated annually by an independent actuary. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on government bonds that have terms to maturity approximating the terms of the related retirement liability. 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 plans 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.

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. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. 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).

The Group'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. 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.

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 and Contingencies
Provisions are recognized when the Group 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 Group 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 an interest expense.

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.

Income Taxes
Current tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of the reporting date.

Deferred tax
Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the reporting 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. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carry forward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries and associates.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset 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 reporting date.

Current tax and deferred tax relating to items recognized directly in equity is also recognized in equity and not in the statement of income.

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 relate to the same taxable entity and the same taxation authority.

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 outstanding during the year after giving retroactive effect to stock splits, stock dividends declared and stock rights exercised during the year, if any.

The Parent Company has no outstanding dilutive potential common shares.

Dividends on Common Shares
Dividends on common shares are recognized as a liability and deducted from equity when approved by the respective shareholders of the Parent Company and its subsidiaries. Dividends declared during the year that are approved after the reporting date are dealt with as an event after the reporting date.

Segment Reporting
The Group'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 32. The Group's revenue producing assets are 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 Parent Company acts in a fiduciary capacity such as nominee, trustee or agent.

Events after the Reporting Period
Any post year-end events that provide additional information about the Group's position at the reporting date (adjusting event) are reflected in the Group's financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

Standards Issued but Not Yet Effective

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

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 with earlier application permitted.

  These amendments will apply on future business combinations of the Group.

- 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 with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*
  The standard 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

  Early application is permitted.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements, and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. 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. 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 Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board completes 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 and Estimates

The preparation of the financial statements in accordance with PFRS requires the Group to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities at reporting date. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

a. *Financial instruments*
   Where the fair values of financial assets and financial liabilities recorded on the balance sheet or disclosed in the notes cannot be derived from active markets, they are determined using discounted cash flow model, incorporating inputs such as current market rates of comparable instruments. The carrying values and corresponding fair values of financial instruments, as well as the manner in which fair values were determined, are discussed in more detail in Note 5.

b. *Contingencies*
   The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on the financial statements (Note 31). It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

c. *Evaluation of business model in managing financial assets (PFRS 9)*
   The Group manages its financial assets based on business models that maintain an adequate level of financial assets to match its expected cash outflows, largely arising from customers' withdrawals

and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for investment and trading activities consistent with its risk appetite.

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

In determining the classification of a financial instrument under PFRS 9, the Group evaluates in which business model a financial asset or a portfolio of financial assets belong to taking into consideration the objectives of each business model established by the Group, various risks and key performance indicators being reviewed and monitored by responsible officers, as well as the manner of compensation for them. The Group also considers the frequency, value, reasons and timing of past sales and expectation of future sales activity in this evaluation.

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

The business model assessment is based on reasonably expected scenarios without taking worst case or stress case scenarios into account. If cash flows, after initial recognition are realized in a way that is different from the Group's and the Parent Company's original expectations, the Group and the Parent Company does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

In 2019, the Parent Company sold investment securities at amortized cost whose carrying values prior to the sale amounted ₱13.32 billion. Such disposals were made due to the following conditions and reasons:

- An increase in the financial assets' credit risk due to political uncertainty affecting the sovereign issuer's environment
- A change in the funding profile of the Parent Company;
- A potential breach in the regulatory or internal limits of the Parent Company;
- A highly probable change in regulations with a potentially adverse impact to the financial assets' contractual cash flows

The disposals resulted in gains amounting to ₱1.30 billion for the Parent Company.

Also, CBS sold investment securities at amortized cost amounting to ₱5.29 billion to comply with regulatory limits. The sold investments included securities with carrying amount of ₱1.93 billion that are nearing their maturity dates and where the selling price approximated amortized cost. The disposals resulted in gains amounting to ₱82.51 million for CBS.

These disposals in the investment securities at amortized cost are consistent with the portfolios' business models with respect to the conditions and reasons for which the disposals were made as discussed above. Further, these disposals did not result in a change in business model and the remaining portfolio after the sale remains to be accounted for at amortized cost (see Note 9).

d. *Testing the cash flow characteristics of financial assets (PFRS 9)*
In determining the classification of financial assets under PFRS 9, the Group assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal amount outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk), i.e., cash flows that are non-SPPI, does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Group assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Group considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

e. *Incremental borrowing rate used for lease liabilities*
If the Group cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate in measuring its lease liabilities. The incremental borrowing rate is the rate of interest that the Group 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 in a similar economic environment. The Group estimates the incremental borrowing rate using observable inputs (prevailing risk-free market rates) adjusted by the credit risk of the Group (i.e., credit spread).

f. *Hedge accounting*
The Bank has designated the hedge relationship between its floating rate bond payable (Note 18) and an interest rate swap as cash flow hedge. The Bank's hedge accounting policies include an element of judgement and estimation, in particular, in respect of the existence of highly probable cash flows for inclusion within the cash flow hedge. Estimates of future interest rates and the general economic environment will influence the availability and timing of suitable hedged items, with an impact on the effectiveness of the hedge relationships. Details of the Bank's hedge accounting policies are described in Note 26.

Estimates

a. *Expected credit losses on financial assets and commitments (PFRS 9)*
The Group reviews its financial assets and commitments at each reporting date to determine the amount of expected credit losses to be recognized in the balance sheet and any changes thereto in the statement of income. In particular, judgments and estimates by management are required in determining the following:

- whether a financial asset has had a significant increase in credit risk since initial recognition;
- whether default has taken place and what comprises a default;
- macro-economic factors that are relevant in measuring a financial asset's probability of default as well as the Group's forecast of these macro-economic factors;
- probability weights applied over a range of possible outcomes;

- sufficiency and appropriateness of data used and relationships assumed in building the components of the Group's expected credit loss models;
- measuring the exposure at default for unused commitments on which an expected credit loss should be recognized and the applicable loss rate

The related allowance for credit losses of financial assets and commitments of the Group and the Parent Company are disclosed in Notes 16 and 21.

b. *Impairment of 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 cash generating unit (CGU) to which the goodwill relates. The recoverable amount of the CGU is determined based on a VIU calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. For VIU, the Group estimates the discount rate used for the computation of the net present value by reference to industry cost of capital. Impairment assessment process requires significant judgement and based on assumptions, specifically loan and deposit growth rates, discount rate and the long-term growth rates.

Where the recoverable amount is less than the carrying amount of the CGU to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The carrying values of the Group's goodwill are disclosed in Note 14.

c. *Impairment of branch licenses*
The Group conducts an annual review for any impairment in the value of branch licenses. Branch licenses are written down for impairment where the recoverable value is insufficient to support the carrying value. The recoverable amount of branch licenses is determined based on a VIU calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. For VIU, the Group estimates the discount rate used for the computation of the net present value by reference to industry cost of capital. Impairment assessment process requires significant judgement and based on assumptions, specifically loan and deposit growth rates, discount rate and the long-term growth rates.

The carrying values of the Group's branch licenses are disclosed in Note 14.

d. *Net plan assets and retirement expense*
The determination of the Group's net plan assets and annual retirement expense is dependent on the selection of certain assumptions used in calculating such amounts. These assumptions include, among others, discount rates and salary rates.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the reporting date.

The present value of the retirement obligation and fair value of plan assets, including the details of the assumptions used in the calculation are disclosed in Note 25.

e. *Recognition of deferred income taxes*
Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management discretion is required to determine the amount of deferred tax assets that can be recognized, based

on the forecasted level of future taxable profits and the related future tax planning strategies. Key assumptions used in forecast of future taxable income include loan portfolio and deposit growth rates.

The Group believes it will be able to generate sufficient taxable income in the future to utilize its recorded deferred tax assets. Taxable income is sourced mainly from interest income from lending activities and earnings from service charge, fees, commissions and trust activities.

The recognized and unrecognized deferred tax assets are disclosed in Note 28.

f. Impairment on non-financial assets

The Group assesses impairment on its nonfinancial assets (e.g., investment properties and bank premises, furniture, fixtures and equipment) and considers the following impairment indicators:

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

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Except for investment properties where recoverable amount is determined based on fair value less cost to sell, the recoverable amount of all other nonfinancial assets is determined based on the asset's value in use computation which considers the present value of estimated future cash flows expected to be generated from the continued use of the asset. The Group is required to make estimates and assumptions that can materially affect the carrying amount of the asset being assessed.

The carrying values of the Group's nonfinancial assets are disclosed in Notes 12 and 13.

4. Financial Instrument Categories

The following table presents the total carrying amount of the Group's and the Parent Company's financial instruments per category:

	Consolidated		Parent Company	
	2019	**2018**	**2019**	**2018**
Financial assets				
Cash and other cash items	**₱16,839,755**	₱15,639,474	**₱14,856,844**	₱13,705,304
Financial assets at FVTPL	**18,500,111**	7,596,261	**18,444,101**	6,689,796
Financial assets at FVOCI	**26,133,360**	10,101,527	**24,170,629**	8,213,010
Financial assets at amortized cost				
Due from BSP	**100,174,398**	101,889,773	**88,109,650**	95,092,944
Due from other banks	**9,900,642**	9,455,447	**8,645,547**	7,837,894
Interbank loans receivables and	**17,036,460**	11,998,040	**10,027,609**	8,998,040
Investment securities at amortized cost	**168,202,728**	172,537,036	**164,231,583**	163,824,466
Loans and receivables	**568,919,164**	505,804,955	**502,930,197**	441,432,156
Accrued interest receivable	**7,158,494**	5,697,181	**6,526,475**	5,126,127
Other assets*	**4,382,441**	3,577,270	**2,077,459**	1,520,108
	707,571,599	810,959,702	**618,316,937**	723,831,735
Total financial assets	**₱937,247,553**	₱844,296,964	**₱840,020,094**	₱752,439,845

*Other assets include accounts receivables, SCR, RCOCI and miscellaneous financial assets (Note 15).

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Financial liabilities				
Other financial liabilities:				
Deposit liabilities	**₱775,427,861**	₱722,123,297	**₱687,764,453**	₱638,243,362
Bills payable	**33,381,406**	39,826,532	**33,381,406**	39,826,532
Manager's checks	**1,998,678**	2,577,175	**1,535,936**	2,069,812
Accrued interest and other expenses *	**2,153,496**	2,456,064	**1,803,090**	2,035,662
Bonds payable	**37,394,398**	–	**37,394,398**	–
Other liabilities**	**10,532,784**	7,347,450	**8,426,083**	5,779,466
	860,888,623	774,330,518	**770,305,366**	687,954,834
Financial liabilities at FVPL:				
Derivative liabilities	**₱1,036,052**	₱455,150	**₱1,036,052**	₱455,150
Derivative contracts designated as hedges	**51,949**	–	**51,949**	–
Total financial liabilities	**₱861,976,624**	₱774,785,668	**₱771,393,367**	₱688,409,984

*Accrued interest and other expenses includes accrued interest payable and accrued other expenses payable (Note 20).
**Other liabilities exclude withholding taxes payable and retirement liabilities (Note 21)

5. Fair Value Measurement

The Group has assets and liabilities in the consolidated and Parent Company balance sheets that are measured at fair value on a recurring and non-recurring basis after initial recognition. Recurring fair value measurements are those that another PFRS requires or permits to be recognized in the balance sheet at the end of each financial reporting period. These include financial assets and liabilities at FVPL and financial assets at FVOCI.

As of December 31, 2019 and 2018, except for the following financial instruments, the carrying values of the Group's and the Parent Company's financial assets and liabilities as reflected in the balance sheets and related notes approximate their respective fair values:

	2019			
	Consolidated		**Parent Company**	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Financial Assets				
Investment securities at amortized cost				
Investment securities (Note 9)				
Government bonds	**₱116,859,352**	**₱115,600,451**	**₱114,157,458**	**₱113,070,656**
Private bonds	**51,343,376**	**52,569,793**	**50,074,125**	**51,304,523**
Loans and receivables (Note 10)				
Corporate and commercial lending	**458,007,221**	**449,343,219**	**433,716,968**	**423,191,284**
Consumer lending	**100,104,341**	**105,846,151**	**58,707,050**	**59,188,709**
Trade-related lending	**10,766,453**	**11,267,769**	**10,472,182**	**10,819,193**
Others	**41,148**	**47,780**	**33,997**	**39,177**
Sales contracts receivable (Note 15)	**1,124,275**	**1,200,426**	**210,706**	**224,080**
Investment properties				
Land	**2,770,799**	**5,199,926**	**615,253.00**	**2,516,447**
Buildings and improvements	**1,603,958**	**2,819,400**	**881,734.00**	**1,455,041**
Financial Liabilities				
Deposit liabilities (Note 17)	**363,600,383**	**358,540,409**	**307,293,511**	**302,112,818**
Bonds payable	**37,394,398**	**37,980,269**	**37,394,398**	**37,980,269**

	2018			
	Consolidated		Parent Company	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
HTM financial assets (Note 9)				
Government bonds	₱117,260,018	₱108,886,906	₱110,220,634	₱102,006,641
Private bonds	55,277,018	54,077,408	53,603,832	52,509,703
Loans and receivables (Note 10)				
Corporate and commercial lending	406,403,070	389,177,803	376,793,349	357,613,633
Consumer lending	85,688,187	85,222,099	51,816,708	46,749,579
Trade-related lending	13,662,914	13,283,538	12,782,734	12,772,774
Others	50,785	56,603	39,365	45,185
Sales contracts receivable (Note 15)	1,040,939	1,101,941	199,692	178,486
Financial Liabilities				
Deposit liabilities (Note 17)	321,343,811	299,666,264	265,739,836	243,898,397

The methods and assumptions used by the Group and Parent Company in estimating the fair values of the financial instruments follow:

Cash and other cash items, due from BSP and other banks, interbank loans receivable and SPURA and accrued interest receivable - The carrying amounts approximate their fair values in view of the relatively short-term maturities of these instruments.

Debt securities - 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.

Equity securities - For publicly traded equity securities, fair values are based on quoted prices. For unquoted equity securities, remeasurement to their fair values is not material to the financial statements.

Loans and receivables and sales contracts receivable (SCR) included in other assets - Fair values of loans and receivables and SCR are estimated using the discounted cash flow methodology, where future cash flows are discounted using the Group's current incremental lending rates for similar types of loans and receivables.

Accounts receivable, RCOCI and other financial assets included in other assets - Quoted market prices are not readily available for these assets. These are reported at cost and are not significant in relation to the Group's total portfolio of securities.

Derivative instruments (included under FVPL) - Fair values are estimated based on discounted cash flows, using prevailing interest rate differential and spot exchange rates.

Deposit liabilities (time, demand and savings deposits) - Fair values of time deposits are estimated using the discounted cash flow methodology, where future cash flows are discounted using the Group's current incremental borrowing rates for similar borrowings and with maturities consistent with those remaining for the liability being valued. For demand and savings deposits, carrying amounts approximate fair values considering that these are currently due and demandable.

Bonds payable and Bills payable – Unless quoted market prices are not readily available, fair values are estimated using the discounted cash flow methodology, where future cash flows are discounted using the current incremental borrowing rates for similar borrowings and with maturities consistent with those remaining for the liability being valued.

Manager's checks and accrued interest and other expenses - Carrying amounts approximate fair values due to the short-term nature of the accounts.

Other liabilities - Quoted market prices are not readily available for these liabilities. These are reported at cost and are not significant in relation to the Group's total portfolio.

<u>Fair Value Hierarchy</u>
The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique:

Level 1: quoted prices in active markets for identical assets or liabilities;
Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
Level 3: inputs that are not based on observable market data or unobservable inputs.

As of December 31, 2019 and 2018, the fair value hierarchy of the Group's and the Parent Company's assets and liabilities are presented below:

	Consolidated			
	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements[(a)]				
Financial assets at FVPL				
Held-for-trading				
Government bonds	**₱5,087,179**	**₱3,363,947**	**₱–**	**₱8,451,126**
Treasury notes	–	**2,386,226**	–	**2,386,226**
Treasury bills	–	**1,378,137**	–	**1,378,137**
Private bonds	**4,372,734**	–	–	**4,372,734**
Quoted equity shares	**1,243,938**	–	–	**1,243,938**
Derivative assets	–	**667,950**	–	**667,950**
FVOCI financial assets				
Government bonds	**3,977,446**	**18,563,070**	–	**22,540,516**
Quoted private bonds	**2,953,271**	–	–	**2,953,271**
Quoted equity shares	**621,208**	–	–	**621,208**
	₱18,255,776	**₱26,359,330**	**₱–**	**₱44,615,106**
Financial liabilities at FVPL				
Derivative liabilities	**₱–**	**₱1,036,052**	**₱–**	**₱1,036,052**
Derivative contracts designated as hedges	–	**51,949**	–	**51,949**
	₱–	**₱1,088,001**	**₱–**	**₱1,088,001**
Fair values of assets carried at amortized cost/cost[(a)]				
Investment securities at amortized cost				
Government bonds	**₱115,600,451**	**₱–**	**₱–**	**₱115,600,451**
Private bonds	**52,569,793**	–	–	**52,569,793**
Loans and receivables				
Corporate and commercial loans	–	–	**449,343,219**	**449,343,219**
Consumer loans	–	–	**105,846,151**	**105,846,151**
Trade-related loans	–	–	**11,267,769**	**11,267,769**
Others	–	–	**47,780**	**47,780**
Sales contracts receivable	–	–	**1,200,426**	**1,200,426**
Investment properties[(b)]				
Land	–	–	**5,199,926**	**5,199,926**
Buildings and improvements	–	–	**2,819,400**	**2,819,400**
	₱168,170,244	**₱–**	**₱575,724,671**	**₱743,894,915**
Fair values of liabilities carried at amortized cost[(a)]				
Deposit liabilities	**₱–**	**₱–**	**₱358,540,409**	**₱358,540,409**
Bonds payable	–	–	**37,980,269**	**37,980,269**
	–	–	**₱432,151,557**	**₱432,151,557**

(a) valued as of December 31, 2019

	Consolidated			
	2018			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements[(a)]				
Financial assets at FVPL				
Held-for-trading				
Government bonds	₱492,521	₱141,372	₱–	₱633,893
Treasury notes	–	838,662	–	838,662
Treasury bills	–	1,214,170	–	1,214,170
Private bonds	3,189,063	–	–	3,189,063
Quoted equity shares	1,312,625	–	–	1,312,625
Derivative assets	–	407,848	–	407848
Financial assets at FVOCI			–	
Government bonds	4,859,716	5,107,673	–	9,967,389
Quoted private bonds	35,370	–	–	35,370
Quoted equity shares	80,403	–	–	80,403
	₱9,969,698	₱7,709,725	₱–	₱17,679,423
Financial liabilities at FVPL				
Derivative liabilities	₱–	455,150	₱–	455,150
	₱–	455,150	₱–	455,150

	Consolidated			
	2018			
	Level 1	Level 2	Level 3	Total
Fair values of assets carried at amortized cost/cost[(a)]				
HTM financial assets				
Government bonds	₱108,886,906	₱–	₱–	₱108,886,906
Private bonds	54,077,408	–	–	54,077,408
Loans and receivables				
Corporate and commercial loans	–	–	389,177,803	389,177,803
Consumer loans	–	–	85,222,099	85,222,099
Trade-related loans	–	–	13,283,538	13,283,538
Others	–	–	56,603	56,603
Sales contracts receivable	–	–	1,101,941	1,101,941
Investment properties[(b)]		–		
Land	–	–	8,696,956	8,696,956
Buildings and improvements	–	–	1,371,972	1,371,972
	₱162,964,314	₱–	₱498,910,912	₱661,875,226
Fair values of liabilities carried at amortized cost[(a)]				
Deposit liabilities	₱–	₱–	₱299,666,264	₱299,666,264

(a) valued as of December 31,2018

	Parent Company			
	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements[(a)]				
Financial assets at FVPL				
Held-for-trading				
Government bonds	**₱5,087,179**	**₱3,363,947**	**₱–**	**₱ 8,451,126**
Treasury notes	–	**2,386,226**	–	**2,386,226**
Treasury bills	–	**1,378,137**	–	**1,378,137**
Private bonds	**4,372,734**	–	–	**4,372,734**
Quoted equity shares	**1,187,928**	–	–	**1,187,928**
Derivative assets	–	**667,950**	–	**667,950**
FVOCI financial assets				
Government bonds	**2,489,563**	**18,563,070**	–	**21,052,633**
Quoted private bonds	**2,512,588**	–	–	**2,512,588**
Quoted equity shares	**587,043**	–	–	**587,043**
	₱16,237,035	**₱26,359,330**	**₱–**	**₱42,596,365**
Financial liabilities at FVPL				
Derivative liabilities	**₱–**	**₱1,036,052**	**₱–**	**₱1,036,052**
Derivative contracts designated as hedges		**51,949**		**51,949**
	₱–	**₱1,088,001**	**₱–**	**₱1,088,001**
Fair values of assets carried at amortized cost/cost[(a)]				
Investment securities at amortized cost				
Government bonds	**₱113,070,656**	**₱–**	**₱–**	**₱113,070,656**
Private bonds	**51,304,523**	–	–	**51,304,523**
Loans and receivables				
Corporate and commercial loans	–	–	**423,191,284**	**423,191,284**
Consumer loans	–	–	**59,188,709**	**59,188,709**
Trade-related loans	–	–	**10,819,193**	**10,819,193**
Others	–	–	**39,177**	**39,177**
Sales contracts receivable	–	–	**224,080**	**224,080**
Investment properties[(b)]				
Land	–	–	**2,516,447**	**2,516,447**
Buildings and improvements	–	–	**1,455,041**	**1,455,041**
	₱164,375,179	**₱–**	**₱497,433,931**	**₱661,809,110**
Fair values of liabilities carried at amortized cost[(a)]				
Deposit liabilities	**₱–**	**₱–**	**₱302,112,818**	**₱302,112,818**
Bills payable	–	–	**35,630,879**	**35,630,879**
Bonds payable	–	–	**37,980,269**	**37,980,269**
	–	–	**375,723,966**	**375,723,966**
	₱164,375,179	**₱–**	**₱121,709,965**	**₱286,085,144**

(a) valued as of December 31, 2019

	Parent Company			
	2018			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements[(a)]				
Financial assets at FVPL				
Held-for-trading				
Government bonds	₱492,521	₱141,372	₱–	₱633,893
Treasury notes	–	838,662	–	838,662
Treasury bills	–	1,214,170	–	1,214,170
Private bonds	2,282,598	–	–	2,282,598
Quoted equity shares	1,312,625	–	–	1,312,625
Derivative assets	–	407,848	–	407,848
Financial assets at FVOCI				
Government bonds	3,033,686	5,107,673	–	8,141,359
Quoted private bonds	1,676	–	–	1,676
Quoted equity shares	51,610	–	–	51,610
	₱7,174,716	₱7,709,725	₱–	₱14,884,441
Financial liabilities at FVPL				
Derivative liabilities	₱–	₱455,150	₱–	₱455,150
	₱–	₱455,150	₱–	₱455,150
Fair values of assets carried at amortized cost/cost[(a)]				
HTM financial assets				
Government bonds	₱102,006,641	₱–	₱–	₱102,006,641
Private bonds	52,509,703	–	–	52,509,703
Loans and receivables				
Corporate and commercial loans	–	–	357,613,633	357,613,633
Consumer loans	–	–	46,749,579	46,749,579
Trade-related loans	–	–	12,772,774	12,772,774
Others	–	–	45,185	45,185
Sales contracts receivable	–	–	178,486	178,486
Investment properties[(b)]				
Land	–	–	4,225,706	4,225,706
Buildings and improvements	–	–	974,119	974,119
	₱154,516,344	₱–	₱422,559,482	₱577,075,826
Fair values of liabilities carried at amortized cost				
Deposit liabilities	₱–	₱–	₱243,898,397	₱243,898,397

(a) valued as of December 31, 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 measurements in 2019 and 2018.

The inputs used in the fair value measurement based on Level 2 are as follows:

Government securities - interpolated rates based on market rates of benchmark securities as of reporting date.

Private bonds and commercial papers - quoted market price of comparable investments with credit risk premium that is insignificant to the entire fair value measurement.

Derivative assets and liabilities - fair values are calculated by reference to the prevailing interest differential and spot exchange rate as of the reporting date, taking into account the remaining term to maturity of the derivative assets and liabilities.

Inputs used in estimating fair values of financial instruments carried at cost and categorized under Level 3 include risk-free rates and applicable risk premium.

The fair values of the Group's and Parent Company's investment properties have been determined by the appraisal method by independent external and in-house appraisers based on highest and best use of property being appraised. Valuations were derived on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made and comparability of similar properties sold with the property being valued.

The table below summarizes the valuation techniques used and the significant unobservable inputs valuation for each type of investment properties held by the Group and the Parent Company:

	Valuation Techniques	Significant Unobservable Inputs
Land	Market Data Approach	Price per square meter, size, location, shape, time element and corner influence
Land and Building	Market Data Approach and Cost Approach	Reproduction Cost New

Descriptions of the valuation techniques and significant unobservable inputs used in the valuation of the Group and the Parent Company's investment properties are as follows:

Valuation Techniques

Market Data Approach	A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.
Cost Approach	It is an estimate of the investment required to duplicate the property in its present condition. It is reached by estimating the value of the building "as if new" and then deducting the depreciated cost. Fundamental to the Cost Approach is the estimate of Reproduction Cost New of the improvements.

Significant Unobservable Inputs

Reproduction Cost New	The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Location	Location of comparative properties whether on a Main Road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a Main Road are superior to properties located along a secondary road.

Significant Unobservable Inputs

Time Element	"An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors' perceptions of the market over time". In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Corner influence	Bounded by two (2) roads.

6. Financial Risk Management Objectives and Policies

The Group's activities are principally related to the profitable use of financial instruments. Risks are inherent in these activities but are managed by the Group through a rigorous, comprehensive and continuous process of identification, measurement, monitoring and mitigation of these risks, partly through the effective use of risk and authority limits and thresholds, process controls and monitoring, and independent controls. As reflected in its corporate actions and organizational improvements, the Group has placed due importance on expanding and strengthening its risk management process and considers it as a vital component to the Group's continuing profitability and financial stability. Central to the Group's risk management process is its adoption of a risk management program intended to avoid unnecessary risks, manage and mitigate inherent risks and maximize returns from taking acceptable risks necessary to sustain its business viability and good financial position in the market.

The key financial risks that the Group faces are: credit risk, market risk and liquidity risk. The Group's risk management objective is primarily focused on controlling and mitigating these risks. The Parent Company and its subsidiaries manage their respective financial risks separately. The subsidiaries, particularly CBSI, have their own risk management processes but are structured similar to that of the Parent Company. To a large extent, the respective risk management programs and objectives are the same across the Group. The severity of risk, materiality, and regulations are primary considerations in determining the scope and extent of the risk management processes put in place for the subsidiaries.

Risk Management Structure

The BOD of the Parent Company is ultimately responsible for the oversight of the Parent Company's risk management processes. On the other hand, the risk management processes of the subsidiaries are the separate responsibilities of their respective BODs. The BOD of the Parent Company created a separate board-level independent committee with explicit authority and responsibility for managing and monitoring risks.

The BOD has delegated to the Risk Oversight Committee (ROC) the implementation of the risk management process which includes, among others, determining the appropriate risk mitigating strategies and operating principles, adoption of industry standards, development of risk metrics, monitoring of key risk indicators, and the imposition of risk parameters. The ROC is composed of three members of the BOD, two of whom are independent directors.

The Risk Management Group (RMG) is the operating unit of the ROC primarily responsible for the implementation of the risk management strategies approved by the Board of Directors. The implementation cuts across all departments of the Parent Company and involves all of the Parent Company's financial instruments, whether "on-books" or "off-books." The RMG is likewise responsible for monitoring the implementation of specific risk control procedures and enforcing compliance thereto. The RMG is also directly involved in the day-to-day monitoring of material risks ensuring that the Parent Company, in its transactions and dealings, engages only in risk taking activities duly approved by the ROC. The RMG also ensures that relevant information are accurately and completely captured on a timely basis in the management reporting system of the Parent Company. The RMG regularly reports the results of the risk measurements to the ROC. The RMG is headed by the Chief Risk Officer (CRO).

Apart from RMG, each business unit has created and put in place various process controls which ensure that all the external and internal transactions and dealings of the unit are in compliance with the unit's risk management objectives.

The Internal Audit Division also plays a crucial role in risk management primarily because it is independent of the business units and reports exclusively to the Audit Committee which, in turn, is comprised of independent directors. The Internal Audit Division focuses on ensuring that adequate controls are in place and on monitoring compliance to controls. The regular audit covers all processes and controls, including those under the risk management framework handled by the RMG. The audit of these processes and controls is undertaken at least annually. The audit results and exceptions, including recommendations for their resolution or improvement, are discussed initially with the business units concerned before these are presented to the Audit Committee.

Risk Management Reporting

The CRO reports to the ROC and is a resource to the Management Committee (ManCom) and the Credit Committee (CreCom). The CRO reports on key risk indicators and specific risk management issues that would need resolution from top management. This is undertaken after the risk issues and key risk indicators have been discussed with the business units concerned. The RMG's function, particularly, that of the CRO, as well as the Board's risk oversight responsibilities are articulated under BSP Circular No. 971, Guidelines on Risk Governance.

The key risk indicators were formulated on the basis of the financial risks faced by the Parent Company. These indicators contain information from all business units that provide measurements on the level of the risks taken by the Parent Company in its products, transactions and financial structure. Among others, the report on key risk indicators includes information on the Parent Company's aggregate credit exposure, credit metric forecasts, hold limit exceptions, Value-at-Risk (VaR), Maximum Cumulative Outflow (MCO) and Earnings-at-Risk (EAR) analysis, utilization of market and credit limits and thresholds, liquidity risk limits and ratios, overall loan loss provisioning and risk profile changes. Loan loss provisioning and credit limit utilization are, however, discussed in more detail in the Credit Committee. On a monthly basis, detailed reporting of industry, customer and geographic risks is included in the discussion with the ROC. A comprehensive risk report is presented to the BOD on a periodic basis for an overall assessment of the level of risks taken by the Bank. On the other hand, the Chief Audit Executive reports to the Audit Committee on a monthly basis on the results of branch or business unit audits and for the resolution of pending but important internal audit issues.

Risk Mitigation

The Parent Company uses derivatives to manage exposures in its financial instruments resulting from changes in interest rates and foreign currencies exposures. However, the nature and extent of use of these financial instruments to mitigate risks are limited to those allowed by the BSP for the Parent Company and its subsidiaries. For interest rate risk from the bonds payable to IFC (Note 18), the Parent

Company entered into a pay-fixed, receive-floating interest rate swap (Note 26) with the same principal terms to hedge the exposure to variable cash flow payments. The hedge relationship would eliminate the risk that variability in the floating rates will compress the net interest margin. The IRS designated as hedge shall be reflected in the Earnings-at-Risk report of RMG.

To further mitigate risks throughout its different business units, the Parent Company formulates risk management policies and continues to improve its existing policies. These policies further serve as the framework and set of guidelines in the creation or revisions of operating policies and manuals for each business unit. In the process design and implementation, preventive controls are preferred over detection controls. Clear delineation of responsibilities and separation of incompatible duties among officers and staff, as well as, among business units are reiterated in these policies. To the extent possible, reporting and accounting responsibilities are segregated from units directly involved in operations and front line activities (i.e., players must not be scorers). This is to improve the credibility and accuracy of management information. Any inconsistencies in the operating policies and manuals with the risk framework created by the RMG are taken up and resolved in the ROC and ManCom.

Based on the approved Operational Risk Assessment Program, RMG spearheaded the bankwide (all Head Office units and branches) risk identification and self-assessment process. This would enable determination of priority risk areas, assessment of mitigating controls in place, and institutionalization of additional measures to ensure a controlled operating environment. RMG was also mandated to maintain and update the Parent Company’s Centralized Loss Database wherein all reported incidents of losses shall be encoded to enable assessment of weaknesses in the processes and come up with viable improvements to avoid recurrence.

Monitoring and controlling risks are primarily performed based on various limits and thresholds established by the top management covering the Group’s transactions and dealings. These limits and thresholds reflect the Group’s business strategies and market environment, as well as, the levels of risks that the Group is willing to tolerate, with additional emphasis on selected industries. In addition, the Parent Company monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Liquidity and interest rate risk exposures are measured and monitored through the Maximum Cumulative Outflow and Earnings-at-Risk reports from the Asset and Liability Management (ALM) system. It was implemented in 2013 and was upgraded in 2018 to a new version which include modules for calculating Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The system also has a Funds Transfer Pricing module used by the Treasury Group and Corporate Planning Group.

For the measurement of market risk exposures, the Bank uses Historical Simulation VaR approach for all treasury traded instruments, including fixed income bonds, foreign exchange swaps and forwards, interest rate swaps and equity securities. Market risk exposures are measured and monitored through reports from the Market Risk Management System which has been implemented in 2018 to enhance risk measurement and automate daily reporting.

BSP issued Circular No. 639 dated January 15, 2009 which mandated the use of the Internal Capital Adequacy Assessment Process (ICAAP) by all universal and commercials banks to determine their minimum required capital relative to their business risk exposures. In this regard, the Board approved the engagement of the services of a consultant to assist in the bank-wide implementation and embedding of the ICAAP, as provided for under Pillar 2 of Basel II and BSP Circular No. 639.

On April 3, 2019, the BOD approved the changes in the trigger events for the review of Capital Ratios MAT and the methodology for the CET1 ratio limit and the Management Action Trigger (MAT) on capital ratios. There were no changes made in the Priority Risk Areas of the Parent Company and the approved trigger events for the review of Priority Risks.

The Parent Company submitted its annually updated ICAAP document, in compliance with BSP requirements on March 29, 2019. The document disclosed that the Parent Company has an appropriate level of internal capital relative to the Group's risk profile.

For this submission, the Parent Company retained the Pillar 1 Plus approach using the Pillar 1 capital as the baseline. The process of allocating capital for all types of risks above the Pillar 1 capital levels includes quantification of capital buffer for Pillar 2 risks under normal business cycle/condition, in addition to the quantification based on the results of the Integrated Stress Test (IST). The adoption of the IST allows the Parent Company to quantify its overall vulnerability to market shocks and operational losses in a collective manner driven by events rather than in silo. The capital assessment in the document discloses that the Group and the Parent Company has appropriate and sufficient level of internal capital.

Credit Risk

Credit Risk and Concentration of Assets and Liabilities and Off-Balance Sheet Items

Credit risk is the risk of financial loss on account of a counterparty to a financial product failing to honor its obligation. The Group faces potential credit risks every time it extends funds to borrowers, commits funds to counterparties, guarantees the paying performance of its clients, invests funds to issuers (i.e., investment securities issued by either sovereign or corporate entities) or enters into either market-traded or over-the-counter derivatives, through implied or actual contractual agreements (i.e., on or off-balance sheet exposures). The Group manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual credit or transaction).

The Group established risk limits and thresholds for purposes of monitoring and managing credit risk from individual counterparties and/or groups of counterparties, major industries, as well as countries. It also conducts periodical assessment of the creditworthiness of its counterparties. In addition, the Group obtains collateral where appropriate, enters into master netting agreements and collateral arrangements with counterparties, and limits the duration of exposures.

The Parent Company has four credit risk rating models in place: for corporate borrowers, for non-consumer individual borrowers and small & medium enterprises (SMEs), for financial institutions, for sovereign / country exposures. In addition, it also has three scoring models: for auto and housing loan applicants, and for credit card applicants.

In compliance with BSP requirements, the Parent Company established an internal Credit Risk Rating System (ICRRS) for the purpose of measuring credit risk for corporate borrowers in a consistent manner, as accurately as possible, and thereafter uses the risk information for business and financial decision making. The ICRRS covers corporate borrowers with total assets, total facilities, or total credit exposures amounting to ₱15.00 million and above.

Further, the ICRRS was designed within the technical requirements defined under BSP Circular No. 439. It has two components, namely: a) Borrower Risk Rating which provides an assessment of the creditworthiness of the borrower, without considering the proposed facility and security arrangements, and b) Loan Exposure Ratio which provides an assessment of the proposed facilities as mitigated or enhanced by security arrangements.

On February 6, 2019, the Board of Directors approved the recalibrated ICRRS model. Among the changes made was in the rating scale which was expanded from ten to fourteen rating grades, ten of which fall under unclassified accounts, with the remaining four falling under classified accounts in accordance with regulatory provisioning guidelines.

The Parent Company launched in 2011 the Borrower Credit Score (BCS), a credit scoring system designed for retail small and medium entities and individual loan accounts. In 2018, RMG completed the statistical validation of the BCS using the same methodology applied to the validation of the corporate risk rating model. The validation process was conducted with the assistance of Teradata which provided the analytics platform, tools and technical guidance for both credit model performance assessment and recalibration.

The CAMELOT rating system was approved by the BOD in 2006 to specifically assess Philippine universal, commercial and thrift banks. In 2009, the Parent Company implemented the rating system for rural and cooperative banks as well as the rating system for foreign financial institutions.

The Parent Company also developed a Sovereign Risk Rating Model, which provided the tool for the Parent Company to assess the strength of the country rated in reference to its economic fundamentals, fiscal policy, institutional strength, and vulnerability to extreme events. The Model was approved by the Board on September 7, 2018.

The scorecards for auto and housing loans were officially launched in November 2016, adopting the models developed by CBS with a third-party consultant, and utilizing internally developed software interfaces for their implementation.

For the Bank's credit cards, starting September 2017, Transunion score is being used in lieu of an acquisition scorecard to determine application acceptance in conjunction with other credit acceptance criteria.

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

In order to avoid excessive concentrations of risk, the Parent Company's policies and procedures include specific guidelines focusing on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The distribution of the Group's and Parent Company's assets and liabilities, and credit commitment items by geographic region as of December 31, 2019 and 2018 (in millions) follows:

	Consolidated					
	2019			2018		
	Assets	**Liabilities**	**Commitment**	Assets	Liabilities	Commitment
Geographic Region						
Philippines	**₱ 871,434**	**₱839,979**	**₱139,879**	₱741,331	₱743,613	₱87,789
Asia	**15,110**	**6,717**	**8,658**	14,965	1,386	27,313
Europe	**39,071**	**10,116**	**27,978**	18,411	2,859	3,634
United States	**10,185**	**321**	**7,483**	68,277	21,107	2,548
Others	**1,447**	**4,844**	**87**	1,313	5,821	38
	₱937,247	**₱861,977**	**₱184,085**	₱844,297	₱774,786	₱121,322

	Parent Company					
	2019			2018		
	Assets	**Liabilities**	**Commitment**	Assets	Liabilities	Commitment
Geographic Region						
Philippines	**₱774,207**	**₱749,395**	**₱139,392**	₱689,382	₱660,706	₱87,077
Asia	**15,110**	**6,717**	**8,658**	14,965	1,386	27,313
Europe	**39,071**	**10,116**	**27,978**	18,411	2,859	3,634
United States	**10,185**	**321**	**7,483**	28,369	17,638	2,548
Others	**1,447**	**4,844**	**87**	1,313	5,821	38
	₱840,020	**₱771,393**	**₱183,598**	₱ 752,440	₱688,410	₱120,610

Information on credit concentration as to industry of loans and receivables is presented in Note 10 to the financial statements.

Maximum exposure to credit risk

The tables below provide the analysis of the maximum exposure to credit risk of the Group and the Parent Company's financial instruments, excluding those where the carrying values as reflected in the balance sheets and related notes already represent the financial instrument's maximum exposure to credit risk, before and after taking into account collateral held or other credit enhancements:

	Consolidated		
	2019		
	Gross maximum exposure	**Net exposure**	**Financial effect of collateral or credit enhancement**
Credit risk exposure relating to on-balance sheet items are as follows			
Loans and receivables	**₱568,919,164**	**₱319,163,000**	**₱249,756,164**
Interbank loans receivable and SPURA	**17,036,460**	**–**	**17,036,460**
Sales contracts receivable	**1,162,106**	**–**	**1,162,106**
	₱587,117,730	**₱319,163,000**	**₱267,954,730**

	Consolidated		
	2018		
	Gross maximum exposure	Net exposure	Financial effect of collateral or credit enhancement
Credit risk exposure relating to on-balance sheet items are as follows			
Loans and receivables	₱505,804,955	₱275,165,316	₱230,639,639
Interbank loans receivable and SPURA	10,000,000	–	10,000,000
Sales contracts receivable	1,040,939	–	1,040,939
	₱516,845,894	₱275,165,316	₱241,680,578

	Parent Company		
	2019		
	Gross maximum exposure	**Net exposure**	**Financial effect of collateral or credit enhancement**
Credit risk exposure relating to on-balance sheet items are as follows			
Loans and receivables	**₱502,930,197**	**₱289,396,593**	**₱213,533,604**
Interbank loans receivable and SPURA	**10,027,609**	**–**	**10,027,609**
Sales contracts receivable	**235,049**	**–**	**235,049**
	₱513,192,855	**₱289,396,593**	**₱223,796,262**

	Parent Company		
	2018		
	Gross maximum exposure	Net exposure	Financial effect of collateral or credit enhancement
Credit risk exposure relating to on-balance sheet items are as follows			
Loans and receivables	₱441,432,156	₱249,012,090	₱192,420,066
Interbank loans receivable and SPURA	7,000,000	–	7,000,000
Sales contracts receivable	199,692	–	199,962
	₱448,631,848	₱249,012,090	₱199,619,758

For the Group, the fair values of collateral held for loans and receivables and sales contracts receivable amounted to ₱281.92 billion and ₱2.38 billion, respectively, as of December 31, 2019 and ₱330.43 billion and ₱1.60 billion, respectively, as of December 31, 2018.

For the Parent Company, the fair values of collateral held for loans and receivables and sales contracts receivable amounted to ₱245.70 billion and ₱0.91 billion, respectively, as of December 31, 2019 and ₱302.16 billion and ₱1.47 billion, respectively, as of December 31, 2018.

Credit risk, in respect of derivative financial products, is limited to those with positive fair values, which are included under financial assets at FVPL (Note 9). As a result, the maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts on the balance sheet plus commitments to customers such as unused commercial letters of credit, outstanding guarantees and others as disclosed in Note 31 to the financial statements.

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 with regard to the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:
- For securities lending and reverse repurchase transactions - cash or securities
- For consumer lending - real estate and chattel over vehicle
- For corporate lending and commercial lending- real estate, chattel over properties, assignment of deposits, shares of stocks, bonds, and guarantees

Management requests additional collateral in accordance with the underlying agreement and takes into consideration the market value of collateral during its review of the adequacy of allowance for credit losses.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In most cases, the Parent Company does not occupy repossessed properties for business use.

Collateral valuation
To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Group’s balance sheet. However, the fair value of collateral affects the calculation of loss allowances. It is generally assessed, at a minimum, at inception and re-assessed on an annual basis. To the extent possible, the Group uses active market data for

valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by internal or external appraisers.

Credit quality per class of financial assets
The credit quality of financial assets is managed by the Group using an internal credit rating system for the purpose of measuring credit risk in a consistent manner as accurately as possible. The model on risk ratings is assessed regularly because the Group uses this information as a tool for business and financial decision making. Aside from the periodic review by the Bank's Internal Audit Group, the Bank likewise engaged the services of third-party consultants in 2014, 2015, and 2017 for purposes of conducting an independent validation of the credit risk rating model.

It is the Parent Company's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Parent Company's rating policy. The attributable risk ratings are assessed and monitored regularly.

The rating categories are further described below.

Neither Past Due nor Impaired

High Grade

This includes all borrowers whose ratings are considered as Low Risk and/or those where the exposures are covered by Government Guarantee. Thus, these borrowers have a very low probability of going into default in the coming year.

In terms of borrower credit ratings, these include the following:

A. ICRRS-Covered
- Borrower Risk Rating (BRR) 1 (Exceptional)
- BRR 2 (Excellent)
- BRR 3 (Strong)
- BRR 4 (Good)

B. BCS-Covered
- Strong

Generally, a Low Risk (High Grade) rating is indicative of a high capacity to fulfill its obligations supported by robust financials (i.e., profitable, with returns considerably higher than the industry, elevated capacities to service its liabilities), gainful positioning in growing industries (i.e., participation in industries where conditions are very favorable and in which they are able to get a good share of the market), and very strong leadership providing clear strategic direction and/or excellent training and development programs.

Standard Grade

This includes all borrowers whose ratings are considered as Moderate Risk and are seen to withstand typical swings in the economic cycle without going into default. However, any prolonged unfavorable economic period would create deterioration that may already be beyond acceptable levels.

In terms of borrower credit ratings, these include the following:

A. ICRRS-Covered
- BRR 5 (Satisfactory)
- BRR 6 (Acceptable)
- BRR 7 (Fair)

B. BCS-Covered
- Satisfactory
- Acceptable

Generally, a Moderate Risk (Standard Grade) rating signifies a borrower whose financial performance is sufficient to service obligations and is at par with competitors in the industry. In terms of management, it is run by executives with adequate personal and professional qualifications and sufficient experience in similar companies. In terms of growth potential, it is engaged in an industry with stable outlook, supportive of continuing operations.

Sub-Standard Grade

This includes all borrowers whose ratings are considered as High Risk and show an elevated risk for default in the next year.

In terms of borrower credit ratings, these includes the following:

Unclassified

A. ICRRS-Covered
- BRR 8 (Watchlist)
- BRR 9 (Speculative)
- BRR 10 (Highly Speculative)

B. BCS-Covered
- Watchlist

Adversely Classified

A. ICRRS and BCS--Covered
- BRR 11 (Especially Mentioned)
- BRR 12 (Substandard)
- BRR 13 (Doubtful)
- BRR 14 (Loss)

For accounts that are Unclassified, a High Risk (Sub-Standard Grade) rating is indicative of borrowers where there are unfavorable industry or company-specific factors. This may be financial in nature (i.e. marginal operating performance, returns that are lower than those of the industry, and/or diminished capacity to pay off obligations that are due), related to management quality (including negative information regarding the company or specific executives) and/or unfavorable industry conditions. The borrower might find it very hard to cope with any significant economic downturn and a default in such a case is more than a possibility. These accounts require a closer monitoring for any signs of further deterioration, warranting adverse classification.

Adversely Classified accounts are automatically considered as high-risk and generally includes past due accounts. However, in some cases, even accounts that are neither past due nor impaired, qualifies for adverse classification. Reasons for this include among others the following: consecutive net losses, emerging weaknesses in terms of cash flow, negative equity, and/or breach in the covenants per term loan agreement.

For consumer loans (i.e., auto, housing, credit card) that are covered by application scorecards which provide either a pass/fail score, the basis for credit quality rating is the BSP classification for those that are booked as Current (i.e. Standard Grade if Unclassified and Sub Standard Grade if Classified and impairment status for those that are booked as Past Due / ITL.

The financial assets are also grouped according to stage whose description is explained as follows:

Stage 1 - those that are considered current and up to 30 days past due, and based on change in rating, delinquencies and payment history, do not demonstrate significant increase in credit risk.

Stage 2 - those that, based on change in rating, delinquencies and payment history, demonstrate significant increase in credit risk, and/or are considered more than 30 days past due but does not demonstrate objective evidence of impairment as of reporting date.

Stage 3 - those that are considered in default or demonstrate objective evidence of impairment as of reporting date.

The following tables illustrate the Group's and the Parent Company's credit exposures.

Consolidated	**2019**			
	ECL Staging			
Corporate and commercial lending	**Stage 1**	**Stage 2**	**Stage 3**	
	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
Neither past due nor impaired				
High grade	**50,587**	**4,271**	**-**	**54,858**
Standard grade	**295,112**	**5,899**	**-**	**301,011**
Sub-Standard	**88,999**	**8,542**	**-**	**97,541**
Unrated	**724**	**1**	**-**	**725**
Past due but not impaired	**13**	**725**	**-**	**738**
Past due and impaired	**-**	**-**	**4,784**	**4,784**
Gross carrying amount	**435,435**	**19,438**	**4,784**	**459,657**

Consolidated	**2019**			
	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	
Consumer Lending	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
Neither past due nor impaired				
High grade	**40,542**	**-**	**-**	**40,542**
Standard grade	**48,761**	**744**	**-**	**49,505**
Sub-Standard	**7,433**	**435**	**-**	**7,868**
Unrated	**2,280**	**1,862**	**-**	**4,142**
Past due but not impaired	**106**	**1,562**	**-**	**1,668**
Past due and impaired	**-**	**-**	**3,497**	**3,497**
Gross carrying amount	**99,122**	**4,603**	**3,497**	**107,222**

Consolidated	2019			
	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	
Trade-related Lending	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
Neither past due nor impaired				
High grade	**250**	**-**	**-**	**250**
Standard grade	**8,142**	**37**	**-**	**8,179**
Sub-Standard	**2,169**	**37**	**-**	**2,206**
Unrated	**-**	**-**	**-**	**-**
Past due but not impaired	**32**	**-**	**-**	**32**
Past due and impaired	**-**	**-**	**236**	**236**
Gross carrying amount	**10,593**	**74**	**236**	**10,903**

Consolidated	2019			
	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	
Others	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
Neither past due nor impaired				
High grade	**8**	**-**	**-**	**8**
Standard grade	**-**	**-**	**-**	**-**
Sub-Standard	**-**	**-**	**-**	**-**
Unrated	**34**	**-**	**-**	**34**
Past due but not impaired	**-**	**-**	**-**	**-**
Past due and impaired	**-**	**-**	**5**	**5**
Gross carrying amount	**42**	**-**	**5**	**47**

Consolidated	2018			
	ECL Staging			
Corporate and commercial lending	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	₱65,022	₱-	₱-	₱65,022
Standard grade	234,159	2,341	-	236,500
Sub-Standard	90,877	14,428	-	105,305
Unrated	438	8	-	446
Past due but not impaired	44	648	-	692
Past due and impaired	-	-	3,835	3,835
Gross carrying amount	₱390,540	₱17,425	₱3,835	₱411,800

Consolidated	2018			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	Total
Consumer Lending	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	₱32,661	₱-	₱-	₱32,661
Standard grade	44,389	600	-	44,989
Sub-Standard	1,309	563	-	1,872
Unrated	1,782	1,613	-	3,395
Past due but not impaired	551	435	-	986
Past due and impaired	-	-	3,313	3,313
Gross carrying amount	₱80,692	₱3,211	₱3,313	₱87,216

Consolidated	2018			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	Total
Trade-related Lending	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	₱1,239	₱-	₱-	₱1,239
Standard grade	9,371	9	-	9,380
Sub-Standard	1,500	1,675	-	3,175
Unrated	-	-	-	-
Past due but not impaired	0	-	-	0
Past due and impaired	-	-	23	23
Gross carrying amount	₱12,110	₱1,684	₱23	₱13,817

Consolidated	2018			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	Total
Others	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	₱12	₱-	₱-	₱12
Standard grade	0	-	-	0
Sub-Standard	0	-	-	0
Unrated	39	-	-	39
Past due but not impaired	1	5	-	6
Past due and impaired	-	-	-	-
Gross carrying amount	₱52	₱5	₱-	₱ 57

Parent Company	**2019**			
	ECL Staging			
Corporate and commercial lending	**Stage 1**	**Stage 2**	**Stage 3**	
	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
Neither past due nor impaired				
High grade	**29,392**	**4,271**	**-**	**33,663**
Standard grade	**295,112**	**5,155**	**-**	**300,267**
Sub-Standard	**88,999**	**8,528**	**-**	**97,527**
Unrated	**724**	**1**	**-**	**725**
Past due but not impaired	**12**	**50**	**-**	**62**
Past due and impaired	**-**	**-**	**2,229**	**2,229**
Gross carrying amount	**414,239**	**18,005**	**2,229**	**434,473**

Parent Company	**2019**			
	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	
Consumer Lending	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
Neither past due nor impaired				
High grade	**224**	**-**	**-**	**224**
Standard grade	**48,761**	**714**	**-**	**49,475**
Sub-Standard	**7,433**	**430**	**-**	**7,863**
Unrated	**2,280**	**1,862**	**-**	**4,142**
Past due but not impaired	**-**	**624**	**-**	**624**
Past due and impaired	**-**	**-**	**2,421**	**2,421**
Gross carrying amount	**58,698**	**3,630**	**2,421**	**64,749**

Parent Company	**2019**			
	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	
Trade−related Lending	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
Neither past due nor impaired				
High grade	**250**	**-**	**-**	**250**
Standard grade	**8,142**	**37**	**-**	**8,179**
Sub-Standard	**2,169**	**37**	**-**	**2,206**
Unrated	**-**	**-**	**-**	**-**
Past due but not impaired	**32**	**-**	**-**	**32**
Past due and impaired	**-**	**-**	**236**	**236**
Gross carrying amount	**10,593**	**74**	**236**	**10,903**

Parent Company	**2019**			
	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Others	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	**-**	**-**	**-**	**-**
Standard grade	**-**	**-**	**-**	**-**
Sub-Standard	**-**	**-**	**-**	**-**
Unrated	**34**	**-**	**-**	**34**
Past due but not impaired	**-**	**-**	**-**	**-**
Past due and impaired	**-**	**-**	**-**	**-**
Gross carrying amount	**34**	**-**	**-**	**34**

Parent Company	2018			
	ECL Staging			
Corporate and commercial lending	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	₱38,025	₱-	₱-	₱38,025
Standard grade	234,159	2,341	-	236,500
Sub-Standard	90,869	14,428	-	105,297
Unrated	438	8	-	446
Past due but not impaired	44	25	-	69
Past due and impaired	-	-	1,068	1,068
Gross carrying amount	₱363,535	₱16,802	₱1,068	₱ 381,405

Parent Company	2018			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	Total
Consumer Lending	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	₱18	₱-	₱-	₱18
Standard grade	44,287	600	-	44,887
Sub-Standard	1,271	563	-	1,834
Unrated	1,782	1,613	-	3,395
Past due but not impaired	551	49	-	600
Past due and impaired	-	-	1,952	1,952
Gross carrying amount	₱47,909	₱2,825	₱1,952	₱52,686

Parent Company	2018			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	Total
Trade–related Lending	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	₱359	₱-	₱-	₱359
Standard grade	9,371	9	-	9,380
Sub-Standard	1,500	1,675	-	3,175
Unrated	-	-	-	-
Past due but not impaired	0	-	-	0
Past due and impaired	-	-	23	23
Gross carrying amount	₱11,230	₱1,684	₱23	₱12,937

Parent Company	2018			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	Total
Others	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	₱-	₱-	₱-	₱-
Standard grade	-	-	-	-
Sub-Standard	-	-	-	-
Unrated	39	-	-	39
Past due but not impaired	1	-		1
Past due and impaired			-	-
Gross carrying amount	₱40	₱-	₱-	₱40

Depository accounts with the BSP and counterparty banks, Trading and Investment Securities

For these financial assets, outstanding exposure is rated primarily based on external risk rating (i.e. Standard and Poor's (S&P), otherwise, rating is based on risk grades by a local rating agency or included under "Unrated", when the counterparty has no available risk grade.

The external risk rating of the Group's depository accounts with the BSP and counterparty banks, trading and investment securities, is grouped as follows:

Credit Quality Rating	External Credit Risk Rating	Credit Rating Agency
High grade	AAA, AA+, AA, AA–	S&P
	Aaa, Aa1, Aa2, Aa3	Moody's
	AAA, AA+, AA, AA–	Fitch
Standard grade	A+, A, A–, BBB+, BBB, BBB–	S&P
	A1, A2, A3, Baa1, Baa2, Baa3	Moody's
	A+, A, A–, BBB+, BBB, BBB–	Fitch
Substandard grade	BB+, BB, BB–, B/B+, CCC, R, SD & D	S&P
	Ba1, Ba2, Ba3, B1, B2, R, SD & D	Moody's
	BB+, BB, BB–, B/B+, CCC, R, SD & D	Fitch

Following is the credit rating scale applicable for foreign banks, and government securities (aligned with S&P ratings):

AAA − An obligor has extremely strong capacity to meet its financial commitments.

AA − An obligor has very strong capacity to meet its financial commitments. It differs from the highest−rated obligors at a minimal degree.

A − An obligor has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher−rated categories.

BBB and below:

BBB − An obligor has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

BB − An obligor is less vulnerable in the near term than other lower−rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitments.

B − An obligor is more vulnerable than the obligors rated 'BB', but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.

CCC − An obligor is currently vulnerable and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitments.

CC − An obligor is currently vulnerable. The rating is used when a default has not yet occurred, but expects default to be a virtual certainty, regardless of the anticipated time to default.

R − An obligor is under regulatory supervision owing to its financial condition. During the pendency of the regulatory supervision, the regulators may have the power to favor one class of obligations over others or pay some obligations and not others.

SD and D − An obligor is in default on one or more of its financial obligations including rated and unrated financial obligations but excluding hybrid instruments classified as regulatory capital or in non−payment according to terms.

Due from other banks and government securities
The external risk rating of the Group's depository accounts with counterparty banks, trading and investment securities, is grouped as follows (aligned with the Philippine Ratings System):

Credit Quality Rating	External Credit Risk Rating
High grade	PRSAAA, PRSAa+, PRSAa, PRSAa−
Standard grade	PRSA+, PRSA, PRSA−, PRSBaa+, PRSBaa, PRSBaa−
Substandard grade	PRSBa+, PRSBa, PRSBa−, PRSB+, PRSB, PRSB−, PRSCaa+, PRSCaa, PRSCaa−, PRSCa+, PRSCa, PRSCa−, PRSC+, PRSC, PRSC−

PRSAaa − The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

PRSAa − The obligor's capacity to meet its financial commitment on the obligation is very strong.

PRSA − With favorable investment attributes and are considered as upper−medium grade obligations. Although obligations rated 'PRSA' are somewhat more susceptible to the adverse effects of changes in economic conditions, the obligor's capacity to meet its financial commitments on the obligation is still strong.

PRSBaa − An obligation rated 'PRS Baa' exhibits adequate protection parameters. However, adverse economic conditions and changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. PRSBaa−rated issues may possess certain speculative characteristics.

PRSBa − An obligation rated 'PRSBa' is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties relating to business, financial or economic conditions, which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

PRSB − An obligation rated 'PRSB' is more vulnerable to nonpayment than obligations rated 'PRSBa', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse economic conditions will likely impair the obligor's capacity to meet its financial commitment on the obligation. The issue is characterized by high credit risk.

PRSCaa − An obligation rated 'PRSCaa' is presently vulnerable to nonpayment and is dependent upon favorable business, financial and economic conditions for the obligor to meet its financial commitments on the obligation. In the event of adverse economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation. The issue is considered to be of poor standing and is subject to very high credit risk.

PRSCa − An obligation rated "PRSCa" is presently highly vulnerable to nonpayment. Likely already in or very near default with some prospect for partial recovery of principal or interest.

PRSC − An obligation is already in default with very little prospect for any recovery of principal or interest.

The succeeding tables show the credit exposure of the Group and the Parent Company related to these financial assets.

Consolidated	2019			
	ECL Staging			
Investment securities at amortized cost	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
Neither past due nor impaired				
High grade	**25,859**	**-**	**-**	**25,859**
Standard grade	**108,989**	**336**	**-**	**109,325**
Sub-Standard	**1,183**	**-**	**-**	**1,183**
Unrated	**15,721**	**8,302**	**-**	**24,023**
Past due but not impaired	**-**	**-**	**-**	**-**
Impaired	**-**	**-**	**-**	**-**
Gross carrying amount	**151,752**	**8,638**	**-**	**160,390**

Consolidated	2019			
	ECL Staging			
Financial assets at FVOCI	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
Neither past due nor impaired				
High grade	**1,205**	**-**	**-**	**1,205**
Standard grade	**22,822**	**-**	**-**	**22,822**
Sub-Standard	**107**	**-**	**-**	**107**
Unrated	**1,980**	**-**	**-**	**1,980**
Past due but not impaired	**-**	**-**	**-**	**-**
Impaired	**-**	**-**	**19**	**19**
Gross carrying amount	**26,114**	**-**	**19**	**26,133**

Consolidated	2018			
	ECL Staging			
Investment securities at amortized cost	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
Neither past due nor impaired				
High grade	₱7,913	₱108	₱-	₱8,021
Standard grade	111,072	-	-	111,072
Sub-Standard	1,703	-	-	1,703
Unrated	40,765	1,396	152	42,313
Gross carrying amount	₱161,453	₱1,504	₱152	₱163,109

Consolidated	2018			
	ECL Staging			
Financial assets at FVOCI	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
Neither past due nor impaired				
High grade	₱674	₱-	-	₱674
Standard grade	9,371	-	-	9,371
Sub-Standard	-	-	-	-
Unrated	55	2	-	57
Past due but not impaired	-	-	-	-
Past due and impaired	-	-	-	-
Gross carrying amount	₱10,100	₱2	₱ -	₱10,102

Parent Company	2019			
	ECL Staging			
Investment securities at amortized cost	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
Neither past due nor impaired				
High grade	**24,491**	**-**	**-**	**24,491**
Standard grade	**106,682**	**336**	**-**	**107,018**
Sub-Standard	**1,183**	**-**	**-**	**1,183**
Unrated	**15,721**	**8,302**	**-**	**24,023**
Past due but not impaired	**-**	**-**	**-**	**-**
Impaired	**-**	**-**	**-**	**-**
Gross carrying amount	**148,077**	**8,638**	**-**	**156,715**

Parent Company	2019			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	Total
Financial assets at FVOCI	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	**555**	**-**	**-**	**555**
Standard grade	**21,528**	**-**	**-**	**21,528**
Sub-Standard	**107**	**-**	**-**	**107**
Unrated	**1,980**	**-**	**-**	**1,980**
Past due but not impaired	**-**	**-**	**-**	**-**
Impaired	**-**	**-**	**-**	**-**
Gross carrying amount	**24,170**	**-**	**-**	**24,170**

Parent Company	2018			
	ECL Staging			
Investment securities at	Stage 1	Stage 2	Stage 3	Total
amortized cost	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	₱7,235	₱108	₱-	₱7,343
Standard grade	103,873	-	-	103,873
Sub-Standard	1,303	-	-	1,303
Unrated	40,765	1,396	-	42,161
Gross carrying amount	₱153,176	₱1,504	₱-	₱154,680

Parent Company	2018			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	Total
Financial assets at FVOCI	12-month ECL	Lifetime ECL	Lifetime ECL	
Neither past due nor impaired				
High grade	₱15	₱-	₱-	₱15
Standard grade	8,141	-	-	8,141
Sub-Standard	-	-	-	-
Unrated	55	2	-	57
Past due but not impaired	-	-	-	-
Past due and impaired	-	-	-	-
Gross carrying amount	₱8,211	₱2	₱-	₱8,213

Parent Company	2019				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Due from BSP	**₱–**	**₱88,110**	**₱–**	**₱–**	**₱88,110**
Due from other banks	**374**	**8,249**	**3**	**20**	**8,646**
Interbank loans receivable and SPURA	–	**10,028**	–	–	**10,028**
Financial assets at FVPL	**3,510**	**11,580**	**483**	**2,871**	**18,444**
	₱3,884	**₱117,967**	**₱486**	**₱2,891**	**₱125,228**

Parent Company	2018				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Due from BSP	₱–	₱95,093	₱–	₱–	₱95,093
Due from other banks	696	7,119	17	7	7,839
Interbank loans receivable and SPURA	–	7,000	–	–	7,000
Financial assets at FVPL	1,447	4,100	–	1,143	6,690
	₱2,143	₱113,312	₱17	₱1,150	₱116,622

The following table presents the carrying amount of financial assets of the Group and Parent Company as of December 31, 2019 and 2018 that would have been considered past due or impaired if not renegotiated:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Loans and advances to customers				
Corporate and commercial lending	**₱312,787**	₱507,921	**₱35,673**	₱40,029
Consumer lending	**115,370**	110,885	**114,185**	110,885
Total renegotiated financial assets	**₱428,157**	₱618,806	**₱149,858**	₱150,914

Impairment assessment
The Group recognizes a credit loss allowance on a financial asset based on whether it has had a significant increase in credit risk since initial recognition. Accordingly, the Group categorizes its financial assets into three categories: stage 1 – financial asset that has not had a significant increase in credit risk; stage 2 – financial asset that has had a significant increase in credit risk; and stage 3 – financial asset in default.

Generally, the Group assesses the presence of a significant increase in credit risk based on the number of notches that a financial asset's credit risk rating has declined. When applicable, the Group also applies a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes at least 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted. 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 for a consecutive period of 180 days (i.e. consecutive payments from the borrowers for 180 days).

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors such as downgrade in the credit rating of the borrowers and a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's internal credit assessment, the borrower or counterparty is determined to require close monitoring or with well-defined credit weaknesses. For exposures without internal credit grades, if contractual payments are more than a specified days past due threshold (i.e. 30 days), the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL.

Further, the Group considers a financial asset as in default when (a) as a result of one or more loss events, there is objective evidence that its recoverable value is less than its carrying amount; (b) it is classified as doubtful or loss under prudential reporting; (c) it is in litigation; and/or (d) full repayment of principal and interest is unlikely without foreclosure of collateral, if any. When applicable, the Group also applies a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

The Group then measures the credit loss allowance on a financial instrument at an amount equal to 12-month expected credit losses for items categorized as stage 1 and lifetime credit losses to items categorized as stage 2 and stage 3.

The Group modeled the following inputs to the expected credit loss formula separately. The formula is applied to each financial asset, with certain exceptions wherein a collective or other general approach is applied:

Exposure at Default (EAD)
The Group defines EAD as the principal and interests that would not be collected assuming the borrower's defaults during a future point in time. The Bank computes for a financial asset's EAD using the expected contractual cash flows during the contractual life of the financial instrument. A financial asset's EAD is defined as the sum of EAD from principal and EAD from interest.

Probability of default (PD)
The Group uses forward-looking PD estimates that are unbiased and probability-weighted using a range of possible outcomes. 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. The Group's PDs are mainly categorized into three: (a) corporate; (b) sovereign; and (c) retail.

Loss given default (LGD)
The Group's LGD model considers certain factors such as the historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate. Generally, the model utilizes the Bank's existing loan exposure rating system which is designed to capture these factors as well as the characteristics of collaterals related to an exposure. In cases wherein this does not apply, the Group looks into the standard characteristics of collaterals (e.g., car and housing loans) in order to estimate an LGD factor. In the case of exposures without collaterals (e.g., securities), the Group uses internationally-accepted standard LGD factors.

Credit Review
In accordance with BSP Circular 855, credit reviews are conducted on loan accounts to evaluate whether loans are granted in accordance with the Bank's policies, to assess loan quality and appropriateness of classification and adequacy of loan loss provisioning. Results of credit reviews are promptly reported to management to apprise them of any significant findings for proper corrective actions.

Market Risk
Market risk is the risk of loss that may result from changes in the value of a financial product. The Parent Company's market risk originates from its holdings of domestic and foreign−denominated debt securities, foreign exchange instruments, equities, foreign exchange derivatives and interest rate derivatives.

The RMG of the Parent Company is responsible for assisting the ROC with its responsibility for identifying, measuring, managing and controlling market risk. Market risk management measures the Parent Company market risk exposures through the use of VaR. VaR is a statistical measure that estimates the maximum potential loss from a portfolio over a holding period, within a given confidence level.

VaR assumptions
The Parent Company calculates the VaR in trading activities. The Parent Company uses the Historical Simulation Full Valuation approach to measure VaR for all treasury traded instruments, using a 99.00% confidence level and a 1−day holding period.

The use of a 99.00% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days. The validity of the VaR model is verified through back testing, which examines how frequently actual and hypothetical daily losses exceeds daily VaR. The Parent Company measures and monitors the VaR and profit and loss on a daily basis.

Since VaR is an integral part of the Parent Company's market risk management, VaR limits have been established for all trading positions and exposures are reviewed daily against the limits by management. Further, stress testing is performed for monitoring extreme events.

Limitations of the VaR Methodology
The VaR models are designed to measure market risk in a normal market environment using equally weighted historical data. The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow the same distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the assumptions. VaR may also be under− or over−estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99.00% confidence level.

In practice, the actual trading results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation. Market risk positions are also subject to regular stress tests to ensure that the Group would withstand an extreme market event.

A summary of the VaR position of the trading portfolio of the Parent Company is as follows:

	Interest Rate[1]	Foreign Exchange[2]	Price[3]	Interest Rate[4]	Interest Rate[5]
			(In Millions)		
2019					
31 December	**₱69.41**	**₱21.89**	**₱17.85**	**₱12.53**	**₱5.54**
Average daily	**82.81**	**25.42**	**23.89**	**8.75**	**7.78**
Highest	**134.67**	**73.41**	**42.90**	**14.60**	**16.15**
Lowest	**44.49**	**1.84**	**17.29**	**3.36**	**5.22**
2018					
31 December	₱43.62	₱4.54	₱21.78	₱13.78	₱10.65
Average daily	52.11	18.69	30.17	6.35	4.40
Highest	121.89	63.74	56.30	13.78	19.03
Lowest	21.47	2.53	18.29	3.18	0.60

[1] Interest rate VaR for debt securities (Interest rate VaR for foreign currency denominated debt securities are translated to PHP using daily closing rate)
[2] FX VaR is the bankwide foreign exchange risk
[3] Price VaR for equity securities and futures
[4] Interest rate VaR for FX swaps and FX forwards
[5] Interest rate VaR for IRS

Interest Rate Risk
The Group's interest rate risk originates from its holdings of interest rate sensitive assets and interest rate sensitive liabilities. The Parent Company follows prudent policies in managing its exposures to interest rate fluctuations, and constantly monitors and discusses its exposure in Asset and Liability Committee (ALCO) meetings held every week.

As of December 31, 2019 and 2018, 72.55% and 64.57% of the Group's total loan portfolio, respectively, comprised of floating rate loans which are repriced periodically by reference to the transfer pool rate which reflects the Group's internal cost of funds. In keeping with banking industry practice, the Group aims to achieve stability and lengthen the term structure of its deposit base, while providing adequate liquidity to cover transactional banking requirements of customers.

Interest is paid on demand accounts, which constituted 24.76% and 22.81% of total deposits of the Parent Company as of December 31, 2019 and 2018, respectively.

Interest is paid on savings accounts and time deposits accounts, which constitute 30.56% and 44.68%, respectively, of total deposits of the Parent Company as of December 31, 2019, and 35.56% and 41.64%, respectively, as of December 31, 2018.

Savings account interest rates are set by reference to prevailing market rates, while interest rates on time deposits and special savings accounts are usually priced by reference to prevailing rates of short-term government bonds and other money market instruments, or, in the case of foreign currency deposits, inter-bank deposit rates and other benchmark deposit rates in international money markets with similar maturities.

The Group is likewise exposed to fair value interest rate risk due to its holdings of fixed rate government bonds as part of its financial assets at FVOCI and FVTPL portfolios. Market values of these investments are sensitive to fluctuations in interest rates. The following table provides for the average effective interest rates of the Group and of the Parent Company as of December 31, 2019 and 2018:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Peso				
Assets				
Due from BSP	**0.29%**	0.17%	**0.07%**	0.06%
Due from banks	**0.22%**	0.26%	**0.11%**	0.11%
Investment securities*	**5.47%**	4.52%	**5.47%**	4.36%
Loans and receivables	**7.09%**	7.26%	**6.89%**	6.18%
Liabilities				
Deposit liabilities	**2.63%**	1.96%	**2.54%**	1.71%
Bills payable	**4.86%**	3.59%	**4.86%**	3.59%
Bonds payable	**3.02%**	–	**3.02%**	–
USD				
Assets				
Due from banks	**0.99%**	0.75%	**1.02%**	0.61%
Investment securities*	**3.58%**	4.16%	**3.56%**	3.88%
Loans and receivables	**4.13%**	4.07%	**4.07%**	3.93%
Liabilities				
Deposit liabilities	**1.66%**	1.48%	**1.66%**	1.45%
Bills payable	**4.99%**	2.89%	**4.00%**	2.86%
Bonds payable	**1.71%**	–	**1.71%**	–

* Consisting of financial assets at FVPL, Financial assets at FVOCI and Investment securities at amortized cost.

The repricing gap analysis method is used by the Group to measure the sensitivity of its assets and liabilities to interest rate fluctuations. This analysis measures the Group's susceptibility to changes in interest rates. The repricing gap is calculated by first distributing the assets and liabilities contained in the Group's balance sheet into tenor buckets according to the time remaining to the next repricing date (or the time remaining to maturity if there is no repricing), and then obtaining the difference between the total of the repricing (interest rate sensitive) assets and the total of repricing (interest rate sensitive) liabilities.

A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

Accordingly, during a period of rising interest rates, a bank with a positive gap would be in a position to invest in higher yielding assets earlier than it would need to refinance its interest rate sensitive liabilities. During a period of falling interest rates, a bank with a positive gap would tend to see its interest rate sensitive assets repricing earlier than its interest rate sensitive liabilities, restraining the growth of its net income or resulting in a decline in net interest income.

The following tables set forth the repricing gap position of the Group and Parent Company as of December 31, 2019 and 2018 (in millions):

	Consolidated			
	2019			
	Up to 3 Months	**>3 to 12 Months**	**>12 Months**	**Total**
Financial Assets				
Due from BSP	**₱96,254**	**₱–**	**₱3,921**	**₱100,175**
Due from other banks	**9,901**	**–**	**–**	**9,901**
Investment securities	**3,815**	**6,637**	**202,384**	**212,836**
Loans and receivables	**257,385**	**111,758**	**199,776**	**568,919**
Total financial assets	**367,355**	**118,395**	**406,081**	**891,831**
Financial Liabilities				
Deposit liabilities	**313,164**	**37,636**	**424,628**	**775,428**
Bills payable	**18,409**	**14,972**	**–**	**33,381**
Bonds payable	**–**	**7,394**	**30,000**	**37,394**
Total financial liabilities	**331,573**	**60,002**	**454,628**	**846,203**
Repricing gap	**₱35,782**	**₱58,393**	**(₱48,547)**	**₱45,628**

	Consolidated			
	2018			
	Up to 3 Months	>3 to 12 Months	>12 Months	Total
Financial Assets				
Due from BSP	₱101,890	₱–	₱–	₱101,890
Due from other banks	9,455	–	–	9,455
Investment securities	12,301	3,432	174,500	190,233
Loans and receivables	255,491	38,683	211,634	505,808
Total financial assets	379,137	42,115	386,134	807,386
Financial Liabilities				
Deposit liabilities	291,698	17,893	412,532	722,123
Bills payable	34,505	4,507	815	39,827
Total financial liabilities	326,203	22,400	413,347	761,950
Repricing gap	₱52,934	₱19,715	(₱27,213)	₱45,436

	Parent Company			
	2019			
	Up to 3 Months	**>3 to 12 Months**	**>12 Months**	**Total**
Financial Assets				
Due from BSP	**₱88,110**	**₱–**	**₱–**	**₱88,110**
Due from other banks	**8,646**	**–**	**–**	**8,646**
Investment securities	**3,815**	**4,671**	**198,360**	**206,846**
Loans and receivables	**248,190**	**81,756**	**172,984**	**502,930**
Total financial assets	**348,761**	**86,427**	**371,344**	**806,532**
Financial Liabilities				
Deposit liabilities	**288,787**	**16,873**	**382,105**	**687,765**
Bills payable	**18,409**	**14,972**	**–**	**33,381**
Bonds payable	**–**	**7,394**	**30,000**	**37,394**
Total financial liabilities	**307,196**	**39,239**	**412,105**	**758,540**
Repricing gap	**₱41,565**	**₱47,188**	**(₱40,761)**	**₱47,992**

	Parent Company			
	2018			
	Up to 3 Months	>3 to 12 Months	>12 Months	Total
Financial Assets				
Due from BSP	₱95,093	₱–	₱–	₱95,093
Due from other banks	7,838	–	–	7,838
Investment securities	5,782	3,355	169,588	178,725
Loans and receivables	232,067	26,695	182,672	441,434
Total financial assets	340,780	30,050	352,260	723,090
Financial Liabilities				
Deposit liabilities	241,100	14,877	382,266	638,243
Bills payable	34,505	4,507	815	39,827
Total financial liabilities	275,605	19,384	383,081	678,070
Repricing gap	₱65,175	₱10,666	(₱30,821)	₱45,020

The Group monitors its exposure to fluctuations in interest rates by using scenario analysis to estimate the impact of interest rate movements on its interest income. This is done by modeling the impact to the Group's interest income and interest expenses to parallel changes in the interest rate curve in a given 12-month period. Interest rate risk exposure is managed through approved limits.

The following tables set forth the estimated change in the Group's and Parent Company's annualized net interest income due to a parallel change in the interest rate curve as of December 31, 2019 and 2018:

	Consolidated			
	2019			
	Change in interest rates (in basis points)			
	100bp rise	**50bp rise**	**50bp fall**	**100bp fall**
Change in annualized net interest income	**₱796**	**₱398**	**(₱398)**	**(₱796)**
As a percentage of the Group's net interest income for the year ended December 31, 2019	**2.95%**	**1.48%**	**(1.48%)**	**(2.95%)**

	Consolidated			
	2018			
	Change in interest rates (in basis points)			
	100bp rise	50bp rise	50bp fall	100bp fall
Change in annualized net interest income	₱645	₱322	(₱322)	(₱645)
As a percentage of the Group's net interest income for the year ended December 31, 2018	2.80%	1.40%	(1.40%)	(2.80%)

	Parent Company			
	2019			
	Change in interest rates (in basis points)			
	100bp rise	**50bp rise**	**50bp fall**	**100bp fall**
Change in annualized net interest income	**₱770**	**₱385**	**(₱385)**	**(₱770)**
As a percentage of the Parent Company's net interest income for the year ended December 31, 2019	**3.25%**	**1.63%%**	**(1.63%)**	**(3.25%)**

	Parent Company			
	2018			
	Change in interest rates (in basis points)			
	100bp rise	50bp rise	50bp fall	100bp fall
Change in annualized net interest income	₱996	₱498	(₱498)	(₱996)
As a percentage of the Parent Company's net interest income for the year ended December 31, 2018	4.95%	2.48%	(2.48%)	(4.95%)

The following tables set forth the estimated change in the Group's and Parent Company's income before tax and equity due to a reasonably possible change in the market prices of quoted bonds classified under financial assets at FVPL and financial assets at FVOCI, brought about by movement in the interest rate curve as of December 31, 2019 and 2018 (in millions):

	Consolidated			
	2019			
	Change in interest rates (in basis points)			
	25bp rise	**10bp rise**	**10bp fall**	**25bp fall**
Change in income before tax	**(₱183)**	**(₱73)**	**₱73**	**₱183**
Change in equity	**(369)**	**(148)**	**148**	**369**

	Consolidated			
	2018			
	Change in interest rates (in basis points)			
	25bp rise	10bp rise	10bp fall	25bp fall
Change in income before tax	(₱51)	(₱20)	₱20	₱51
Change in equity	(113)	(45)	45	113

	Parent Company			
	2019			
	Change in interest rates (in basis points)			
	25bp rise	**10bp rise**	**10bp fall**	**25bp fall**
Change in income before tax	**(₱183)**	**(₱73)**	**₱73**	**₱183**
Change in equity	**(356)**	**(142)**	**142**	**356**

	Parent Company			
	2018			
	Change in interest rates (in basis points)			
	25bp rise	10bp rise	10bp fall	25bp fall
Change in income before tax	(₱51)	(₱20)	₱20	₱51
Change in equity	(103)	(41)	41	103

Foreign Currency Risk

The Group's foreign exchange risk originates from its holdings of foreign currency-denominated assets (foreign exchange assets) and foreign currency-denominated liabilities (foreign exchange liabilities).

Foreign exchange liabilities generally consist of foreign currency-denominated deposits in the Group's FCDU account made in the Philippines or generated from remittances to the Philippines by persons overseas who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with the Group.

Foreign currency liabilities are generally used to fund the Group's foreign exchange assets which generally consist of foreign currency-denominated loans and investments in the FCDU. Banks are required by the BSP to match the foreign currency-denominated assets with liabilities held in the FCDU that are denominated in the same foreign currency. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency-denominated liabilities held in the FCDU.

The Group's policy is to maintain foreign currency exposure within existing regulations, and within acceptable risk limits. The Group believes in ensuring its foreign currency is at all times within limits prescribed for financial institutions who are engaged in the same types of businesses in which the Group and its subsidiaries are engaged.

The table below summarizes the Group's and Parent Company's exposure to foreign exchange risk. Included in the table are the Group's and Parent Company's assets and liabilities at carrying amounts (stated in US Dollars), categorized by currency with its PHP equivalent:

	Consolidated							
	2019				2018			
	USD	**Other Currencies***	**Total**	**PHP**	USD	Other Currencies*	Total	PHP
Assets								
Cash and other cash items	**$2,258**	**2,377**	**4,635**	**₱234,704**	$2,204	2,095	4,299	₱226,044
Due from other banks	**118,692**	**4,983**	**123,675**	**6,262,264**	42,189	7,705	49,894	2,623,437
Financial assets at FVPL	**15,396**	**34,582**	**49,978**	**2,530,668**	15,988	–	15,988	840,625
Financial assets at FVOCI	**13,543**	**2,284**	**15,827**	**801,358**	14,640	–	14,640	769,771
Investment securities at amortized cost	**25,838**	–	**25,838**	**1,308,285**	116,716	–	116,716	6,136,946
Loans and receivables	**31,901**	**39,692**	**71,593**	**3,625,127**	42,471	12,985	55,456	2,915,835
Accrued interest receivable	**654**	**287**	**941**	**47,644**	1,038	19	1,057	55,562
Other assets	**1,156**	**2**	**1,158**	**58,661**	753	18	771	40,523
	$209,438	**84,207**	**293,645**	**₱14,868,711**	$235,999	22,822	258,821	₱13,608,743
Liabilities								
Deposit liabilities	**64,221**	**32,506**	**96,727**	**4,897,774**	66,162	109,191	175,353	9,220,065
Bills payables	**388,225**	**62,731**	**450,956**	**22,834,146**	354,416	57,130	411,546	21,639,069
Accrued interest and other expenses	**2,227**	**1**	**2,228**	**112,788**	1,554	7	1,561	82,090
Other liabilities	**7,790**	**793**	**8,583**	**434,593**	8,710	1,466	10,176	535,013
	462,463	**96,031**	**558,494**	**28,279,301**	430,842	167,794	598,636	31,476,237
Currency spot	**(21,103)**	**103**	**(21,000)**	**(1,063,314)**	(6,789)	(316)	(7,105)	(373,621)
Currency forwards	**284,866**	**32,397**	**317,263**	**16,064,529**	185,313	145,250	330,563	17,380,980
Net Exposure	**$10,738**	**20,676**	**31,414**	**₱1,590,625**	($16,319)	(38)	(16,357)	(₱860,135)

**Other currencies include EUR, CNY, JPY, GBP, AUD, SGD, CHF, CAD, NZD, AED, HKD.*

	Parent Company							
	2019				2018			
	USD	Other Currencies*	Total	PHP	USD	Other Currencies*	Total	PHP
Assets								
Cash and other cash items	**$148**	**2,377**	**2,525**	**₱127,857**	$123	2,095	2,218	₱116,611
Due from other banks	**98,334**	**4,983**	**103,317**	**5,231,428**	38,240	7,705	45,945	2,415,755
Financial assets at FVPL	**15,396**	**34,582**	**49,978**	**2,530,668**	15,988	–	15,988	840,625
Financial assets at FVOCI	–	**2,284**	**2,284**	**115,629**	–	–	–	–
Investment securities at amortized cost	–	–	–	–	69,961	–	69,961	3,678,571
Loans and receivables	**24,445**	**39,692**	**64,137**	**3,247,606**	35,151	12,985	48,136	2,530,985
Accrued interest receivable	**103**	**287**	**390**	**19,737**	75	19	94	4,967
Other assets	**1,137**	**2**	**1,139**	**57,691**	560	18	578	30,411
	$139,563	**84,207**	**223,770**	**₱11,330,616**	$160,098	22,822	182,920	₱9,617,925
Liabilities								
Deposit liabilities	**140**	**32,506**	**32,646**	**1,653,048**	402	109,191	109,593	5,762,373
Bills payables	**388,225**	**62,731**	**450,956**	**22,834,146**	354,416	57,130	411,546	21,639,069
Accrued interest and other expenses	**2,126**	**1**	**2,127**	**107,687**	1,433	7	1,440	75,729
Other liabilities	**7,597**	**793**	**8,390**	**424,785**	8,611	1,466	10,077	529,836
	398,088	**96,031**	**494,119**	**25,019,666**	364,862	167,794	532,656	28,007,007
Currency spot	**(21,103)**	**103**	**(21,000)**	**(1,063,314)**	(6,789)	(316)	(7,105)	(373,621)
Currency forwards	**284,866**	**32,397**	**317,263**	**16,064,529**	185,313	145,250	330,563	17,380,980
Net Exposure	**$5,238**	**20,676**	**25,914**	**₱1,312,165**	($26,240)	(38)	(26,278)	(₱1,381,723)

**Other currencies include EUR, CNY, JPY, GBP, AUD, SGD, CHF, CAD, NZD, AED, HKD.*

The following table sets forth, for the period indicated, the impact of the range of reasonably possible changes in the US$ exchange rate and other currencies per Philippine peso on the pre-tax income and equity (in millions).

	Consolidated		
	Change in Foreign Exchange Rate	Sensitivity of Pretax Income	Sensitivity of Equity
2019			
USD	**2%**	**₱126**	**₱238**
Other	**1%**	**–**	**1**
USD	**(2%)**	**(126)**	**(238)**
Other	**(1%)**	**–**	**(1)**
2018			
USD	2%	₱33	₱110
Other	1%	–	–
USD	(2%)	(33)	(110)
Other	(1%)	–	–

	Parent Company		
	Change in Foreign Exchange Rate	Sensitivity of Pretax Income	Sensitivity of Equity
2019			
USD	**2%**	**₱126**	**₱225**
Other	**1%**	**–**	**1**
USD	**(2%)**	**(126)**	**(225)**
Other	**(1%)**	**–**	**(1)**
2018			
USD	2%	₱33	₱95
Other	1%	–	–
USD	(2%)	(33)	(95)
Other	(1%)	–	–

The impact in pre–tax income and equity is due to the effect of foreign currency behaviour to Philippine peso.

Equity Price Risk
Equity price risk is the risk that the fair values of equities change as a result of movements in both the level of equity indices and the value of individual stocks. The non–trading equity price risk exposure arises from the Group's investment portfolio.

The effect on the Group and Parent Company's equity as a result of a change in the fair value of equity instruments held as FVOCI due to a reasonably possible change in equity indices, with all other variables held constant, is as follows (in millions):

	Consolidated	
	Change in equity index	Effect on Equity
2019	**+10%**	**₱9.7**
	−10%	**(0.3)**
2018	+10%	6.8
	−10%	1.2

	Parent Company	
	Change in equity index	Effect on Equity
2019	**+10%**	**₱10.0**
	−10%	**(2.5)**
2018	+10%	7.7
	−10%	0.2

Liquidity Risk and Funding Management
Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Parent Company's inability to meet its obligations when they become due without incurring unacceptable losses or costs.

The Parent Company's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Parent Company's business operations or unanticipated events created by customer behavior or capital market conditions. The Parent Company seeks to ensure liquidity through a combination of active management of liabilities, a liquid asset portfolio composed of deposits reserves and high quality securities, the securing of money market lines, and the maintenance of repurchase facilities to address any unexpected liquidity situations.

The tables below show the maturity profile of the Parent Company's assets and liabilities, based on contractual undiscounted cash flows (in millions):

	December 31, 2019					
	On demand	Less than 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Total
Financial Assets						
Cash and other cash items	₱14,857	₱–	₱–	₱–	₱–	**₱14,857**
Due from BSP	88,110	–	–	–	–	**88,110**
Due from other banks	8,646	–	–	–	–	**8,646**
SPURA	–	10,028	–	–	–	**10,028**
Financial assets at FVPL	–	1,971	1,795	3,564	15,642	**22,972**
Financial assets at FVOCI	–	993	4,517	523	26,443	**32,476**
Loans and receivables	–	144,745	25,030	45,970	337,036	**552,781**
	111,613	**157,737**	**31,342**	**50,057**	**379,121**	**729,870**

(Forward)

	December 31, 2019					
	On demand	**Less than 1 year**	**1 to 2 years**	**2 to 3 years**	**3 to 5 years**	**Total**
Financial Liabilities						
Deposit liabilities						
Demand	₱170,280	₱–	₱–	₱–	₱–	**₱170,280**
Savings	210,191	–	–	–	–	**210,191**
Time	–	308,305	253	6	4	**308,568**
Bills payable	–	33,381	–	–	–	**33,381**
Manager's checks	–	1,536	–	–	–	**1,536**
Accrued interest and other expenses	–	3,600	–	–	–	**3,600**
Derivative liabilities	–	1,036	–	–	–	**1,036**
Bonds payable	–	29,828	–	–	7,566	**37,394**
Other liabilities:						
Lease payable	–	543	–	1,899	714	**3,156**
Accounts payable	–	2,179	–	–	–	**2,179**
Acceptances payable	–	413	–	–	–	**413**
Due to PDIC	–	692	–	–	–	**692**
Margin deposits	–	6	–	–	–	**6**
Other credits − dormant	–	447	–	–	–	**447**
Due to the Treasurer of the Philippines	–	417	–	–	–	**417**
Miscellaneous	–	323	–	–	–	**323**
Total liabilities	**380,471**	**382,706**	**253**	**1,905**	**8,284**	**773,618**
Net Position	**(₱268,858)**	**(₱225,969)**	**₱31,089**	**₱48,152**	**₱370,838**	**(₱43,747)**

	December 31, 2018					
	On demand	Less than 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Total
Financial Assets						
Cash and other cash items	₱13,705	₱–	₱–	₱–	₱–	₱13,705
Due from BSP	95,093	–	–	–	–	95,093
Due from other banks	7,838	–	–	–	–	7,838
SPURA	–	8,998	–	–	–	8,998
Financial assets at FVPL	–	1,700	378	1,079	4,296	7,453
Financial assets at FVOCI	–	1,382	389	3,258	4,502	9,531
Loans and receivables	–	166,040	30,097	45,970	337,036	579,143
	₱116,636	₱178,120	₱30,864	₱50,307	₱345,834	₱721,761
Financial Liabilities						
Deposit liabilities						
Demand	145,560	–	–	–	–	145,560
Savings	226,944	–	–	–	–	226,944
Time	–	235,885	4,764	16,552	16,102	273,303
Bills payable	–	40,108	–	–	–	40,108
Manager's checks	–	2,070	–	–	–	2,070
Accrued interest and other expenses	–	3,279	–	–	–	3,279
Derivative liabilities	–	455	–	–	–	455
Other liabilities:						
Accounts payable	–	2,249	–	–	–	2,249
Acceptances payable	–	358	–	–	–	358
Due to PDIC	–	628	–	–	–	628
Margin deposits	–	3	–	–	–	3
Other credits − dormant	–	242	–	–	–	242
Due to the Treasurer of the Philippines	–	379	–	–	–	379
Miscellaneous	–	1,922	–	–	–	1,922
Total liabilities	₱372,504	₱287,578	₱4,764	₱16,552	₱16,102	₱697,500
Net Position	(₱255,868)	(₱109,458)	₱26,100	₱33,755	₱329,732	₱24,261

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the MCO report, as well as an analysis of available liquid assets. Instead of relying solely on contractual maturities profile, the Parent Company uses Behavioral MCO to capture a going concern view. Furthermore, internal liquidity ratios and monitoring of large fund providers have been set to determine sufficiency of liquid assets over deposit liabilities. The Bank started monitoring and reporting to the BSP the Liquidity Coverage Ratio in 2017 and the Net Stable Funding

Ratio in 2019. Liquidity is managed by the Parent and its subsidiaries on a daily basis, while scenario stress tests and sensitivity analysis are conducted periodically.

7. Due From BSP and Other Banks

Due from BSP
This account consists of:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Demand deposit account (Note 17)	**₱92,674,383**	₱99,889,758	**₱80,609,635**	₱93,092,929
Special deposit account	**7,500,000**	2,000,000	**7,500,000**	2,000,000
Others	**15**	15	**15**	15
	₱100,174,398	₱101,889,773	**₱88,109,650**	₱95,092,944

Due from Other Banks
This comprises of deposit accounts with:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Local banks	**₱3,067,833**	₱5,284,825	**₱2,224,644**	₱4,140,002
Foreign banks	**6,832,809**	4,170,622	**6,420,903**	3,697,892
	₱9,900,642	₱9,455,447	**₱8,645,547**	₱7,837,894

Interest Income on Due from BSP and Other Banks

This account consists of:

	Consolidated			**Parent Company**		
	2019	2018	2017	**2019**	2018	2017
Due from BSP	**₱884,009**	₱124,557	₱213,879	**₱539,713**	₱67,039	₱112,851
Due from other banks	**229,197**	135,818	138,850	**162,709**	101,994	50,296
	₱1,113,206	₱260,375	₱352,729	**₱702,422**	₱169,033	₱163,147

8. Interbank Loans Receivable and Securities Purchased Under Resale Agreement

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Interbank loans receivable	**₱4,580,316**	₱1,998,040	**₱4,580,316**	₱1,998,040
SPURA	**12,456,144**	10,000,000	**5,447,293**	7,000,000
	₱17,036,460	₱11,998,040	**₱10,027,609**	₱8,998,040

Interbank Loans Receivable
As of December 31, 2019 and 2018, interbank loans receivable consists of short-term foreign currency-denominated loans granted to other banks with annual interest rates ranging from 1.9% to 2.1% and 2.2%, respectively.

Securities Purchased Under Resale Agreement
This account represents overnight placements with the BSP where the underlying securities cannot be sold or repledged to parties other than the BSP.

In 2019, 2018 and 2017, the interest rates of SPURA equals to 4.00%, 4.75%, and 3.50%, respectively, for the Group and Parent Company.

9. Trading and Investment Securities

Financial Assets at FVPL
This account consists of:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Held for trading				
Government bonds (Note 28)	**₱8,451,126**	₱633,893	**₱8,451,126**	₱633,893
Treasury notes	**2,386,226**	838,662	**2,386,226**	838,662
Treasury bills	**1,378,137**	1,214,170	**1,378,137**	1,214,170
Private bonds	**4,372,734**	3,189,063	**4,372,734**	2,282,598
Quoted equity shares	**1,243,938**	1,312,625	**1,187,928**	1,312,625
	17,832,161	7,188,413	**17,776,151**	6,281,948
Derivative assets (Note 25)	**667,950**	407,848	**667,950**	407,848
Total	**₱18,500,111**	₱7,596,261	**₱18,444,101**	₱6,689,796

As of December 31, 2019 and 2018, HFT securities include fair value loss of ₱22.14 million and ₱55.35 million, respectively, for the Group and Parent Company.

Effective interest rates for peso–denominated financial assets at FVPL for both the Group and the Parent Company range from 1.41% to 7.26% in 2019 and from 0.06% to 7.11% in 2018. Effective interest rates for foreign currency–denominated financial assets at FVPL for the Group range from 0.71% to 5.81% in 2019 and from 0.71% to 6.28% in 2018. Effective interest rates for foreign currency–denominated financial assets at FVTPL for the Parent Company range from 0.71% to 5.81% in 2019 and from 0.71% to 6.28% in 2018.

Financial Assets at FVOCI
This account consists of:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Quoted				
Government bonds (Notes 18 and 28)	**₱22,540,516**	₱9,944,507	**₱21,052,633**	₱8,141,359
Private bonds	**2,953,271**	35,370	**2,512,588**	1,676
Equities	**621,208**	103,285	**587,043**	51,610
	26,114,995	10,083,162	**24,152,264**	8,194,645
Unquoted				
Equities - net *	**18,365**	18,365	**18,365**	18,365
	18,365	18,365	**18,365**	18,365
Total	**₱26,133,360**	₱10,101,527	**₱24,170,629**	₱8,213,010

Unquoted equity securities
This account comprises of shares of stocks of various unlisted private corporations. The Group has designated these equity securities as at FVOCI because they will not be sold in the foreseeable future.

Net unrealized gains (losses)
Financial assets at FVOCI include fair value gains of ₱417.58 million for the Group and Parent Company as of December 31, 2019 and fair value losses of ₱702.51 million for the Group and Parent Company as of December 31, 2018. The fair value gains or losses are recognized under OCI. Impairment loss on debt financial assets at FVOCI of the Group and the Parent Company amounted to ₱18.52 million and ₱18.47 million in 2019, respectively and ₱9.82 million for the Parent Company in 2018.

Effective interest rates for peso−denominated financial assets at FVOCI for both the Group and Parent Company range from 3.94% to 6.87% in 2019, from 4.25% to 5.58% in 2018 and 2.95% to 8.92% in 2017.

Effective interest rates for foreign currency−denominated financial assets at FVOCI for both the Group and Parent Company range from 0.83% to 5.65% in 2019, from 2.33% to 8.48% in 2018 and from 0.99% to 5.75% in 2017.

Investment Securities at Amortized Cost

This account consists of:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Government bonds (Note 18)	**₱108,061,363**	₱107,986,234	**₱105,602,176**	₱101,388,184
Private bonds	**52,381,323**	55,122,532	**51,112,073**	53,291,150
	160,442,686	163,108,766	**156,714,249**	154,679,334
Unamortized premium − net	**8,848,025**	9,803,371	**8,600,024**	9,360,070
Allowance	**(1,087,983)**	(375,101)	**(1,082,690)**	(214,938)
	₱168,202,728	₱172,537,036	**₱164,231,583**	₱163,824,466

Effective interest rates for peso−denominated investment securities at amortized cost for the Group range from 1.06% to 8.92% in 2019, 1.06% to 8.92% in 2018, and from 2.82% to 7.75% in 2017. Effective interest rates for foreign currency−denominated investment securities at amortized cost range from 1.82% to 6.97% in 2019, 0.58% to 7.37% in 2018, and from 8.50% to 8.93% in 2017.

Sale of Investment Securities at Amortized Cost

The Group and the Parent Company sold the following investment securities at amortized cost in 2019 (figures in ₱ millions):

	Group		Parent Company	
Reason for selling	**Carrying amount**	**Gain on sale**	**Carrying amount**	**Gain on sale**
An increase in the financial assets' credit risk due to political uncertainty affecting the sovereign issuer's environment	₱1,169	₱43	₱1,169	₱43
A change in the funding profile of the Parent Company	10,445	1,156	10,445	1,156
A potential breach in the regulatory or internal limits of the Group and the Parent Company	6,275	168	982	86
A highly probable change in regulations with a potentially adverse impact to the financial assets' contractual cash flows	729	14	729	14
Total	**₱18,618**	**₱1,381**	**₱13,325**	**₱1,299**

These disposals in the investment securities at amortized cost are consistent with the portfolios' business models with respect to the conditions and reasons for which the disposals were made as discussed above (see Note 3).

Interest Income on Investment Securities

This account consists of:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Financial assets at FVOCI	**₱665,379**	**₱596,864**	₱–	**₱600,160**	**₱525,774**	₱–
AFS financial assets	–	–	1,309,755	–	–	1,176,831
Investment securities at amortized cost	**9,162,697**	**5,279,064**	–	**8,762,267**	5,034,083	–
HTM financial assets	–	–	2,246,355	–	–	2,098,194
	₱9,828,076	**₱5,875,928**	₱3,556,110	**₱9,362,427**	₱5,559,857	₱3,275,025

10. **Loans and Receivables**

This account consists of:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Loans and discounts				
Corporate and commercial lending	**₱459,683,487**	₱411,800,451	**₱434,474,621**	₱381,404,349
Consumer lending	**106,901,801**	87,214,939	**64,748,163**	52,684,530
Trade–related lending	**11,196,919**	13,817,866	**10,902,568**	12,937,606
Others*	**46,830**	56,516	**34,341**	39,761
	577,829,037	512,889,772	**510,159,693**	447,066,246
Unearned discounts	**(349,897)**	(255,536)	**(290,711)**	(208,377)
	577,479,140	512,634,236	**509,868,982**	446,857,869
Allowance for impairment and credit losses (Note 16)	**(8,559,976)**	(6,829,280)	**(6,938,785)**	(5,425,713)
	₱568,919,164	₱505,804,956	**₱502,930,197**	₱441,432,156

*Others include employee loans and foreign bills purchased.

As of December 31, 2019 and 2018, loans of the Parent Company amounting to ₱3.28 billion and ₱5.17 billion, respectively, are rediscounted with the BSP (Note 19).

Information on the amounts of secured and unsecured loans and receivables (gross of unearned discounts and allowance for impairment and credit losses) of the Group and Parent Company are as follows

	Consolidated				**Parent Company**			
	2019		2018		**2019**		2018	
	Amounts	**%**	Amounts	%	**Amounts**	**%**	Amounts	%
Loans secured by								
Real estate	**₱100,722,095**	**17.43**	₱92,960,218	18.12	**₱75,049,610**	**14.71**	₱66,332,530	14.84
Chattel mortgage	**26,294,676**	**4.55**	25,512,590	4.97	**10,602,721**	**2.08**	12,063,924	2.70
Guarantee by the Republic of the Philippines	**4,574,220**	**0.79**	5,746,500	1.12	**4,574,220**	**0.90**	5,746,500	1.29
Deposit hold out	**3,166,911**	**0.55**	3,839,704	0.75	**2,286,342**	**0.45**	3,027,964	0.68
Shares of stock of other banks	**2,345,300**	**0.41**	2,347,650	0.46	**2,345,300**	**0.46**	2,347,650	0.53
Others	**119,011,685**	**20.60**	105,253,810	20.52	**118,675,412**	**23.26**	102,901,498	23.02
	256,114,887	**44.33**	235,660,472	45.95	**213,533,605**	**41.86**	192,420,066	43.04
Unsecured loans	**321,714,150**	**55.67**	277,229,304	54.05	**296,626,089**	**58.14**	254,646,180	56.96
	₱577,829,037	**100.00**	₱512,889,776	100.00	**₱510,159,694**	**100.00**	₱447,066,246	100.00

Information on the concentration of credit as to industry of the Group and Parent Company follows:

	Consolidated			
	2019		2018	
	Amounts	**%**	Amounts	%
Real estate, renting and business services	**₱131,554,263**	**22.77**	₱114,735,281	22.37
Electricity, gas and water	**80,765,270**	**13.98**	72,863,548	14.21
Wholesale and retail trade	**59,338,753**	**10.27**	55,339,970	10.79
Transportation, storage and communication	**57,770,004**	**10.00**	50,516,030	9.85
Financial intermediaries	**63,584,082**	**11.00**	49,687,486	9.69
Manufacturing	**32,405,226**	**5.61**	28,277,954	5.51
Arts, entertainment and recreation	**17,899,693**	**3.10**	25,456,962	4.96
Accommodation and food service activities	**12,818,682**	**2.22**	12,218,029	2.38
Construction	**13,131,855**	**2.27**	11,287,124	2.20
Mining and quarrying	**9,995,905**	**1.73**	9,839,723	1.92
Agriculture	**6,636,029**	**1.15**	7,134,717	1.39
Education	**6,321,842**	**1.09**	5,717,621	1.11
Public administration and defense	**4,100,000**	**0.71**	5,166,000	1.01
Professional, scientific and technical activities	**771,566**	**0.13**	4,319,666	0.84
Others*	**80,735,867**	**13.98**	60,329,660	11.26
	₱577,829,037	**100.00**	₱512,889,771	100.00

*Others consist of administrative and support service, health, household and other activities.

	Parent Company			
	2019		2018	
	Amounts	**%**	Amounts	%
Real estate, renting and business services	**₱108,067,826**	**21.18**	₱90,654,316	20.28
Electricity, gas and water	**78,802,898**	**15.45**	70,798,136	11.04
Financial intermediaries	**62,178,902**	**12.19**	48,096,511	10.76
Wholesale and retail trade	**55,222,983**	**10.82**	49,365,453	11.04
Transportation, storage and communication	**55,429,738**	**10.86**	47,756,466	10.68
Manufacturing	**29,757,318**	**5.83**	25,115,956	5.62
Arts, entertainment and recreation	**17,799,562**	**3.49**	25,318,150	5.66
Accommodation and food service activities	**11,591,121**	**2.27**	10,563,067	2.36
Construction	**11,985,485**	**2.35**	9,965,323	2.23
Mining and quarrying	**9,991,633**	**1.96**	9,835,453	2.20
Agriculture	**5,076,970**	**1.00**	5,321,124	1.19
Public administration and defense	**4,100,000**	**0.80**	5,166,000	1.16
Education	**5,667,447**	**1.11**	4,872,451	1.09
Professional, scientific and technical activities	**685,031**	**0.13**	4,221,842	0.94
Others*	**53,806,348**	**10.55**	40,015,998	8.95
	₱510,163,262	**100.00**	₱447,066,246	100.00

*Others consist of administrative and support service, health, household and other activities.

As of December 31, 2019 and 2018, the Parent Company does not have credit concentration in any particular industry.

Interest Income on Loans and Receivables
This account consists of:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Receivables from customers	**₱36,051,051**	₱28,195,915	₱21,663,571	**₱30,824,138**	₱23,488,872	₱17,455,018
Unquoted debt securities	**–**	–	88,076	**–**	–	81,999
	₱36,051,051	₱28,195,915	₱21,751,647	**₱30,824,138**	₱23,488,872	₱17,537,017

As of December 31, 2019 and 2018, 72.55% and 67.40%, respectively, of the total receivables from customers of the Group were subject to interest repricing. As of December 31, 2019 and 2018, 75.54% and 71.76%, respectively, of the total receivables from customers of the Parent Company were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 1.66% to 10.50% in 2019, from 1.65% to 10.50% in 2018, and from 2.08% to 10.50% in 2017 for foreign currency−denominated receivables and from 0.95% to 30.00% in 2019 and from 0.95% to 30.00% in 2018, and from 0.95% to 30.00% in 2017 for peso−denominated receivables.

11. Equity Investments

This account consists of investments in:

A. Subsidiaries

	2019	2018
Equity Method:		
Balance at beginning of the year		
CBSI	**₱12,117,074**	₱11,618,713
CBCC	**1,846,455**	1,512,899
CBC−PCCI	**42,739**	27,905
CIBI	**327,299**	401,215
	14,333,567	13,560,732

(Forward)

	2019	2018
Share in net income		
CBSI	**₱345,165**	₱328,663
CBCC	**350,421**	358,796
CBC–PCCI	**18,061**	14,834
CIBI	**56,981**	(6,938)
	770,628	695,355
Share in Other Comprehensive Income		
Items that recycle to profit or loss in subsequent periods:		
Net unrealized gain (loss) on FVOCI		
CBSI	**143,236**	(25,338)
CBCC	**34,527**	(27,584)
CIBI	**12,732**	(16,978)
	190,495	(69,900)
Cumulative translation adjustments		
CBSI	**17,015**	5,791
	17,015	5,791
Items that do not recycle to profit or loss in subsequent periods:		
Remeasurement gain on defined benefit assets		
CBSI	**(66,609)**	86,299
CBCC	**5,499**	2,344
CIBI	**4,758**	–
	(56,352)	88,643
Realized loss on sale of equity securities at FVOCI	**(76,597)**	(397,055)
	(76,597)	(397,055)
Additional Investments		
CBSI	**363**	500,000
	363	500,000
Cash Dividends		
CBSI	–	86,299
CIBI	**(50,000)**	(50,000)
	(50,000)	36,299
Balance at end of the year		
CBSI	**12,479,647**	12,117,074
CBCC	**2,236,902**	1,846,455
CBC–PCCI	**60,800**	42,739
CIBI	**351,769**	327,299
	₱15,129,118	₱14,333,567

B. Associates:

	2019	2018
Equity Method:		
Balance at beginning of the year	**₱335,092**	₱329,422
Share in net income	**184,661**	101,009
Share in OCI:		
Items that do not recycle to profit or loss in subsequent periods		
Remeasurement gain (loss) on life insurance reserves	**(11,021)**	31,374
Items that recycle to profit or loss in subsequent periods:		
Net unrealized gain (loss) on FVOCI	**152,452**	(126,713)
Remeasurement on defined benefit plan	**2,985**	–
Additional investments	**40,000**	–
Balance at end of the year	**₱704,169**	₱335,092

CBSI
Cost of investment includes the original amount incurred by the Parent Company from its acquisitionof CBSI in 2007 amounting to ₱1.07 billion. The capital infusion to CBSI in 2018 amounting to ₱500 million was approved by the Parent Company's BOD on June 6, 2018.

Merger of CBSI with PDB
The BOD of both CBSI and PDB, in their meeting held on June 26, 2014, approved the proposed merger of PDB with CBSI, with the latter as the surviving bank. On November 6, 2015, the BSP issued the Certificate of Authority on the Articles of Merger and the Plan of Merger, as amended, of CBSI and PDB. On December 17, 2015, CBSI obtained SEC's approval of its merger with PDB, whereby the entire assets and liabilities of PDB shall be transferred to and absorbed by CBSI.

Acquisition of PDB
In 2014, the Parent Company made tender offers to non−controlling stockholders of PDB. As of December 31, 2014, the Parent Company owns 99.85% and 100.00% of PDB's outstanding common and preferred stocks, respectively.

As of December 31, 2014, the Parent Company's cost of investment in PDB consists of:

Acquisition of majority of PDB's capital stock	₱1,421,346
Additional capital infusion	1,300,000
Tender offers	255,354
	₱2,976,700

On March 31, 2015, the Parent Company made additional capital infusion to PDB amounting to ₱1.70 billion. Of the total cost of investment, the consideration transferred for the acquisition of PDB follows:

Acquisition of majority of PDB's capital stock	₱1,421,346
Tender offers	255,354
	₱1,676,700

In 2015, the MB of the BSP granted to the Group investment and merger incentives in the form of waiver of special licensing fees for 67 additional branch licenses in restricted areas. This is in addition to the initial investment and merger incentives of 30 new branches in restricted areas and 35 branches to be transferred from unrestricted to restricted areas granted to the Parent Company by the MB in 2014. These branch licenses were granted under the Strengthening Program for Rural Bank (SPRB) Plus Framework.

The branch licenses have the following fair values:

114 Commercial Bank branch licenses	₱2,280,000
18 Thrift Bank branch licenses	270,000
	2,550,000
Deferred tax liability	765,000
	₱1,785,000

On April 6, 2016, the Parent Company's BOD has approved the allocation of the 67 additional branch licenses in restricted areas as follows: 49 to the Parent Company and 18 to CBSI. Pursuant to a memorandum dated March 18, 2017, the 67 branch licenses were awarded as incentives by the Monetary Board as a result of the Parent Company's acquisition of PDB. Goodwill from acquisition of PDB is computed as follows:

Consideration transferred		₱1,676,700
Less: Fair value of identifiable assets and liabilities acquired (Note 15)		
Net liabilities of PDB	(₱725,207)	
Branch licenses, net of deferred tax liability (Note 13)	1,785,000	1,059,793
		₱616,907

CIBI

On October 16, 2019, the BOD declared and approved cash dividend of ₱50 million for stockholders on record as of declaration date, payable on December 19, 2019.

On December 7, 2018, the BOD of CIBI approved the declaration of the cash dividends of ₱50 million from the CIBI's unrestricted retained earnings for Stockholders on record as of December 15, 2018 and payable on December 26, 2018.

CBCC

On April 1, 2015, the BOD approved the investment of the Parent Company in an investment house subsidiary, CBCC, up to the amount of ₱500.00 million, subject to the requirements of relevant regulatory agencies. On April 30, 2015, the BSP approved the request of the Parent Company to invest up to 100% or up to ₱500.00 million common shares in CBCC, subject to certain conditions. On November 27, 2015, the SEC approved the Articles of Incorporation and By−Laws of CBCC. It also granted CBCC the license to operate as an investment house. Actual capital infusion to CBCC amounted to ₱200.00 million and ₱300.00 million in 2016 capital stock of CBCC from ₱500.00 million to ₱2.00 billion to enable CBCC to handle bigger and 2015, respectively.

On January 19, 2017, the BOD of CBCC approved the increase in authorized deals. The approval was ratified by the BOD of the Parent Company on February 1, 2017. On April 27, 2017, the Parent Company paid CBCC ₱500.00 million for additional subscription of 50,000,000 shares.

CBCC acquisition of CBCSec (formerly ATC Securities, Inc.)

On May 19, 2016, the BOD of CBCC approved the acquisition of ATC Securities, Inc. (ATC).

On June 29, 2016, CBCC and the shareholders of ATC (the Original Shareholders) entered into an Agreement for the Purchase of Shares (Agreement), whereby CBCC agreed to buy, and the Original Shareholders agreed to sell, 3,800,000 shares representing 100% of the issued and outstanding shares of ATC.

On July 6, 2017, the SEC approved the change of name from ATC Securities, Inc. to China Bank Securities Corporation.

CBC Assets One (SPC) Inc.

CBC Assets One (SPC) Inc. was incorporated on June 15, 2016 as a wholly−owned special purpose company of CBCC for asset−backed securitization. It has not yet commenced commercial operations.

Investment in Associates

Investment in associates in the consolidated and Parent Company's financial statements pertain to investment in MCB Life and CBC−PCCI's investment in Urban Shelters (accounted for by CBC−PCCI in its financial statements as an investment in an associate). Investment in Urban Shelters is carried at nil amount as of December 31, 2019 and 2018.

MCB Life
On August 2, 2006, the BOD approved the joint project proposal of the Parent Company with Manufacturers Life Insurance Company (Manulife). Under the proposal, the Parent Company will invest in a life insurance company owned by Manulife, and such company will be offering innovative insurance and financial products for health, wealth and education through the Parent Company's branches nationwide. The life insurance company was incorporated as The Pramerica Life Insurance Company Inc. in 1998. The name was changed to Manulife China Bank Life Assurance Corporation on March 23, 2007. The Parent Company acquired 5.00% interest in MCB Life on August 8, 2007. This investment is accounted for as an investment in an associate by virtue of the Bancassurance Alliance Agreement which provides the Parent Company to be represented in MCB Life's BOD and, thus, exercise significant influence over the latter.

The BSP requires the Parent Company to maintain a minimum of 5.00% ownership over MCB Life in order for MCB Life to be allowed to continue distributing its insurance products through the Parent Company's branches.

On September 12, 2014, the BSP approved the request of the Parent Company to raise its capital investment in MCB Life from 5.00% to 40.00% of its authorized capital through purchase of 1.75 million common shares.

On December 5, 2018, the Parent Company's BOD approved the additional capital infusion in the amount of ₱40.00 million in MCB Life. This represents 40% of the ₱100.00 million total capital infusion in MCB Life with the balance of ₱60.00 million to be provided by Manulife Philippines. On top of complying with the higher capital requirements for insurance companies, the additional capital will improve MCB Life's capacity to underwrite more business and enhance its competitive position. On February 22, 2019, the BSP approved the Bank's capital infusion of ₱40.0 million to MCB Life to comply with the capitalization requirement of the Insurance Commission for insurance companies, which was paid on March 21, 2019.

The following tables show the summarized financial information of MCB Life:

	2019	2018
Total assets	**₱39,276,563**	₱34,832,490
Total liabilities	**37,565,561**	34,007,106
Equity	**1,711,002**	825,384

	2019	2018
Revenues	**₱8,628,345**	₱9,176,931
Benefits, claims and operating expenses	**8,104,905**	8,898,029
Income before income tax	**523,441**	278,902
Net income	**483,173**	252,522

Commission income earned by the Group from its bancassurance agreement amounting to ₱303.45 million, ₱357.79 million, ₱360.01 million in 2019, 2018 and 2017, respectively, is included under 'Miscellaneous income' in the statements of income (Note 22).

12. Bank Premises, Furniture, Fixtures and Equipment and Right-of-use Assets

The composition of and movements in this account follow:

	Consolidated							
	Land (Note 23)	**Furniture, Fixtures and Equipment**	**Buildings**	**Leasehold Improvements**	**Construction−in−Progress**	**Right-of-use Assets Land (Note 2)**	**Right-of-use Assets Bldg. (Note 2)**	**2019 Total**
Cost								
Balance at beginning of year	**₱3,218,263**	**₱7,909,078**	**₱1,789,412**	**₱2,189,884**	**₱24,727**	**₱181,451**	**₱3,260,478**	**₱18,573,293**
Additions	**–**	**388,704**	**95,138**	**108,863**	**82,649**	**–**	**247,311**	**922,665**
Disposals/transfers (Note 14)*	**18,732**	**(1,315,540)**	**77,268**	**27,824**	**(47,937)**	**–**	**(1,396)**	**(1,241,049)**
Balance at end of year	**3,236,995**	**6,982,242**	**1,961,818**	**2,326,571**	**59,439**	**181,451**	**3,506,393**	**18,254,909**
Accumulated Depreciation and Amortization								
Balance at beginning of year	**–**	**6,360,109**	**1,063,973**	**1,256,824**	**–**	**–**	**–**	**8,680,906**
Depreciation and amortization	**–**	**581,985**	**108,578**	**233,081**	**–**	**13,556**	**657,228**	**1,594,428**
Disposals/transfers (Note 14)*	**–**	**(1,139,495)**	**(14,911)**	**(22,304)**	**–**	**–**	**1,052**	**(1,175,658)**
Balance at end of year	**–**	**5,802,599**	**1,157,640**	**1,467,601**	**–**	**13,556**	**658,280**	**9,099,676**
Net Book Value at End of Year	**₱3,236,995**	**₱1,179,643**	**₱804,179**	**₱858,970**	**₱59,439**	**₱167,895**	**₱2,848,113**	**₱9,155,233**

*Includes transfers from investment properties amounting to ₱28.90 million.

	Consolidated					
	Land (Note 23)	Furniture, Fixtures and Equipment	Buildings	Leasehold Improvements	Construction−in−Progress	2018 Total
Cost						
Balance at beginning of year	₱`3,345,404	₱7,893,528	₱1,941,742	₱1,855,565	₱61,489	₱15,097,728
Additions		631,734	23,978	315,486	86,804	1,058,002
Disposals/transfers*	(127,141)	(616,184)	(176,307)	18,832	(123,565)	(1,024,365)
Balance at end of year	3,218,263	7,909,078	1,789,413	2,189,883	24,728	15,131,365
Accumulated Depreciation and Amortization						
Balance at beginning of year	–	6,079,049	1,103,650	1,038,017	–	8,220,716
Depreciation and amortization	–	704,124	94,836	211,907	–	1,010,867
Disposals/transfers*	–	(423,065)	(134,512)	6,901	–	(550,676)
Balance at end of year	–	6,360,108	1,063,974	1,256,825	–	8,680,907
Allowance for Impairment Losses (Note 16)						
Balance at beginning of year	–	–	1,148	–	–	1,148
Reclassification	–	–	(1,148)	–	–	(1,148)
Balance at end of year	–	–	–	–	–	–
Net Book Value at End of Year	₱3,218,263	₱1,548,970	₱725,439	₱933,058	₱24,728	₱6,450,458

*Includes transfers from investment properties amounting to ₱ 20.13 million.

	Parent Company							
	Land (Note 23)	**Furniture, Fixtures and Equipment**	**Buildings**	**Leasehold Improvements**	**Construction−in−Progress**	**Right-of-use Assets Land (Note 2)**	**Right-of-use Assets Bldg. (Note 2)**	**2019 Total**
Cost								
Balance at beginning of year	**₱2,786,310**	**₱6,628,787**	**₱1,104,030**	**₱1,536,024**	**₱24,727**	**₱181,451**	**₱2,544,985**	**₱14,806,314**
Additions	**-**	**292,340**	**90,988**	**80,222**	**42,494**	–	**185,549**	**691,593**
Disposals/transfers (Note 14)*	**103,395**	**(1,256,060)**	**40,672**	**26,633**	**(47,851)**	–	–	**(1,133,211)**
Balance at end of year	**2,889,705**	**5,665,067**	**1,235,690**	**1,642,879**	**19,370**	**181,451**	**2,730,534**	**14,364,696**
Accumulated Depreciation and Amortization								
Balance at beginning of year	–	**5,381,253**	**580,504**	**852,735**	–	–	–	**6,814,492**
Depreciation and amortization	–	**455,240**	**61,486**	**165,524**	–	**13,556**	**491,975**	**1,187,781**
Disposals/transfers (Note 14)*	–	**(1,087,258)**	**3,610**	**(22,573)**	–	–	–	**(1,106,221)**
Balance at end of year	–	**4,749,235**	**645,600**	**995,686**	–	**13,556**	**491,975**	**6,896,052**
Net Book Value at End of Year	**₱2,889,705**	**₱915,832**	**₱590,090**	**₱647,193**	**₱19,370**	**₱167,895**	**₱2,238,559**	**₱7,468,644**

*Includes transfers from investment properties amounting to ₱28.90 million

	Parent Company					
	Land (Note 23)	Furniture, Fixtures and Equipment	Buildings	Leasehold Improvements	Construction−in−Progress	2018 Total
Cost						
Balance at beginning of year	₱2,786,310	₱6,668,301	₱1,085,668	₱1,351,869	₱61,486	₱11,953,634
Additions	–	498,101	16,235	223,957	86,804	825,097
Disposals/transfers*	–	(537,615)	2,127	(39,802)	(123,565)	(698,855)
Balance at end of year	2,786,310	6,628,787	1,104,030	1,536,024	24,725	12,079,876
Accumulated Depreciation and Amortization						
Balance at beginning of year	–	5,189,416	543,875	755,761	–	6,489,052
Depreciation and amortization	–	557,586	36,010	148,934	–	742,530
Disposals/transfers*	–	(365,749)	618	(51,961)	–	(417,092)
Balance at end of year	–	5,381,253	580,503	852,734	–	6,814,490
Net Book Value at End of Year	₱2,786,310	₱1,247,534	₱523,527	₱683,290	₱24,725	₱5,265,386

*Includes transfers from investment properties amounting to ₱20.13 million.

The Group adopted the deemed cost model as of January 1, 2004 and considered the carrying value of the land determined under its previous accounting method (revaluation method) as the deemed cost of the asset as of January 1, 2005. Accordingly, revaluation increment amounting to ₱1.28 billion was closed to surplus (Note 24) in 2011.

As of December 31, 2019 and 2018, the gross carrying amount of fully depreciated furniture, fixtures and equipment still in use amounted to ₱2.73 billion and ₱3.47 billion, respectively, for the Group and ₱1.99 billion and ₱2.61 billion, respectively, for the Parent Company.

Gain on sale of furniture, fixtures and equipment amounting to ₱1.44 million, ₱1.81 million and ₱2.11 million in 2019, 2018 and 2017, respectively, for the Group and ₱1.44 million, ₱1.60 million and ₱1.69 million in 2019, 2018 and 2017, respectively, for the Parent Company are included in the statements of income under 'Miscellaneous income' account (Note 22).

In 2017, depreciation and amortization amounting to ₱932.39 million and ₱877.24 million for the Group and Parent Company, respectively, are included in the statements of income under 'Depreciation and amortization' account.

13. **Investment Properties**

The composition of and movements in this account follow:

	Consolidated		
	Land	**Buildings and Improvements**	**2019 Total**
Cost			
Balance at beginning of year	**₱4,285,852**	**₱2,659,748**	**₱6,945,600**
Additions	**405,996**	**445,622**	**851,618**
Disposals/write–off/transfers*	**(1,041,905)**	**(374,652)**	**(1,416,557)**
Balance at end of year	**3,649,943**	**2,730,718**	**6,380,661**
Accumulated Depreciation and Amortization			
Balance at beginning of year	–	**880,766**	**880,766**
Depreciation and amortization	–	**173,378**	**173,378**
Disposals/write–off/transfers*	–	**(139,679)**	**(139,679)**
Balance at end of year	–	**914,465**	**914,465**
Allowance for Impairment Losses (Note 16)			
Balance at beginning of year	**942,559**	**332,673**	**1,275,232**
Disposals/write–off/reclassification*	**(68,196)**	**(11,164)**	**(79,360)**
Reclassification		**(66,861)**	**(66,861)**
Balance at end of year	**874,363**	**254,648**	**1,129,011**
Net Book Value at End of Year	**₱2,775,580**	**₱1,561,605**	**₱4,337,185**

*Includes transfers to bank premises amounting to ₱28.90 million (Note 12).

	Consolidated		
	Land	Buildings and Improvements	2018 Total
Cost			
Balance at beginning of year	₱4,605,061	₱2,646,549	₱7,251,610
Additions	135,099	408,334	543,433
Disposals/write–off/transfers*	(454,309)	(395,136)	(849,445)
Balance at end of year	4,285,851	2,659,747	6,945,598
Accumulated Depreciation and Amortization			
Balance at beginning of year	–	742,071	742,071
Depreciation and amortization	–	170,978	170,978
Disposals/write–off/transfers*	–	(32,285)	(32,285)
Balance at end of year	–	880,764	880,764
Allowance for Impairment Losses (Note 16)			
Balance at beginning of year	1,028,013	409,370	1,437,383
Disposals/write–off/reclassification*	(85,454)	(76,697)	(162,151)
Balance at end of year	₱942,559	₱332,673	₱1,275,232
Net Book Value at End of Year	₱3,343,292	₱1,446,310	₱4,789,602

*Includes transfers to bank premises amounting to ₱20.13 million (Note 12).

	Parent Company		
	Land	**Buildings and Improvements**	**2019 Total**
Cost			
Balance at beginning of year	**₱1,420,279**	**₱1,329,938**	**₱2,750,217**
Additions	**174,610**	**315,738**	**490,348**
Disposals/write–off/transfers*	**(66,810)**	**(106,911)**	**(173,721)**
Balance at end of year	**1,528,079**	**1,538,765**	**3,066,844**
Accumulated Depreciation and Amortization			
Balance at beginning of year	–	**440,455**	**440,455**
Depreciation and amortization	–	**101,933**	**101,933**
Disposals/write–off/transfers*	–	**(87,046)**	**(87,046)**
Balance at end of year	–	**455,342**	**455,342**
Allowance for Impairment Losses (Note 16)			
Balance at beginning and end of year	**919,276**	**201,689**	**1,120,965**
Disposals/write–off/reclassification*	**(6,450)**	–	**(6,450)**
Balance at end of year	**912,826**	**201,689**	**1,114,515**
Net Book Value at End of Year	**₱615,253**	**₱881,734**	**₱1,496,987**

*Includes transfers to bank premises amounting to ₱28.90 (Note 12).

	Parent Company		
	Land	Buildings and Improvements	2018 Total
Cost			
Balance at beginning of year	₱1,859,355	₱1,397,668	₱3,257,023
Additions	135,099	125,671	260,770
Disposals/write–off/transfers*	(574,177)	(193,400)	(767,577)
Balance at end of year	1,420,277	1,329,939	2,750,216
Accumulated Depreciation and Amortization			
Balance at beginning of year	–	500,102	500,102
Depreciation and amortization	–	89,928	89,928
Disposals/write–off/transfers*	–	(149,575)	(149,575)
Balance at end of year	–	440,455	440,455
Allowance for Impairment Losses (Note 16)			
Balance at beginning and end of year	1,004,729	201,689	1,206,418
Disposals/write–off/reclassification*	(85,454)	–	(85,454)
Balance at end of year	919,275	201,689	1,120,964
Net Book Value at End of Year	₱501,002	₱687,795	₱1,188,797

*Includes transfers to bank premises amounting to ₱20.13 million (Note 12).

The Group's investment properties consist entirely of real estate properties acquired in settlement of loans and receivables. The difference between the fair value of the investment property upon foreclosure and the carrying value of the loan is recognized under 'Gain on asset foreclosure and dacion transactions' in the statements of income.

In 2017, depreciation and amortization amounting to ₱191.34 million and ₱104.64 million for the Group and Parent Company, respectively, are included in the statements of income under 'Depreciation and amortization' account.

In 2019, expense relating to short-term leases amounting to ₱523.71 million and ₱388.83 million for the Group and Parent Company, respectively, are included in the 'Occupancy cost' account. Total cash outflows for leases amount to ₱1.51 billion and ₱1.18 billion for the Group and Parent Company, respectively.

Details of rental income earned and direct operating expenses incurred on investment properties follow:

	Consolidated		
	2019	2018	2017
Rent income on investment properties	**₱38,288**	₱35,323	₱32,499
Direct operating expenses on investment properties generating rent income	**12,952**	1,451	924
Direct operating expenses on investment properties not generating rent income	**55,424**	66,011	52,029

	Parent Company		
	2019	2018	2017
Rent income on investment properties	**₱8,460**	₱10,994	₱8,250
Direct operating expenses on investment properties generating rent income	**12,150**	649	799
Direct operating expenses on investment properties not generating rent income	**20,503**	29,584	33,405

Rent income earned from leasing out investment properties is included under ‘Miscellaneous income’ in the statements of income (Note 22).

On August 26, 2011, the Parent Company was registered as an Economic Zone Information Technology (IT) Facilities Enterprise with the Philippine Economic Zone Authority (PEZA) to operate and maintain a proposed 17−storey building located inside the CBP−IT Park in Barangays Mabolo, Luz, Hipodromo, Carreta, and Kamputhaw, Cebu City, for lease to PEZA−registered IT enterprises, and to be known as Chinabank Corporate Center. This registration is under PEZA Registration Certificate No. 11−03−F.

Under this registration, the Parent Company is entitled to five percent (5.00%) final tax on gross income earned from locator IT enterprises and related operations in accordance with existing PEZA rules. The Parent Company shall also be exempted from the payment of all national and local taxes in relation to this registered activity.

14. Goodwill and Intangible Assets

Goodwill

Goodwill represents the excess of the acquisition costs over the fair value of the identifiable assets and liabilities of companies acquired by the Group.

The Group attributed the goodwill arising from its acquisition of CBSI and PDB to factors such as increase in geographical presence and customer base due to the branches acquired. None of the goodwill recognized is expected to be deductible for income tax purposes. CBSI as surviving entity from the merger with PDB, is the identified CGU for this goodwill. The Parent Company’s Retail Banking Business (RBB) has been identified as the CGU for impairment testing of the goodwill from its acquisition of CBSI.

As of December 31, 2019 and 2018, amount of goodwill per CGU follows:

	Consolidated	Parent Company
RBB	₱222,841	₱222,841
CBSI	616,907	−
Total	₱839,748	₱222,841

The recoverable amount of the CGUs have been determined based on a value−in−use calculation using cash flow projections from financial budgets approved by senior management covering a five−year period, which do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the CGU being tested. Other than loans and deposits growth rates, the significant assumptions, and the most sensitive, used in computing for the recoverable values of the CGUs follow:

	2019		2018	
	RBB	**CBSI**	RBB	CBSI
Discount rate	**6.29%**	**10.19%**	7.12%	9.81%
Long-term growth rate	**1.00%**	**1.00%**	1.00%	1.00%

With regard to the assessment of value−in−use of the CGU, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount as of December 31, 2019 and 2018.

Branch Licenses

Branch licenses of the Group arose from the acquisitions of CBSI, Unity Bank, and PDB. As of December 31, 2019 and 2018, details of branch licenses (gross of allowance for impairment) in the Group's and Parent Company's financial statements follow:

	Consolidated	Parent Company
Branch license from CBSI acquisition	**₱420,600**	**₱398,000**
Branch license from Unity Bank acquisition	**347,400**	–
Branch license from PDB acquisition*	**2,839,500**	–
Total	**₱3,607,500**	**₱398,000**

**mostly attributable to the Parent Company*

The calculation of the value–in–use of the CGU is most sensitive to the following assumptions:

- Discount rates
- Long-term growth rate used to extrapolate cash flows beyond the budget period

As of December 31, 2019, the Group provided allowance for probable losses amounting to ₱160 million related to certain branch licenses granted by the BSP in restricted areas arising from the acquisition of CBSI.

Capitalized software costs

The movements in the account follow:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Cost				
Balance at beginning of year	**₱1,000,739**	₱714,230	**₱895,105**	₱591,256
Additions	**96,460**	144,123	**79,070**	154,055
Disposals/Write-off/Reclass (Note 12)	**794,174**	142,386	**811,256**	149,794
Balance at end of year	**1,891,373**	1,000,739	**₱1,785,431**	895,105
Accumulated Depreciation and Amortization				
Balance at beginning of year	**407,277**	217,697	**377,574**	188,395
Depreciation and amortization	**174,855**	115,840	**173,378**	115,450
Disposals/Write-off/Reclass (Note 12)	**686,563**	73,740	**686,563**	73,729
Balance at end of year	**1,268,695**	407,277	**1,237,514**	377,574
Net Book Value at End of Year	**₱622,678**	593,462	**₱547,917**	₱517,531

15. **Other Assets**

This account consists of:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Financial assets				
Accounts receivable	**₱2,394,849**	₱2,595,023	**₱1,464,942**	₱1,480,760
SCR	**1,162,106**	1,121,035	**235,049**	224,035
RCOCI	**424,364**	129,142	**342,018**	117,227
Others	**966,441**	491,475	**330,363**	175,540
	4,947,760	4,336,675	**2,372,372**	1,997,562
Nonfinancial assets				
Net plan assets (Note 25)	**543,471**	777,827	**499,711**	756,160
Prepaid expenses	**338,754**	246,053	**303,794**	208,632
Creditable withholding taxes	**544,634**	338,618	**476,107**	338,618
Security deposit	**268,602**	272,541	**189,277**	193,216
Documentary stamps	**198,093**	215,696	**157,020**	149,078
Sundry debits	**278,761**	358,051	**278,761**	166,951
Miscellaneous	**332,751**	433,502	–	–
	2,505,066	2,642,288	**1,904,670**	1,812,655
	7,452,826	6,978,963	**4,277,042**	3,810,217
Allowance for impairment and credit losses (Note 16)	**(565,319)**	(759,404)	**(294,913)**	(477,454)
	₱6,887,507	₱6,219,559	**₱3,982,129**	₱3,332,763

Accounts receivable
Accounts receivable also includes non−interest bearing advances to officers and employees, with terms ranging from 1 to 30 days and receivables of the Parent Company from automated teller machine (ATM) transactions of clients of other banks that transacted through any of the Parent Company's ATM terminals.

Sales Contract Receivable
This refers to the amortized cost of assets acquired in settlement of loans through foreclosure or dation in payment and subsequently sold on installment basis whereby the title to the said property is transferred to the buyers only upon full payment of the agreed selling price.

SCR bears fixed interest rate per annum in 2019 and 2018 ranging from 5% to 10.25% and 5.00% to 10.00%, respectively.

Miscellaneous
Miscellaneous consists mainly of unissued stationery and supplies, inter−office float items, and deposits for various services.

16. **Allowance for Impairment and Credit Losses**

Changes in the allowance for impairment and credit losses are as follows:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Balances at beginning of year				
Loans and receivables	**₱6,829,280**	₱8,121,175	**₱5,425,713**	₱6,500,542
Investment properties	**1,275,232**	1,437,383	**1,120,965**	1,206,418
Accrued interest receivable	**303,555**	201,647	**45,247**	58,269
Financial Assets at FVOCI	**(4,023)**	128,171	–	6,323
Investment securities at amortized cost	**375,102**	–	**214,938**	83,618
Bank premises, furniture, fixtures and equipment	–	1,148	–	–
Other assets	**772,004**	781,424	**477,454**	540,960
	9,551,150	10,670,948	**7,284,317**	8,396,130
Provisions charged to operations	**2,570,168**	141,076	**2,205,062**	(1,957)
Accounts charged off and others	**(305,722)**	(1,260,874)	**(746)**	(1,109,856)
	2,264,446	(1,119,798)	**2,204,316**	(1,111,813)
Balances at end of year				
Loans and receivables (Note 10)	**8,559,976**	6,829,280	**6,938,785**	5,425,713
Investment properties (Note 13)	**1,129,012**	1,275,232	**1,114,514**	1,120,965
Accrued interest receivable	**275,888**	303,555	**39,261**	45,247
Financial Assets at FVPL	**6,297**	–	–	–
Financial Assets at FVOCI (Note 9)	**18,521**	(4,023)	**18,471**	–
Investment securities at amortized cost	**1,087,983**	375,102	**1,082,690**	214,938
Intangible assets	**172,600**	–	–	–
Other assets (Note 15)	**565,319**	772,004	**294,912**	477,454
	₱11,815,596	₱9,551,150	**₱9,488,633**	₱7,284,317

At the current level of allowance for impairment and credit losses, management believes that the Group has sufficient allowance to cover any losses that may be incurred from the non–collection or non–realization of its loans and receivables and other risk assets.

The separate valuation allowance of acquired loans and receivables from PDB amounting to ₱1.59 billion was not recognized by the Group on the effectivity date of acquisition as these receivables were measured at fair value at acquisition date. Any uncertainties about future cash flows of these receivables were included in their fair value measurement (Note 11). Also, the separate valuation allowance of acquired investment properties from PDB amounting to ₱199.15 million was not recognized by the Group on the effectivity date of acquisition as these properties were measured at fair value on acquisition date.

The tables below illustrate the movements of the allowance for impairment and credit losses during the year (effect of movements in ECL due to transfers between stages are shown in the total column):

	Consolidated			
	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Corporate and commercial lending	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance at January 1, 2019	**2,775,127**	**983,660**	**1,590,107**	**5,348,894**
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(52,828)	117,697	-	64,869
Transfer from Stage 1 to Stage 3	(1,359)	-	128,216	126,857
Transfer from Stage 2 to Stage 1	161,584	(806,673)	-	(645,089)
Transfer from Stage 2 to Stage 3	-	(35,349)	466,611	431,262
Transfer from Stage 3 to Stage 1	11,821	-	(18,807)	(6,986)
Transfer from Stage 3 to Stage 2	-	207	(207)	-

(Forward)

Corporate and commercial lending	Consolidated ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
New financial assets originated *	1,653,940	153,502	654,294	2,461,736
Changes in PDs/LGDs/EADs	(173,129)	119,883	518,155	464,909
Financial assets derecognized during the period	(968,397)	(39,618)	(205,387)	(1,213,402)
Fx and other movements	17,673	20	12,192	29,885
Total net P&L charge during the period	**649,305**	**(490,331)**	**1,555,067**	**1,714,041**
Other movements without P&L impact				
Write-offs, Foreclosures and other movements	(17,716)	(17)	(127,758)	(145,491)
Total movements without P&L impact	**(17,716)**	**(17)**	**(127,758)**	**(145,491)**
Loss allowance at December 31, 2019	**3,406,716**	**493,312**	**3,017,416**	**6,917,444**

** Stage classification of new financial assets originated pertains to the stage as of end of year*

Consumer lending	Consolidated ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance at January 1, 2019	**223,382**	**16,576**	**1,141,577**	**1,381,535**
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(5,909)	11,613	-	5,704
Transfer from Stage 1 to Stage 3	(3,345)	-	74,421	71,076
Transfer from Stage 2 to Stage 1	2,134	(2,300)	-	(166)
Transfer from Stage 2 to Stage 3	-	(7,011)	17,168	10,157
Transfer from Stage 3 to Stage 1	12,565	-	(32,749)	(20,184)
Transfer from Stage 3 to Stage 2	-	3,004	(10,610)	(7,606)
New financial assets originated*	80,141	8,549	102,033	190,723
Changes in PDs/LGDs/EADs	(59,675)	4,088	(127,824)	(183,411)
Financial assets derecognized during the period	(22,734)	(3,584)	(86,203)	(112,521)
Fx and other movements	(15)	-	2,016	2,001
Total net P&L charge during the period	**3,162**	**14,359**	**(61,748)**	**(44,227)**
Other movements without P&L impact				
Write-offs, Foreclosures and other movements	-	-	(31,668)	(31,668)
Total movements without P&L impact	**-**	**-**	**(31,668)**	**(31,668)**
Loss allowance at December 31, 2019	**226,544**	**30,935**	**1,048,161**	**1,305,640**

** Stage classification of new financial assets originated pertains to the stage as of end of year*

Trade-related lending	Consolidated ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance at January 1, 2019	**53,678**	**25,774**	**19,400**	**98,852**
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(14)	88	-	74
Transfer from Stage 1 to Stage 3	(242)	-	46,387	46,145
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets originated*	127,018	341	141,229	268,588
Changes in PDs/LGDs/EADs	17	-	(1)	16
Financial assets derecognized during the period	(53,384)	(25,774)	-	(79,158)
Fx and other movements	297	-	-	297
Total net P&L charge during the period	**73,692**	**(25,345)**	**187,615**	**235,962**
Other movements without P&L impact				
Write-offs, foreclosures and other movements	(297)	-	-	(297)
Total movements without P&L impact	**(297)**	**-**	**-**	**(297)**
Loss allowance at December 31, 2019	**127,073**	**429**	**207,015**	**334,517**

** Stage classification of new financial assets originated pertains to the stage as of end of year*

Investments measured at Amortized Cost	Consolidated			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance at January 1, 2019	**208,949**	**14,317**	**151,836**	**375,102**
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(12,351)	697,085	-	684,734
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	29	(486)	-	(457)
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets originated or purchased*	14,762	101,535	-	116,297
Changes in PDs/LGDs/EADs	78,542	4,099	-	82,641
Financial assets derecognized during the period	(18,712)	(4,722)	(151,836)	(175,270)
Fx and other movements	23,248	1,681	-	24,929
Total net P&L charge during the period	**85,518**	**799,192**	**(151,836)**	**732,874**
Other movements without P&L impact				
Write-offs, foreclosures and other movements	(18,379)	(1,681)	-	(20,060)
Total movements without P&L impact	**(18,379)**	**(1,681)**	**-**	**(20,060)**
Loss allowance at December 31, 2019	**276,088**	**811,828**	**-**	**1,087,916**

** Stage classification of new financial assets originated or purchased pertains to the stage as of end of year*

Investments measured at FVOCI (Debt)	Consolidated			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance at January 1, 2019	**3,496**	**2**	**-**	**3,498**
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	19	(2)	-	17
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets originated or purchased*	9,688	-	-	9,688
Changes in PDs/LGDs/EADs	(96)	-	-	(96)
Financial assets derecognized during the period	(909)	-	-	(909)
Fx and other movements	1,637	-	-	1,637
Total net P&L charge during the period	**10,339**	**(2)**	**-**	**10,337**
Other movements without P&L impact				
Write-offs, foreclosures and other movements	(1,637)	-	-	(1,637)
Total movements without P&L impact	**(1,637)**	**-**	**-**	**(1,637)**
Loss allowance at December 31, 2019	**12,198**	**-**	**-**	**12,198**

** Stage classification of new financial assets originated or purchased pertains to the stage as of end of year*

Corporate and commercial lending	Parent			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
Loss allowance at January 1, 2019	**2,646,168**	**961,778**	**909,762**	**4,517,708**
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	**(51,341)**	**116,210**	–	**64,869**
Transfer from Stage 1 to Stage 3	**(862)**	–	**127,719**	**126,857**
Transfer from Stage 2 to Stage 1	**161,245**	**(806,334)**	–	**(645,089)**
Transfer from Stage 2 to Stage 3	–	**(33,631)**	**464,893**	**431,262**
Transfer from Stage 3 to Stage 1	10	–	**(6,996)**	**(6,986)**
Transfer from Stage 3 to Stage 2	–	–	–	–
New financial assets originated *	**1,625,381**	**153,094**	**633,358**	**2,411,833**
Changes in PDs/LGDs/EADs	**(161,930)**	**116,189**	**(9,589)**	**(55,330)**

(Forward)

Corporate and commercial lending	Parent ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Financial assets derecognized during the period	**(901,968)**	**(21,640)**	**(64,352)**	**(987,960)**
Fx and other movements	**17,673**	**17**	**12,193**	**29,883**
Total net P&L charge during the period	**688,208**	**(476,095)**	**1,157,226**	**1,369,339**
Other movements without P&L impact				
Write-offs, foreclosures and other movements	**(17,716)**	**(17)**	**(127,758)**	**(145,491)**
Total movements without P&L impact	**(17,716)**	**(17)**	**(127,758)**	**(145,491)**
Loss allowance at December 31, 2019	**3,316,660**	**485,666**	**1,939,230**	**5,741,556**

** Stage classification of new financial assets originated pertains to the stage as of end of year*

Consumer lending	Parent ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance at January 1, 2019	**94,166**	**5,721**	**714,022**	**813,909**
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	**(1,968)**	**7,672**	–	**5,704**
Transfer from Stage 1 to Stage 3	**(2,068)**	–	**73,144**	**71,076**
Transfer from Stage 2 to Stage 1	**599**	**(765)**	–	**(166)**
Transfer from Stage 2 to Stage 3	–	**(621)**	**10,778**	**10,157**
Transfer from Stage 3 to Stage 1	**192**	–	**(20,376)**	**(20,184)**
Transfer from Stage 3 to Stage 2	–	**94**	**(7,700)**	**(7,606)**
New financial assets originated*	**67,474**	**2,365**	**83,338**	**153,177**
Changes in PDs/LGDs/EADs	**(3,877)**	**(342)**	**(32,708)**	**(36,927)**
Financial assets derecognized during the period	**(9,452)**	**(1,701)**	**(86,110)**	**(97,263)**
Fx and other movements	**(15)**	–	**2,016**	**2,001**
Total net P&L charge during the period	**50,885**	**6,702**	**22,382**	**79,969**
Other movements without P&L impact				
Write-offs, foreclosures and other movements	**–**	**–**	**(31,668)**	**(31,668)**
Total movements without P&L impact	–	–	**(31,668)**	**(31,668)**
Loss allowance at December 31, 2019	**145,051**	**12,423**	**704,736**	**862,210**

** Stage classification of new financial assets originated pertains to the stage as of end of year*

Trade-related lending	Parent ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance at January 1, 2019	**48,922**	**25,774**	**19,400**	**94,096**
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	**(14)**	**88**	**–**	**74**
Transfer from Stage 1 to Stage 3	**(242)**	–	**46,387**	**46,145**
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer from Stage 2 to Stage 3	–	–	–	–
Transfer from Stage 3 to Stage 1	–	–	–	–
Transfer from Stage 3 to Stage 2	–	–	–	–
New financial assets originated*	**127,018**	**341**	**141,229**	**268,588**
Changes in PDs/LGDs/EADs	17	–	(1)	16
Financial assets derecognized during the period	**(48,628)**	**(25,774)**	–	**(74,402)**
Fx and other movements	**297**	–	–	**297**
Total net P&L charge during the period	**78,448**	**(25,345)**	**187,615**	**240,718**
Other movements without P&L impact				
Write-offs, foreclosures and other movements	(297)	–	–	(297)
Total movements without P&L impact	**(297)**	–	–	**(297)**
Loss allowance at December 31, 2019	**127,073**	**429**	**207,015**	**334,517**

	Parent			
	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	Lifetime ECL	Lifetime ECL	
Investments in debt instruments (AC)				
Loss allowance at January 1, 2019	**200,622**	**14,317**	–	**214,939**
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(12,351)	697,085	–	684,734
Transfer from Stage 1 to Stage 3	–	–	–	–
Transfer from Stage 2 to Stage 1	**29**	**(486)**	–	**(457)**
Transfer from Stage 2 to Stage 3	–	–	–	–
Transfer from Stage 3 to Stage 1	–	–	–	–
Transfer from Stage 3 to Stage 2	–	–	–	–
New financial assets originated or purchased*	**13,489**	**101,535**	–	**115,024**
Changes in PDs/LGDs/EADs	**78,542**	**4,099**	–	**82,641**
Financial assets derecognized during the period	**(9,536)**	**(4,721)**	–	**(14,257)**
Fx and other movements	**18,379**	**1,681**	–	**20,060**
Total net P&L charge during the period	**88,552**	**799,193**	–	**887,745**
Write-offs, foreclosures and other movements	**(18,379)**	**(1,681)**	–	**(20,060)**
Total movements without P&L impact	**(18,379)**	**(1,681)**	–	**(20,060)**
Loss allowance at December 31, 2019	**270,795**	**811,829**	–	**1,082,624**

** Stage classification of new financial assets originated or purchased pertains to the stage as of end of year*

	Parent			
	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	Lifetime ECL	Lifetime ECL	
Investments in debt instruments (FVOCI)				
Loss allowance at January 1, 2019	**3,496**	2	–	**3,498**
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	–	–	–	–
Transfer from Stage 1 to Stage 3	–	–	–	–
Transfer from Stage 2 to Stage 1	**19**	**(2)**	–	**17**
Transfer from Stage 2 to Stage 3				
Transfer from Stage 3 to Stage 1				
Transfer from Stage 3 to Stage 2				
New financial assets originated or purchased*	**9,638**	–	–	**9,638**
Changes in PDs/LGDs/EADs	**(96)**	–	–	**(96)**
Financial assets derecognized during the period	**(909)**	–	–	**(909)**
Fx and other movements	**1,637**	–	–	**1,637**
Total net P&L charge during the period	**10,289**	**(2)**	**-**	**10,287**
Write-offs, foreclosures and other movements	(1,637)	–	–	(1,637)
Total movements without P&L impact	**(1,637)**	–	–	**(1,637)**
Loss allowance at December 31, 2019	**12,148**	–	–	**12,148**

** Stage classification of new financial assets originated or purchased pertains to the stage as of end of year*

The corresponding movement of the gross carrying amount of the financial asset are shown below:

	Consolidated			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	Total
Corporate and commercial lending	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount at January 1, 2019	390,540,527	17,424,690	3,835,233	411,800,450
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(9,834,545)	9,834,545	-	-
Transfer from Stage 1 to Stage 3	(718,875)	-	718,875	-
Transfer from Stage 2 to Stage 1	9,676,644	(9,676,644)	-	-
Transfer from Stage 2 to Stage 3	-	(138,087)	138,087	-
Transfer from Stage 3 to Stage 1	76,817	-	(76,817)	-
Transfer from Stage 3 to Stage 2	-	2,092	(2,092)	-
New financial assets originated*	210,489,202	6,683,212	979,440	218,151,854

(Forward)

Corporate and commercial lending	Consolidated ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Changes in PDs/LGDs/EADs	(18,208,483)	(1,851,903)	(156,935)	(20,217,321)
Financial assets derecognized during the period	(146,536,480)	(2,839,497)	(473,862)	(149,849,839)
Fx and other movements	(49,238)	-	49,238	-
Total movements with P&L impact	**44,895,043**	**2,013,718**	**1,175,934**	**48,084,695**
Other movements without P&L impact				
Write-offs, Foreclosures and other movements	-	-	(226,471)	(226,471)
Total movements without P&L impact	**-**	**-**	**(226,471)**	**(226,471)**
Gross carrying amount at December 31, 2019	**435,435,570**	**19,438,408**	**4,784,696**	**459,658,674**

** Stage classification of new financial assets originated pertains to the stage as of end of year*

Consumer lending	Consolidated ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount at January 1, 2019	80,691,641	3,210,598	3,312,700	87,214,939
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(2,665,015)	2,665,015	-	-
Transfer from Stage 1 to Stage 3	(1,116,995)	-	1,116,995	-
Transfer from Stage 2 to Stage 1	449,278	(449,278)	-	-
Transfer from Stage 2 to Stage 3	-	(147,540)	147,540	-
Transfer from Stage 3 to Stage 1	174,723	-	(197,297)	-
Transfer from Stage 3 to Stage 2	-	61,078	(61,078)	-
New financial assets originated*	39,667,155	649,833	206,737	40,523,725
Changes in PDs/LGDs/EADs	(6,141,036)	(598,191)	(254,693)	(6,993,920)
Financial assets derecognized during the period	(11,957,718)	(788,449)	(676,052)	(13,422,219)
Fx and other movements	(4,345)	-	4,345	-
Total movements w/ P&L impact during the period	18,428,622	1,392,468	286,497	20,107,587
Other movements without P&L impact				
Write-offs, Foreclosures and other movements	-	-	(101,692)	(101,692)
Total movements without P&L impact	-	-	(101,692)	(101,692)
Gross carrying amount at December 31, 2019	99,120,263	4,603,066	3,497,505	107,220,834

** Stage classification of new financial assets originated pertains to the stage as of end of year*

Trade-related lending	Consolidated ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount at January 1, 2019	12,110,169	1,684,378	23,319	13,817,866
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(11,355)	11,355	-	-
Transfer from Stage 1 to Stage 3	(57,565)	-	57,565	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets originated*	10,583,215	64,584	160,927	10,808,726
Changes in PDs/LGDs/EADs	(3,548)	(1,442)	(5,905)	(10,895)
Financial assets derecognized during the period	(12,028,751)	(1,684,378)	-	(13,713,129)
Fx and other movements	-	-	-	-
Total movements w/ P&L impact during the period	(1,518,004)	(1,609,881)	212,587	(2,915,298)
Other movements without P&L impact				
Write-offs, Foreclosures and other movements	-	-	-	-
Total movements without P&L impact	-	-	-	-
Gross carrying amount at December 31, 2019	10,592,165	74,497	235,906	10,902,568

** Stage classification of new financial assets originated pertains to the stage as of end of year*

Investments measured at Amortized Cost	Consolidated			
	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount at January 1, 2019	158,916,818	4,040,112	151,836	163,108,766
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(7,275,056)	7,275,056	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	60,759	(60,759)	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets originated or purchased*	26,085,288	469,763	-	26,555,051
Changes in PDs/LGDs/EADs	(5,655,491)	(259,085)	-	(5,914,576)
Financial assets derecognized during the period	(20,380,991)	(2,826,926)	(151,836)	(23,359,753)
Fx and other movements	15	-	-	15
Total movements w/ P&L impact during the period	(7,165,476)	4,598,049	(151,836)	(2,719,263)
Other movements without P&L impact				
Write-offs, Foreclosures and other movements	-	-	-	-
Total movements without P&L impact	-	-	-	-
Gross carrying amount at December 31, 2019	151,751,342	8,638,161	-	160,389,503

** Stage classification of new financial assets originated or purchased pertains to the stage as of end of year*

Investments measured at FVOCI (Debt)	Consolidated			
	ECL Staging			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount at January 1, 2019	9,978,200	1,676	-	9,979,876
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	1,676	(1,676)	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets originated or purchased*	19,413,175	-	-	19,413,175
Changes in PDs/LGDs/EADs	163,055	-	-	163,055
Financial assets derecognized during the period	(4,109,314)	-	-	(4,109,314)
Fx and other movements	27,254	-	-	27,254
Total movements w/ P&L impact during the period	15,495,845	(1,676)	-	15,494,169
Other movements without P&L impact				
Write-offs, Foreclosures and other movements	19,742	-	-	19,742
Total movements without P&L impact	19,742	-	-	19,742
Gross carrying amount at December 31, 2019	25,493,787	-	-	25,493,787

** Stage classification of new financial assets originated pertains to the stage as of end of year*

Corporate and commercial lending	Parent			
	ECL Staging			**Total**
	Stage 1	**Stage 2**	**Stage 3**	
	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at January 1, 2019	**363,535,045**	**16,801,373**	**1,067,931**	**381,404,349**
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	**(9,329,629)**	**9,329,629**	**-**	**-**
Transfer from Stage 1 to Stage 3	**(211,470)**	**-**	**211,470**	**-**
Transfer from Stage 2 to Stage 1	**9,561,196**	**(9,561,196)**	**-**	**-**
Transfer from Stage 2 to Stage 3	**-**	**(531,115)**	**531,115**	**-**
Transfer from Stage 3 to Stage 1	**6,996**	–	**(6,996)**	–
Transfer from Stage 3 to Stage 2	–	–	–	–
New financial assets originated*	**200,668,864**	**6,559,799**	**759,822**	**207,988,485**
Changes in PDs/LGDs/EADs	**(18,203,940)**	**(1,850,720)**	**(36,121)**	**(20,090,783)**

(Forward)

	Parent			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	Total
Corporate and commercial lending	12-month ECL	Lifetime ECL	Lifetime ECL	
Financial assets derecognized during the period	**(131,739,122)**	**(2,742,800)**	**(120,500)**	**(134,602,422)**
Fx and other movements	**(49,238)**	–	**49,238**	–
Total net P&L charge during the period	**50,703,657**	**1,203,597**	**1,388,028**	**53,295,282**
Other movements without P&L impact				
Write-offs, foreclosures and other movements	–	–	**(226,471)**	**(226,471)**
Total movements without P&L impact	–	–	**(226,471)**	**(226,471)**
Gross carrying amount as at December 31, 2019	**414,238,702**	**18,004,970**	**2,229,488**	**434,473,160**

** Stage classification of new financial assets originated pertains to the stage as of end of year*

	Parent			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	Total
Consumer lending	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at January 1, 2019	**47,908,408**	**2,823,817**	**1,952,306**	**52,684,531**
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	**(1,992,394)**	**1,992,394**	-	-
Transfer from Stage 1 to Stage 3	**(930,638)**	-	**930,638**	-
Transfer from Stage 2 to Stage 1	**361,429**	**(361,429)**	-	-
Transfer from Stage 2 to Stage 3	-	**(90,866)**	**90,866**	-
Transfer from Stage 3 to Stage 1	**168,023**	-	**(168,023)**	-
Transfer from Stage 3 to Stage 2	-	**48,004**	**(48,004)**	-
New financial assets originated*	**23,337,705**	**421,402**	**176,486**	**23,935,593**
Changes in PDs/LGDs/EADs	**(6,130,304)**	**(596,418)**	**(175,417)**	**(6,902,139)**
Financial assets derecognized during the period	**(4,019,642)**	**(606,707)**	**(240,319)**	**(4,866,668)**
Fx and other movements	**(4,345)**	–	**4,345**	–
Total net P&L charge during the period	**10,789,834**	**806,380**	**570,572**	**12,166,786**
Other movements without P&L impact				
Write-offs, foreclosures and other movements	–	–	**(101,692)**	**(101,692)**
Total movements without P&L impact	–	–	**(101,692)**	**(101,692)**
Gross carrying amount as at December 31, 2019	**58,698,242**	**3,630,197**	**2,421,186**	**64,749,625**

** Stage classification of new financial assets originated pertains to the stage as of end of year*

	Parent			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	Total
Trade-related lending	12-month ECL	Lifetime ECL	Lifetime ECL	
Gross carrying amount as at January 1, 2019	**11,229,908**	**1,684,378**	**23,319**	**12,937,605**
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(11,355)	11,355	-	-
Transfer from Stage 1 to Stage 3	(57,565)	-	57,565	-
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer from Stage 2 to Stage 3	–	–	–	–
Transfer from Stage 3 to Stage 1	–	–	–	–
Transfer from Stage 3 to Stage 2	–	–	–	–
New financial assets originated*	**10,583,215**	**64,584**	**160,927**	**10,808,726**
Changes in PDs/LGDs/EADs	**(3,548)**	**(1,442)**	**(5,905)**	**(10,895)**
Financial assets derecognized during the period	**(11,148,490)**	**(1,684,378)**	–	**(12,832,868)**
Fx and other movements	–	–	–	–
Total net P&L charge during the period	**(637,743)**	**(1,609,881)**	**212,587**	**(2,035,037)**
Other movements without P&L impact				
Write-offs, foreclosures and other movements	–	–	–	–
Total movements without P&L impact	–	–	–	–
Gross carrying amount as at December 31, 2019	**10,592,165**	**74,497**	**235,906**	**10,902,568**

** Stage classification of new financial assets originated pertains to the stage as of end of year*

Investments in amortized cost	Parent ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2019	**150,639,222**	**4,040,112**	–	**154,679,334**
Movements with P&L impact				
Transfers:			–	
Transfer from Stage 1 to Stage 2	**(7,275,056)**	**7,275,056**	–	–
Transfer from Stage 1 to Stage 3	**-**	**-**	–	–
Transfer from Stage 2 to Stage 1	**60,759**	**(60,759)**	–	–
Transfer from Stage 2 to Stage 3	–	–	–	–
Transfer from Stage 3 to Stage 1	–	–	–	–
Transfer from Stage 3 to Stage 2	–	–	–	–
New financial assets originated or purchased*	**25,123,628**	**469,763**	–	**25,593,391**
Changes in PDs/LGDs/EADs	**(5,655,491)**	**(259,085)**	**-**	**(5,914,576)**
Financial assets derecognized during the period	**(14,816,974)**	**(2,826,926)**	–	**(17,643,900)**
Fx and other movements	–	–	–	–
Total net P&L charge during the period	**(2,563,134)**	**4,598,049**	–	**2,034,915**
Other movements without P&L impact				
Write-offs, foreclosures and other movements	–	–	–	–
Total movements without P&L impact	–	–	–	–
Gross carrying amount as at December 31, 2019	**148,076,088**	**8,638,161**	–	**156,714,249**

** Stage classification of new financial assets originated pertains to the stage as of end of year*

Investments at FVOCI (debt)	Parent ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2019	**8,141,359**	**1,676**	–	**8,143,035**
Movements with P&L impact				
Transfers:			–	
Transfer from Stage 1 to Stage 2	–	–	–	–
Transfer from Stage 1 to Stage 3	–	–	–	–
Transfer from Stage 2 to Stage 1	**1,676**	**(1,676)**	–	**–**
Transfer from Stage 2 to Stage 3	–	–	–	–
Transfer from Stage 3 to Stage 1	–	–	–	–
Transfer from Stage 3 to Stage 2	–	–	–	–
New financial assets originated or purchased*	**18,997,616**	–	–	**18,997,616**
Changes in PDs/LGDs/EADs	**136,794**	**-**	**-**	**136,794**
Financial assets derecognized during the period	**(3,712,224)**	–	–	**(3,712,224)**
Fx and other movements	–	–	–	–
Total net P&L charge during the period	**15,423,862**	**(1,676)**	–	**15,422,186**
Other movements without P&L impact				
Write-offs, foreclosures and other movements	–	–	–	–
Total movements without P&L impact	–	–	–	–
Gross carrying amount as at December 31, 2019	**23,565,221**	–	–	**23,565,221**

** Stage classification of new financial assets originated pertains to the stage as of end of year*

While the Group recognizes through the statement of income the movements in the expected credit losses computed using the models, the Group also complies with BSP's regulatory requirement to appropriate a portion of its retained earnings at an amount necessary to bring to at least 1% the allowance for credit losses on loans (Note 24).

	Consolidated 2019	2018	2017	Parent 2019	2018	2017
Provision for Impairment and Credit Losses	**₱2,570,168**	₱141,076	₱754,171	**₱2,205,062**	(₱1,957)	₱423,922
Retained Earnings, appropriated	**468,442**	340,409	–	**468,442**	340,409	–
	₱3,038,610	₱481,485	₱754,171	**₱2,673,504**	₱338,452	₱423,922

17. **Deposit Liabilities**

As of December 31, 2019 and 2018, 38.34% and 33.64% respectively, of the total deposit liabilities of the Group and 40.85% and 37.56% of the Parent Company are subject to periodic interest repricing. The remaining deposit liabilities bear annual fixed interest rates ranging from 0.13% to 4.55% in 2019, 0.13% to 4.55% in 2018 and 0.13% to 3.65% in 2017.

Interest Expense on Deposit Liabilities
This account consists of:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Demand	**₱242,838**	₱257,380	₱233,984	**₱189,776**	₱182,521	₱163,524
Savings	**6,356,024**	3,490,378	1,120,422	**6,247,134**	3,429,446	1,072,849
Time	**11,968,304**	7,873,305	5,167,529	**9,478,197**	6,124,047	3,974,430
	₱18,567,168	₱11,621,063	₱6,521,935	**₱15,915,107**	₱9,736,014	₱5,210,803

BSP Circular No. 830 requires reserves against deposit liabilities. As of December 31, 2019 and 2018, Due from BSP amounting to ₱92.67 billion and ₱99.89 billion, respectively, for the Group and ₱80.61 billion and ₱93.09 billion, respectively, for the Parent Company were set aside as reserves for deposit liabilities per latest report submitted BSP. As of December 31, 2019 and 2018, the Group is in compliance with such regulation.

Long Term Negotiable Certificates of Deposits (LTNCD)
On August 3, 2016, the BOD of the Parent Company approved the issuance of Long Term Negotiable Certificates of Deposits (LTNCD) of up to ₱20.00 billion in tranches of ₱5.00 billion to ₱10.00 billion each and with tenors ranging from 5 to 7 years to support the Group’s strategic initiatives and business growth. On October 27, 2016, the Monetary Board of the BSP approved the LTNCD issuances. On November 18, 2016, the Parent Company issued the first tranche at par with aggregate principal amount of ₱9.58 billion due May 18, 2022. The LTNCDs bear a fixed coupon rate of 3.65% per annum, payable quarterly in arrears. Subject to BSP rules, the Group 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 June 2, 2017, the Parent Company issued at par LTNCDs with aggregate principal amount of ₱6.35 billion due December 22, 2022, representing the second tranche of the ₱20.00 billion.

On March 7, 2018, the Board of Directors approved the Bank’s Peso funding program of up to ₱50 billion via a combination of Long–Term Negotiable Certificate of Time Deposit and/or Retail Bonds and/or Commercial Papers.

On July 12, 2018, the Parent Company issued at par LTNCDs with aggregate principal amount of ₱10.25 billion due January 12, 2024, representing the first tranche of the ₱20 billion LTNCD approved by BSP on June 14, 2018. The LTNCDs bear a fixed coupon rate of 4.55% per annum, payable quarterly in arrears. The ₱20.00 billion LTNCD program is part of the Group’s funding program amounting to P50 billion.

The LTNCDs are included under the ‘Time deposit liabilities’ account.

18. **Bonds Payable**

₱30 Billion Peso Fixed Rate Bonds
On July 10, 2019, the Parent Company issued ₱30 billion peso fixed rate bonds, which bears a fixed coupon rate of 5.70% per annum, payable monthly, and is due on January 2021. The Parent Company incurred transaction costs amounting to ₱257.73 million. In 2019, amortization of this transaction costs amounted to ₱81.86 million.

$150 Million Bonds Payable to IFC
On June 18, 2019, the Parent Company issued a $150 million, seven-year bond to International Finance Corporation. The bond carries an interest rate of 120 basis points over 6-month LIBOR.
Shortly thereafter, the Parent Company entered into a seven-year pay-fixed, receive-floating interest rate swap (see Note 26) with the same principal terms to hedge the exposure to variable cash flow payments on the floating-rate bonds payable attributable to interest rate risk (Note 6). The Parent Company incurred transaction costs amounting to ₱30.62 million. In 2019, amortization of this transaction costs amounted to ₱12.08 million.

The Bond Subscription Agreement contains certain financial covenants that the Parent Company should comply during the term of the Bond, including the following:

- Risk Weighted Capital Adequacy Ratio of not less than ten per cent (10%);
- Equity to Assets Ratio of not less than five per cent (5%);
- Aggregate Large Exposures Ratio of not more than four hundred per cent (400%);
- Open Credit Exposures Ratio of not more than twenty five per cent (25%);
- Fixed Assets Plus Equity Participations Ratio of not more than thirty five per cent (35%);
- Aggregate Foreign Exchange Risk Ratio of not more than twenty five per cent (25%);
- Single Currency Foreign Exchange Risk Ratio of not more than ten per cent (10%);
- Interest Rate Risk Ratio of not less than negative twenty five per cent (-25%) and not more than twenty five per cent (25%);
- Aggregate Interest Rate Risk Ratio of not less than negative fifty per cent (-50%) and not more than twenty per cent (20%);
- Open FX Position of not more than $50,000,000.

In addition, the Parent Company should also comply with the regulatory requirements related to Economic Group Exposure and Related Party Exposure set by the BSP or the Bond Subscription Agreement, whichever is more stringent.

Noncompliance of these obligations may require the Parent Company to pay the bond immediately.
As of December 31, 2019, the Parent Company is in compliance with these covenants and regulatory requirements.

Interest expense on bonds payable amounted to ₱1.03 billion in 2019.

19. Bills Payable

The Group's and the Parent Company's bills payable consist of:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Interbank loans payable	**₱21,867,053**	₱ 28,426,800	**₱21,867,053**	₱ 28,426,800
Trade finance	**6,152,153**	5,804,832	**6,152,153**	5,804,832
BSP rediscounting (Note 10)	**3,280,000**	4,132,800	**3,280,000**	4,132,800
Promissory Notes	**2,082,200**	1,462,100	**2,082,200**	1,462,100
	₱33,381,406	₱39,826,532	**₱33,381,406**	₱39,826,532

Interbank loans payable
Interbank loans payable consists of short−term dollar−denominated borrowings of the Parent Company with annual interest ranging from 1.30% to 3.15% and from 3.11% to 4.73% in 2019 and 2018, respectively.

As of December 31, 2019, the carrying amount of foreign currency−denominated investment securities at amortized cost pledged by the Parent Company as collateral for its interbank borrowings amounted to ₱9.00 billion. The carrying amount of peso−denominated investment securities at amortized cost pledged by the Parent Company as collateral for its interbank borrowings amounted to ₱10.39 billion. The fair value of investment securities at amortized cost pledged as collateral amounted to ₱19.71 billion as of December 31, 2019.

As of December 31, 2018, the carrying amount of foreign currency−denominated investment securities at amortized cost and FVOCI pledged by the Parent Company as collateral for its interbank borrowings amounted to ₱13.32 billion and ₱0.73 billion, respectively. The carrying amount of peso−denominated investment securities at amortized cost pledged by the Parent Company as collateral for its interbank borrowings amounted to ₱20.69 billion. The fair value of investment securities at amortized cost pledged as collateral amounted to ₱31.86 billion as of December 31, 2019.

As of December 31, 2019 and 2018, margin deposits amounting to ₱992.56 million and ₱930.82 million, respectively, are deposited with various counterparties to meet the collateral requirements for its interbank loans payable.

Trade finance
As of December 31, 2019 and 2018, trade finance consists of the Parent Company's borrowings from financial institutions using bank trade assets as the basis for borrowing foreign currency. The refinancing amount should not exceed the aggregate amount of trade assets.

20. Accrued Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2019	2018	**2019**	**2018**
Accrued interest payable	**₱1,889,291**	₱1,737,659	**₱1,702,098**	₱1,513,147
Accrued payable for employee benefits	**1,651,271**	958,643	**1,651,271**	958,643
Accrued taxes and other licenses	**316,535**	229,059	**195,979**	149,088
Accrued lease payable	–	198,759	–	198,759
Accrued other expenses payable	**264,205**	718,405	**100,992**	522,515
	₱4,121,302	₱3,842,525	**₱3,650,340**	₱3,342,152

21. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Financial liabilities				
Lease liabilities	**₱3,394,925**	₱–	**₱2,719,524**	₱–
Accounts payable	**3,221,353**	3,426,924	**2,178,540**	2,248,710
Expected credit losses on off–balance sheet exposures	**1,239,967**	1,629,150	**1,229,949**	1,619,131
Due to PDIC	**692,262**	628,142	**692,262**	628,142
Other credits–dormant	**447,346**	241,720	**447,346**	241,720
Due to the Treasurer of the Philippines	**435,287**	386,930	**416,444**	378,871
Acceptances payable	**413,149**	348,738	**413,149**	357,832
Margin deposits	**5,586**	3,359	**5,586**	3,359
Miscellaneous (Note 23)	**807,734**	682,487	**323,284**	301,701
	10,657,609	7,347,450	**8,426,084**	5,779,466
Nonfinancial liabilities				
Withholding taxes payable	**341,901**	325,508	**296,613**	270,346
Retirement liabilities (Note 25)	**15,191**	8,686	**-**	–
	357,092	334,194	**296,613**	270,346
	₱11,014,701	₱7,681,644	**₱8,722,696**	₱6,049,812

Movements in the lease liabilities account follows:

	2019	
	Consolidated	Parent Company
As of January 1, 2019	**₱3,669,457**	**₱2,915,844**
Additions	**247,311**	**185,549**
Interest expenses	**265,539**	**207,744**
Payments	**(787,381)**	**(589,613)**
Ending Balance	**₱3,394,925**	**₱2,719,524**

Accounts payable includes payables to suppliers and service providers, and loan payments and other charges received from customers in advance.

Off-balance sheet exposures (see Note 31) subject to ECL include syndicated and long-term lines. ECL for these exposures that was recognized on January 1, 2018 amounted to ₱1.67 billion for the Group and ₱1.61 billion for the Parent Company.

Miscellaneous mainly includes sundry credits, inter–office float items, and dormant deposit accounts.

22. Other Operating Income and Miscellaneous Expenses

Service Charges, Fees and Commissions

Details of this account are as follows:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Service and collection charges:						
Deposits	**₱510,517**	₱606,051	₱540,323	**₱510,517**	₱606,051	₱539,941
Loans	**806,509**	303,817	276,054	**46,967**	47,397	34,758
Remittances	**315,050**	330,520	311,768	**315,050**	330,520	311,768
Others	**252,254**	109,290	112,725	**228,734**	107,652	99,116
	1,884,320	1,349,677	1,240,870	**1,101,268**	1,091,620	985,583
Fees and commissions	**1,412,344**	1,427,607	1,200,854	**523,435**	438,107	409,415
	₱3,296,674	₱2,777,283	₱2,441,724	**₱1,624,703**	₱1,529,727	₱1,394,998

Trading and Securities Gain – Net

This account consists of:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Financial assets at FVOCI	**₱269,478**	(₱2,104)	₱–	**₱240,310**	(₱2,451)	₱–
AFS financial assets	–	–	363,350	–	–	342,146
Financial assets designated at FVPL (Note 9)	**–**	(36,766)	170,352	–	(40,831)	170,352
Held-for-trading (Note 9)	**703,982**	(224,583)	(55,257)	**712,910**	(224,583)	(112,458)
Derivative assets (Note 25)	**(88,978)**	(19,827)	(3,510)	**(115,346)**	(19,827)	(3,510)
Investment securities at amortized cost	–	11,728	–	–	11,728	–
HTM financial assets	–		5,025	–	–	5,025
	₱884,482	(₱271,552)	₱479,960	**₱837,874**	₱(275,964)	₱399,760

Miscellaneous Income

Details of this account are as follows:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Bancassurance (Note 11)	**₱303,454**	₱357,786	₱360,009	**₱300,664**	₱357,786	360,009
Recovery of charged off assets	**244,947**	144,924	199,014	**219,055**	100,517	184,272
Rental on bank premises	**121,507**	111,572	111,651	**88,848**	80,388	83,911
Dividends (Note 9)	**107,969**	127,084	91,073	**107,050**	126,386	91,073
Fund transfer fees	**52,976**	49,171	59,682	**52,976**	49,171	59,682
Rental safety deposit boxes	**28,987**	26,341	24,933	**28,987**	26,341	24,825
Miscellaneous income (Notes 12, 13 and 15)	**333,217**	444,863	670,161	**265,215**	389,545	587,884
	₱1,193,057	₱1,261,741	₱1,516,523	**₱1,062,795**	₱1,130,134	₱1,391,657

On April 11, 2017, the BTr paid the Group the final tax withheld (FWT) from the proceeds of the Poverty Eradication and Alleviation Certificates (PEACe) bonds last October 18, 2011, plus 4.00% interest per annum from October 19, 2011 to April 10, 2017. Total settlement amount were paid in the form of 3-year Retail Treasury Bonds with interest of 4.25% per annum. The settlement resulted in gain amounting to ₱381.65 million and ₱356.77 million for the Group and Parent Company, respectively, which is presented under 'Miscellaneous income' in 2017.

Miscellaneous Expenses

Details of this account are as follows:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Information technology	**₱635,422**	₱500,459	₱402,314	**₱575,316**	₱452,540	₱339,214
Service charges	**207,782**	231,895	219,430	**206,754**	231,895	219,430
Litigations	**243,124**	198,011	176,602	**60,811**	65,157	22,815
Freight	**58,397**	37,593	38,909	**38,911**	24,352	27,953
Broker's fee	**27,370**	35,843	39,129	**27,370**	31,891	39,128
Clearing and processing fee	**15,331**	22,024	21,252	**15,331**	17,355	16,320
Membership fees and dues	**21,525**	17,756	18,642	**17,369**	16,260	17,160
Miscellaneous expense	**1,113,988**	1,011,053	951,274	**948,159**	779,702	808,638
	₱2,322,939	₱2,054,634	₱1,867,552	**₱1,890,021**	₱1,619,152	₱1,490,658

23. **Maturity Analysis of Assets and Liabilities**

The following tables present both the Group's and Parent Company's assets and liabilities as of December 31, 2019 and 2018 analyzed according to when they are expected to be recovered or settled within one year and beyond one year from the respective reporting date:

	Consolidated					
	2019			2018		
	Within Twelve Months	**Over Twelve Months**	**Total**	Within Twelve Months	Over Twelve Months	Total
Financial assets						
Cash and other cash items	**₱16,839,755**	**₱–**	**₱16,839,755**	₱15,639,474	₱–	₱15,639,474
Due from BSP	**100,174,398**	–	**100,174,398**	101,889,773	–	101,889,773
Due from other banks	**9,900,642**	–	**9,900,642**	9,455,447	–	9,455,447
Interbank loans receivable and SPURA	**17,036,460**	–	**17,036,460**	11,998,040	–	11,998,040
Financial assets at FVPL	**17,302,294**	**1,197,817**	**18,500,111**	6,273,368	1,322,894	7,596,262
Financial assets at FVOCI	**894,386**	**25,238,974**	**26,133,360**	1,364,962	8,732,542	10,097,504
Investment securities at amortized cost	**5,173,756**	**164,116,954**	**169,290,710**	9,893,261	163,018,876	172,912,137
Loans and receivables – gross	**167,801,401**	**410,027,636**	**577,829,037**	166,260,382	346,629,390	512,889,772
Accrued interest receivable – gross	**7,434,382**	–	**7,434,382**	6,000,736	–	6,000,736
Other assets – gross	**3,744,259**	**1,203,502**	**4,947,761**	3,294,964	1,121,036	4,416,000
	346,301,733	**601,784,883**	**948,086,616**	332,070,407	520,824,738	852,895,145
Nonfinancial assets						
Bank premises, furniture, fixtures and equipment – net of accumulated depreciation and amortization	–	**9,155,234**	**9,155,234**	–	6,450,458	6,450,458
Investment properties – net of accumulated depreciation	–	**5,466,196**	**5,466,196**	–	6,064,835	6,064,835
Deferred tax assets	–	**3,370,949**	**3,370,949**	–	2,514,889	2,514,889
Investments in associates	–	**704,169**	**704,169**	–	335,092	335,092
Intangible assets	–	**4,078,678**	**4,078,678**	–	4,215,199	4,215,199
Goodwill	–	**839,748**	**839,748**	–	839,748	839,748
Other assets – gross	**1,628,844**	**876,221**	**2,505,065**	1,351,634	1,211,331	2,562,965
	1,628,844	**24,491,195**	**26,120,039**	1,351,634	21,631,552	22,983,186
Allowance for impairment and credit losses (Note 16)			**(11,630,778)**			(9,551,150)
Unearned discounts (Note 10)			**(349,896)**			(255,535)
			(11,980,674)			(9,806,685)
			₱962,225,981			₱866,071,646
Financial liabilities						
Deposit liabilities	**764,810,192**	**10,617,669**	**775,427,861**	682,760,286	39,363,010	722,123,296
Bills payable	**33,381,406**	–	**33,381,406**	39,826,532	–	39,826,532
Bonds payable	**29,828,359**	**7,566,039**	**37,394,398**			
Manager's checks	**1,998,678**	–	**1,998,678**	2,577,175	–	2,577,175
Accrued interest and other expenses*	**2,153,496**	–	**2,153,496**	2,098,994	352,335	2,451,329
Derivative liabilities	**1,036,052**	–	**1,036,052**	455,150	–	455,150
Derivative Contracts Designated as Hedges	**51,949**	–	**51,949**			
Other liabilities	**10,657,609**	–	**10,657,609**	6,110,225	1,213,812	7,324,037
	843,917,741	**18,183,708**	**862,101,449**	733,828,362	40,929,157	774,757,519
Nonfinancial liabilities						
Accrued interest and other expenses	**316,535**	**1,651,271**	**1,967,806**	161,542	1,229,654	1,391,196
Deferred tax liabilities	**–**	**1,083,378**	**1,083,378**	–	1,231,145	1,231,145
Income tax payable	**540,662**	**–**	**540,662**	477,585	–	477,585
Other liabilities	**217,076**	**140,016**	**357,092**	325,508	32,102	357,610
	₱844,992,014	**₱21,058,373**	**₱866,050,387**	₱734,792,997	₱43,422,058	₱778,215,055

*Accrued interest and other expenses include accrued interest payable and accrued other expenses payable (Note 19).

	Parent Company					
	2019			2018		
	Within Twelve Months	Over Twelve Months	Total	Within Twelve Months	Over Twelve Months	Total
Financial assets						
Cash and other cash items	₱14,856,844	₱–	₱14,856,844	₱13,705,304	₱–	₱13,705,304
Due from BSP	88,109,650	–	88,109,650	95,092,944	–	95,092,944
Due from other banks	8,645,547	–	8,645,547	7,837,894	–	7,837,894
SPURA	10,027,609	–	10,027,609	8,998,040	–	8,998,040
Financial assets at FVPL	17,246,285	1,197,817	18,444,102	5,366,903	1,322,894	6,689,797
Financial assets at FVOCI	410,565	23,760,064	24,170,629	1,059,474	7,153,536	8,213,010
Investment securities at amortized cost	4,645,719	160,668,554	165,314,273	6,852,074	157,187,330	164,039,404
Loans and receivables – gross	144,905,958	365,253,735	510,159,693	144,064,744	303,001,501	447,066,245
Accrued interest receivable – gross	6,565,736	–	6,565,736	5,171,374	–	5,171,374
Other assets – gross	2,137,322	235,049	2,372,371	1,773,527	224,035	1,997,562
	297,551,235	551,115,219	848,666,454	289,922,275	468,889,296	758,811,574
Nonfinancial assets						
Bank premises, furniture, fixtures and equipment – net of accumulated depreciation and amortization	–	7,468,646	7,468,646	–	5,265,386	5,265,386
Investment properties – net of accumulated depreciation	–	2,611,501	2,611,501	–	2,309,762	2,309,762
Deferred tax assets	–	2,287,956	2,287,956	–	1,739,219	1,739,219
Investments in subsidiaries	–	15,129,118	15,129,118	–	14,333,567	14,333,567
Investment in associates	–	704,169	704,169	–	335,092	335,092
Intangible assets	–	945,916	945,916	–	915,531	915,531
Goodwill	–	222,841	222,841	–	222,841	222,841
Other assets – gross	1,404,959	499,711	1,904,670	1,056,495	756,160	1,812,655
	1,404,959	29,869,858	31,274,817	1,056,495	25,877,558	26,934,053
Allowances for impairment and credit losses (Note 16)			(9,470,163)			(7,284,317)
Unearned discounts (Note 10)			(290,711)			(208,377)
			(9,760,874)			(7,492,694)
			₱870,180,397			₱778,252,935
Financial liabilities						
Deposit liabilities	687,530,863	233,590	687,764,453	₱606,235,158	₱32,008,204	₱638,243,362
Bills payable	33,381,406	–	33,381,406	39,826,532	–	39,826,532
Bonds payable	29,828,359	7,566,039	37,394,398			
Manager's checks	1,535,936	–	1,535,936	2,069,812	–	2,069,812
Accrued interest and other expenses*	1,803,090	–	1,803,090	2,035,662	–	2,035,662
Derivative liabilities	1,036,052	–	1,036,052	455,150	–	455,150
Derivative **Contracts** Designated as Hedges	51,949	–	51,949			
Other liabilities	8,426,083	–	8,426,083	5,779,467	–	5,779,467
	763,593,738	7,799,629	771,393,367	656,401,781	32,008,204	688,409,985
Nonfinancial liabilities						
Accrued interest and other expenses	195,979	1,651,271	1,847,250	149,088	1,157,402	1,306,490
Income tax payable	479,923	–	479,923	414,233	–	414,233
Other liabilities	296,613	–	296,613	270,346	–	270,346
	₱764,566,253	₱9,450,900	₱774,017,153	₱657,235,447	₱33,165,606	₱690,401,054

*Accrued interest and other expenses include accrued interest payable and accrued other expenses payable (Note 19).

24. **Equity**

The Parent Company's capital stock consists of (amounts in thousands, except for number of shares):

	2019		2018	
	Shares	**Amount**	**Shares**	**Amount**
Common stock – ₱10.00 par value				
Authorized – shares	3,300,000,000		3,300,000,000	
Issued and outstanding				
Balance at beginning of year	**2,685,899,812**	**₱26,858,998**	2,684,771,716	₱26,847,717
Stock rights	–	–	–	–
Additional issuance of shares	–	–	1,128,096	11,281
Stock dividends*	–	–	–	–
	2,685,899,812	**₱26,858,998**	2,685,899,812	₱26,858,998

*The stock dividends declared include fractional shares equivalent to 1,009 in 2018.

The Parent Company shares are listed in the Philippine Stock Exchange.

On June 7, 2017, the Parent Company and the Trust and Asset Management Group (on behalf of the CBC Employees Retirement Plan) entered into a subscription agreement whereas the latter will subscribe to 1,128,096 new common shares of the Parent Company at a subscription price per share equal to the higher between the closing price of the Parent Company's stock dividend or the par value of ₱10.00 per share.

On January 24, 2018, the BOD of the Parent Company, during a special board meeting, confirmed the issuance of the shares to CBC Employees Retirement Plan in accordance with the subscription agreement which was paid at a subscription price of ₱33.40 per share (closing price of the Group's shares at the Philippine Stock Exchange on October 20, 2018 which is the record date of the Parent Company's stock dividend).

The summarized information on the Parent Company's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Authorized Shares*
April 12, 1991	100,000
October 7, 1993	150,000
August 30, 1994	200,000
July 26, 1995	250,000
September 12, 1997	500,000
September 5, 2005	1,000,000
September 14, 2007	1,600,000
September 5, 2008	2,000,000
August 29, 2014	2,500,000
September 29, 2018	3,300,000

** Restated to show the effects of the ten–for–one stock split in 2012*

As reported by the Parent Company's transfer agent, Stock Transfer Service, Inc., the total number of stockholders is 1,902 and 1,928 as of December 31, 2019 and 2018, respectively.

Dividends
Details of the Parent Company's cash dividend payments follow:

Cash Dividends

Date of Declaration	Date of Record	Date of Payment	Cash Dividend Per Share
May 02, 2019	May 17, 2019	May 31, 2019	0.88
May 03, 2018	May 17, 2018	June 01, 2018	0.83
May 04, 2017	May 18, 2017	June 02, 2017	0.80
May 05, 2016	May 23, 2016	June 03, 2016	1.00
May 07, 2015	August 12, 2015	September 09, 2015	1.00
May 08, 2014	September 19, 2014	October 15, 2014	1.00
May 02, 2013	July 19, 2013	August 14, 2013	1.20

Stock Dividends

Date of Declaration	Date of Record	Date of Payment	Stock Dividend Per Share
March 15, 2017	October 20, 2017	November 03, 2017	8%
May 05, 2016	May 23, 2016	June 03, 2016	8%
May 07, 2015	August 12, 2015	September 09, 2015	8%
May 08, 2014	September 19, 2014	October 15, 2014	8%
May 02, 2013	July 19, 2013	August 14, 2013	10%

Surplus
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.

As of December 31, 2019 and 2018, surplus includes the amount of ₱1.28 billion, net of deferred tax liability of ₱547.40 million, representing transfer of revaluation increment on land which was carried at deemed cost when the Group transitioned to PFRS in 2005 (Note 12). This amount will be available to be declared as dividends upon sale of the underlying land.

In the consolidated financial statements, a portion of the Group's surplus corresponding to the net earnings of the subsidiaries and associates amounting to ₱1.02 billion and ₱1.64 billion as of December 31, 2019 and 2018, respectively, is not available for dividend declaration. The accumulated equity in net earnings becomes available for dividends upon declaration and receipt of cash dividends from the investees.

Reserves
In compliance with BSP regulations, 10.00% of the Parent Company's profit from trust business is appropriated to surplus reserve. This annual appropriation is required until the surplus reserves for trust business equals 20.00% of the Parent Company's authorized capital stock.

Upon adoption of PFRS 9, BSP requires appropriation of a portion of the Group's Retained Earnings at an amount necessary to bring to at least 1% the allowance for credit losses on loans (Note 16).

Capital Management
The primary objectives of the Group's capital management are to ensure that it complies with externally imposed capital requirements and that it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group 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 Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes as of December 31, 2019 and 2018.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company'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 (RWA), should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (Parent Company and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and RWA are computed based on BSP regulations. RWA consists 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 August 4, 2006, the BSP, under BSP Circular No. 538, issued the prescribed guidelines implementing the revised risk–based capital adequacy framework for the Philippine banking system to conform to Basel II capital adequacy framework. The BSP guidelines took effect on July 1, 2007. Thereafter, banks were required to compute their CAR using these guidelines.

Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on ratings by Standard & Poor's, Moody's and Fitch, while PhilRatings were used on peso–denominated exposures to Sovereigns, MDBs, Banks, LGUs, Government Corporations, Corporates.

On January 15, 2013, the BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk–based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi–banks, in accordance with the Basel III standards. The circular 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 this ratio shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2017. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

The CAR of the Group and the Parent Company as of December 31, 2019 as reported to the BSP are shown in the table below.

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
	(Amounts in Million Pesos)			
CET 1 Capital	**₱92,758**	₱84,726	**₱89,999**	₱81,957
Less: Regulatory Adjustments	**11,492**	10,492	**19,496**	17,208
	81,266	74,234	**70,503**	64,749
Additional Tier 1 Capital	–	–	–	–
Less: Regulatory Adjustments	–	–	–	–
	–	–	–	–
Net Tier 1 Capital	**81,266**	74,234	**70,503**	64,749
Tier 2 Capital	**5,799**	5,659	**5,118**	4,982
Less: Regulatory Adjustments	–	–	–	–
Net Tier 2 Capital	**5,799**	5,659	**5,118**	4,982
Total Qualifying Capital	**₱87,067**	₱79,893	**₱75,621**	₱69,731

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
	(Amounts in Million Pesos)			
Credit RWA	**₱579,653**	₱565,777	**₱511,015**	₱498,030
Market RWA	**11,433**	5,154	**11,434**	5,204
Operational RWA	**45,623**	39,470	**36,385**	31,877
Total RWA	**₱636,709**	₱610,401	**₱558,834**	₱535,111
CET 1 capital ratio	**12.76%**	12.16%	**12.62%**	12.10%
Tier 1 capital ratio	**12.76%**	12.16%	**12.62%**	12.10%
Total capital ratio	**13.67%**	13.09%	**13.53%**	13.03%

The Parent Company has complied with all externally imposed capital requirements throughout the period.

The issuance of BSP Circular No. 639 covering the ICAAP in 2009 supplements the BSP's risk–based capital adequacy framework under Circular No. 538. In compliance with this circular, the Parent Company 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 Parent Company. The level and structure of capital are assessed and determined in light of the Parent Company's business environment, plans, performance, risks and budget, as well as regulatory edicts. BSP requires submission of an ICAAP document every March 31. The Group has complied with this requirement.

Leverage Ratio
On June 9, 2015, BSP issued circular No. 881, which approved the guidelines for the implementation of the Basel 3 Leverage Ratio in the Philippines. The Basel III Leverage Ratio is designed to act as a supplementary measure to the risk-based capital requirements. The leverage ratio intends to restrict the build-up of leverage in the banking sector to avoid destabilizing deleveraging processes which can damage the broader financial system and the economy. Likewise, it reinforces the risk-based requirements with a simple, non-risk based "backstop" measure. The Basel III leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator). The monitoring of the leverage ratio shall be implemented as a Pillar 1 minimum requirement effective on 1 July 2018.

The BLR of the Group and the Parent Company as of December 31, 2019 as reported to the BSP are shown in the table below.

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
	(Amounts in Million Pesos)			
Tier 1 Capital	**₱81,266**	₱74,234	**₱70,503**	₱64,749
Exposure Measure	**975,329**	842,549	**871,678**	744,599
Leverage Ratio	**8.33%**	8.81%	**8.09%**	8.70%

Liquidity Coverage Ratio
On 18 February 2016, BSP issued circular no. 905 which approved the attached liquidity standards, which include guidelines on liquidity coverage ratio (LCR), and LCR disclosure standards that are consistent with the Basel III framework. Banks are required to adopt Basel III's Liquidity Coverage Ratio (LCR) aimed at strengthening the short-term liquidity position of banks. This requires banks to have available High Quality Liquid Assets (HQLA) to meet anticipated net cash outflow for a 30-day period under stress conditions. The standard prescribes that, under a normal situation, the value of the liquidity ratio be no lower than 100% on a daily basis because the stock of unencumbered HQLA is intended to serve as a defense against potential onset of liquidity stress. As of December 31, 2019 and 2018, the LCR in single currency is 127.65% and 111.73%, respectively, for the Group and 126.29% and 112.79%, respectively, for the Parent Company.

Net Stable Funding Ratio
On 24 May 2018, BSP issued circular no. 1007 which approved the implementing guidelines on the adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio (NSFR). Banks are required to adopt Basel III's Net Stable Funding Ratio (NSFR) aimed to promote long-term resilience of banks against liquidity risk. Banks shall maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. The NSFR complements the Liquidity Coverage Ratio (LCR), which promotes short-term resilience of a Bank’s liquidity profile. As of December 31, 2019 and 2018, the NSFR is 121.31% and 117.43%, respectively, for the Group and 120.01% and 116.08%, respectively, for the Parent Company.

25. Retirement Plan

The Group has separate funded noncontributory defined benefit retirement plans covering substantially all its officers and regular employees. The retirement plans are administered by the Parent Company’s Trust Group which acts as the trustee of the plans. Under these retirement plans, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements. The latest actuarial valuation studies of the retirement plans were made as of December 31, 2019.

The Group’s annual contribution to the retirement plan consists of a payment covering the current service cost, unfunded actuarial accrued liability and interest on such unfunded actuarial liability.

The amounts of net defined benefit asset in the balance sheets follow:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Net plan assets (Note 15)	**₱543,471**	₱777,827	**₱499,711**	₱756,159
Retirement liabilities (Note 21)	**(15,191)**	(8,686)	–	–
	₱528,280	₱769,141	**₱499,711**	₱756,159

The movements in the defined benefit asset, present value of defined benefit obligation and fair value of plan assets follow:

Consolidated

2019

		Net benefit cost				Remeasurements in OCI						
	January 1, 2019	**Current service cost**	**Net interest**	**Net pension expense***	**Benefits paid**	**Return on plan assets (excluding amount included in net interest)**	**Actuarial changes arising from experience adjustments**	**Actuarial changes arising from changes in financial assumptions**	**Actuarial changes arising from changes in demographic assumptions**	**Changes in remeasurement gains (losses)**	**Contribution by employer**	**December 31, 2019**
	(a)	**(c)**	**(d)**	**(e) = c + d**	**(f)**	**(g)**	**(h)**	**(i)**		**(j) = g + h + i**	**(k)**	**(l) = a + b + e + f + j + k**
Fair value of plan assets	**₱4,859,249**	**₱-**	**₱347,965**	**₱347,965**	**(₱307,702)**	**(₱188,983)**	**₱–**	**₱–**	**₱–**	**(₱188,983)**	**₱629,871**	**₱5,340,401**
Present value of defined benefit obligation	**4,090,108**	**398,065**	**292,955**	**691,020**	**(307,702)**	**–**	**(48,548)**	**830,609**	**(443,366)**	**338,695**	**–**	**4,812,121**
Net defined benefit asset	**₱769,141**	**(₱398,065)**	**₱55,010**	**(₱343,055)**	**–**	**(₱188,983)**	**₱48,548**	**(₱830,609)**	**₱443,366**	**(₱527,678)**	**₱629,871**	**528,280**

**Presented under Compensation and fringe benefits in the statements of income.*

Consolidated

2018

		Net benefit cost				Remeasurements in OCI						
	January 1, 2019	Current service cost	Net interest	Net pension expense*	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Actuarial changes arising from changes in demographic assumptions	Changes in remeasurement gains (losses)	Contribution by employer	December 31, 2019
	(a)	(c)	(d)	(e) = c + d	(f)	(g)	(h)	(i)		(j) = g + h + i	(k)	(l) = a + b + e + f + j + k
Fair value of plan assets	₱4,868,423	₱–	₱272,914	₱272,914	₱ (275,805)	₱ (619,071)	₱–	₱–		₱ (619,071)	₱612,788	₱4,859,249
Present value of defined benefit obligation	3,992,824	431,972	223,936	655,907	(275,805)	–	38,390	₱ (321,209)		(282,819)		4,090,108
Net defined benefit asset	₱875,599	₱ (431,972)	₱382,993	₱ (382,994)	–	₱ (619,071)	₱ (38,390)	₱321,209		₱ (336,252)	₱612,788	₱769,141

**Presented under Compensation and fringe benefits in the statements of income.*

	Parent Company 2019												
							Remeasurements in OCI						
	January 1, 2019	Net benefit cost Current service cost	Net interest	Net pension expense*	Transfer from Affiliates	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Actuarial changes arising from changes in demographic Assumptions	Changes in remeasureme nt gains (losses)	Contribution by employer	December 31, 2019
	(a)	(c)	(d)	(e) = c + d	(f)	(g)	(h)	(i)	(j)		(k) =f+g+h+i	(l)	(m) = a + b + e + f + j + k
Fair value of plan assets	**₱4,467,637**	**₱–**	**₱319,436**	**₱319,436**	**₱–**	**(₱286,575)**	**(₱196,884)**	**₱–**	**₱**	**₱–**	**(₱196,884)**	**₱480,000**	**₱4,783,615**
Present value of defined benefit obligation	**3,711,477**	**311,538**	**265,378**	**576,916**	**260**	**(286,575)**	**–**	**(29,515)**	**650,700**	**(339,360)**	**281,826**		**4,283,904**
Net defined benefit asset	**₱756,160**	**(₱311,538)**	**₱54,058**	**(₱257,480)**	**(₱260)**	**₱–**	**(₱196,884)**	**₱29,515**	**(₱650,700)**	**₱339,360**	**(₱478,710)**	**₱480,000**	**₱499,711**

**Presented under Compensation and fringe benefits in the statements of income.*

	Parent Company 2018										
						Remeasurements in OCI					
	January 1, 2019	Net benefit cost Current service cost	Net interest	Net pension expense*	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Changes in remeasurement gains (losses)	Contribution by employer	December 31, 2019
	(a)	(c)	(d)	(e) = c + d	(f)	(g)	(h)	(i)	(j) = g + h + i	(k)	(l) = a + b + e + f + j + k
Fair value of plan assets	₱4,558,199	₱–	₱255,259	₱255,259	₱ (235,193)	₱ (590,629)	₱–	₱–	₱ (590,629)	₱480,000	₱4,467,637
Present value of defined benefit obligation	3,566,814	324,756	199,742	324,956	(235,193)	–	97,785	(245,646)	(147,861)	–	3,711,477
Net defined benefit asset	₱991,386	₱ (324,756)	₱55,517	₱ (69,697)	₱–	₱ (590,629)	₱97,785	₱245,646	₱ (442,768)	₱480,000	₱756,160

**Presented under Compensation and fringe benefits in the statements of income.*

The Group and the Parent Company is recommended to contribute to its defined benefit pension plan in 2020 amounting to ₱134.13 million and ₱30.15 million, respectively.

In 2019 and 2018, the major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Parent Company shares (Note 30)	**25.06%**	31.54%	**28.58%**	33.76%
Equity instruments	**3.85%**	23.83%	**3.21%**	21.76%
Cash and cash equivalents	**0.99%**	10.17%	**0.82%**	9.07%
Debt instruments	**61.76%**	19.39%	**63.48%**	19.39%
Other assets	**7.80%**	15.08%	**3.91%**	16.03%
	100.00%	100.00%	**100.00%**	100.00%

The following table shows the breakdown of fair value of the plan assets:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Deposits in banks	**₱52,757**	₱560,672	**₱39,407**	₱399,395
Financial assets at FVPL				
Quoted debt securities	**2,981,233**	–	**2,754,412**	–
Quoted equity securities	**205,620**	868,381	**153,330**	839,145
Parent Company shares	**1,367,210**	–	**1,367,210**	–
Investments in unit investment trust fund	**316,929**	–	**282,059**	–
Financial assets at FVOCI				
Quoted debt securities	–	977,735	–	832,834
Quoted equity securities	–	46,101	–	15,023
Parent Company shares	–	1,487,360	–	1,487,360
Investments in unit investment trust fund	–	160,762	–	117,097
Corporate bonds	–	8,750	–	8,750
Loans and receivable	**1,921**	523,483	**1,921**	520,663
Investment properties*	**162,323**	162,323	**162,323**	162,323
Other assets	**252,409**	63,144	**22,952**	23,019
	₱5,340,402	₱4,858,711	**₱4,783,614**	₱4,405,609

* Investment properties comprise properties located in Manila.

The carrying value of the plan assets of the Group and Parent Company amounted to ₱5.34 billion and ₱4.81 billion, respectively, as of December 31, 2019, and ₱4.78 billion and ₱4.41 billion, respectively, as of December 31, 2019

The principal actuarial assumptions used in 2019 and 2018 in determining the retirement asset (liability) for the Group's and Parent Company's retirement plans are shown below:

	2019					
	Parent	CBSI	CIBI	CBC–PCCI	CBCC	CBSC
Discount rate:						
January 1	**7.15%**	**7.27%**	**7.33%**	**7.33%**	**7.38%**	**7.40%**
December 31	**4.36%**	**4.47%**	**4.47%**	**4.76%**	**4.30%**	**4.24%**
Salary increase rate	**6.00%**	**6.00%**	**6.00%**	**6.00%**	**6.00%**	**6.00%**

	2018					
	Parent	CBSI	CIBI	CBC−PCCI	CBCC	CBSC
Discount rate:						
January 1	5.60%	5.63%	5.82%	5.82%	5.85%	5.85%
December 31	7.15%	7.27%	7.33%	7.33%	7.38%	7.4%
Salary increase rate	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%

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

December 31, 2019	**Parent**	**CBSI**	**CIBI**	**CBC−PCCI**	**CBCC**	**CBSC**
Discount rate						
(+1%)	**(₱227,157)**	**(₱45,326)**	**(₱723)**	**(₱4,021)**	**(₱1,330)**	**(₱234)**
(−1%)	**325,654**	**58,726**	**1,065**	**9,049**	**1,628**	**297**
Salary increase rate						
(+1%)	**301,453**	**55,151**	**992**	**8,431**	**1,547**	**282**
(−1%)	**(218,813)**	**(43,755)**	**(705)**	**(3,918)**	**(1,296)**	**(228)**

December 31, 2018	**Parent**	**CBSI**	**CIBI**	**CBC−PCCI**	**CBCC**	**CBSC**
Discount rate						
(+1%)	(₱84,696)	(₱28,746)	(₱469)	(₱1,980)	(₱1,001)	(₱206)
(−1%)	133,008	37,942	608	2,504	1,260	272
Salary increase rate						
(+1%)	126,701	36,802	598	2,443	1,236	268
(−1%)	(83,078)	(28,456)	(470)	(1,969)	(1,002)	(207)

The weighted average duration of the defined benefit obligation are presented below:

	December 31, 2019	December 31, 2018
Parent Company	**9**	13
CBSI	**11**	18
CIBI	**11**	19
CBC−PCCI	**16**	19
CBCC	**8**	23
CBSC	**7**	24

The maturity analyses of the undiscounted benefit payments as of December 31, 2019 and 2018 are as follows:

December 31, 2019	**Parent**	**CBSI**	**CIBI**	**CBC−PCCI**	**CBCC**	**CBSC**
1 year and less	**₱1,010,732**	**₱10,639**	**₱–**	**₱3,192**	**₱–**	**₱–**
More than 1 year					–	–
to 5 years	**1,245,756**	**70,231**	**5,084**	**32,698**		
More than 5 years					–	
to 10 years	**2,559,422**	**305,122**	**9,295**	**20,648**		**1,381**
More than 10 years					–	
to 15 years	**2,557,933**	**726,316**	**5,788**	**107,204**		–
More than 15 years						
to 20 years	**4,691,189**	**896,080**	**7,612**	**118,326**	**106,708**	**3,986**
More than 20 years	**28,578,876**	**10,967,703**	**537,282**	**1,260,108**	**360,469**	**127,967**

December 31, 2018	Parent	CBSI	CIBI	CBC–PCCI	CBCC	CBSC
1 year and less	₱1,020,830	₱9,552	₱1,578	₱538	₱–	₱–
More than 1 year to 5 years	1,112,345	81,367	1,306	17,652	–	–
More than 5 years to 10 years	2,349,644	210,666	10,410	36,531	5,015	–
More than 10 years to 15 years	2,537,302	715,066	5,796	54,937	–	–
More than 15 years to 20 years	4,117,126	972,734	–	141,549	103,091	3,741
More than 20 years	27,553,459	11,606,160	455,722	1,097,718	381,490	182,074

26. **Derivative Financial Instruments**

Occasionally, the Parent Company enters into forward exchange contracts as an accommodation to its clients. These derivatives are not designated as accounting hedges.

As of December 31, 2019 and 2018, the aggregate notional amount of outstanding forwards and its weighted average rate are as follows:

		2019		2018	
		Notional Amount	Weighted Average Rate	Notional Amount	Weighted Average Rate
US Dollar					
	Buy	$548,790	₱51.52	$515,771	₱53.52
	Sell	$297,009	₱51.10	$313,379	₱51.41
Euro					
	Buy	€29,000	₱56.56	€127,100	₱59.95
	Sell	€17,709	₱55.88	–	–
Japanese Yen					
	Buy	¥2,189,180	₱0.46	–	–
Singapore Dollar					
	Sell	SGD541	₱37.66	–	–

The aggregate notional amounts of the outstanding buy US Dollar NDF as of December 31, 2019 and 2018 amounted to nil and US$40.00 million, respectively. The weighted average buy NDF rate as of December 31, 2018 is ₱52.93.

The aggregate notional amounts of the outstanding Futures as of December 31, 2019 and December 31, 2018 amounted to US$40 million and US$5 million, respectively.

The aggregate notional amounts of the outstanding IRS as of December 31, 2019 and 2018 amounted to ₱26.524 billion and ₱11.366 billion, respectively.

As of December 31, 2019 and 2018, the fair values of derivatives follow:

	2019		2018	
	Derivative Asset	**Derivative Liability**	Derivative Asset	Derivative Liability
Currency forwards	**₱113,384**	**₱425,976**	₱339,190	₱362,689
IRS	**528,238**	**610,077**	58,390	90,530
Futures	**16,439**	–	–	1,931
Warrants	**9,889**	–	10,268	–
	₱667,950	**₱1,036,053**	₱407,848	₱455,150

Fair Value Changes of Derivatives
The net movements in fair value changes of derivative instruments are as follows:

	2019	2018
Balance at beginning of year	**(₱47,303)**	₱66,053
Fair value changes during the year	**326,366**	(288,211)
Settled transactions	**(647,167)**	174,855
Balance at end of year	**(₱368,104)**	(₱47,303)

The net movements in the value of the derivatives are presented in the statements of income under the following accounts:

	2019	2018	2017
Foreign exchange gain (loss)	**(₱289,093)**	(₱82,585)	₱96,401
Trading and securities gain (loss)* (Note 21)	**(31,708)**	(30,771)	(3,437)
	₱(320,801)	₱(113,356)	₱92,964

*Net movements in the value related to embedded credit derivatives and IRS.

In 2019, the Parent Company established a monitoring process to properly account for the net movements in the value of foreign exchange contracts which pertain to funding and trading activities.

Funding activities pertain to activities undertaken by the Parent Company to obtain funds in one currency in exchange of another currency through the use of foreign exchange derivatives. For the year ended December 31, 2019, the account "Foreign exchange gains (losses)" in the statement of income consisted of the net movements in the value of foreign exchange contracts amounting to ₱402.93 million loss and ₱646.69 million gain for funding and trading activities, respectively.

Derivative contracts designated as hedges
In 2019, the Parent Company designated an interest rate swap contract (IRS) to hedge the cash flow variability of its floating rate bonds payable As of December 31, 2019, the fair value of the IRS designated as a hedging instrument amounted to ₱51.95 million with a notional amount of US$150.00 million.

The IRS designated as cash flow hedges has the same principal terms as the hedged bonds payable (Note 18). Accordingly, as of December 31, 2019, the Parent Company assessed that the hedging relationship is expected to be highly effective and no ineffective portion was recognized in profit or loss.

Net interest income on the derivative liabilities designated as hedges amounted to ₱14.27 million in 2019. Also, in 2019, the amount of gain or loss reclassified from the cash flow hedge reserve to profit or loss under net interest income amounted to ₱0.50 million.

27. Lease Contracts

The lease contracts are for periods ranging from one to 25 years from the dates of contracts and are renewable under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 5.00% to 10.00%.

Annual rentals on these lease contracts included in ‘Occupancy cost’ in the statements of income in 2018 and 2017 amounted to ₱844.24 million and ₱782.30 million, respectively, for the Group, and ₱541.24 million and ₱518.47 million, respectively, for the Parent Company.

As of December 31, 2018, future minimum rentals payable of the Group and the Parent Company under non−cancelable operating leases follow:

	Consolidated	Parent Company
Within one year	₱578,761	₱564,852
After one year but not more than five years	2,402,298	1,951,017
After five years	1,743,518	1,338,024
	₱4,724,577	₱3,853,894

The Group and the Parent Company have also entered into commercial property leases on its investment properties (Note 13).

Future minimum rentals receivable under noncancellable operating leases follow:

	Consolidated		**Parent Company**	
	2019	2018	**2019**	2018
Within one year	**₱6,146**	₱10,906	**₱6,146**	₱9,068
After one year but not more than five years	**12,705**	19,688	**8,162**	13,202
After more than five years	**13,518**	15,466	−	−
	₱32,369	₱46,060	**₱14,308**	₱22,270

28. **Income and Other Taxes**

Income taxes include corporate income tax and FCDU final taxes, as discussed below, and final tax paid at the rate of 20.00% on gross interest income from government securities and other deposit substitutes. These income taxes, as well as the deferred tax benefits and provisions, are presented as ‘Provision for income tax’ in the statements of income.

Republic Act (RA) No. 9337, An Act Amending National Internal Revenue Code, provides that RCIT rate shall be 30.00% while interest expense allowed as a deductible expense is reduced to 33.00% of interest income subject to final tax.

An MCIT of 2.00% on modified gross income is computed and compared with the RCIT. Any excess MCIT over RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, the NOLCO is allowed as a deduction from taxable income in the next three years from the year of inception.

Effective in May 2004, RA No. 9294 restored the tax exemption of FCDUs and offshore banking units (OBUs). Under such law, the income derived by the FCDU from foreign currency transactions with nonresidents, 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% gross income tax.

Interest income on deposit placements with other FCDUs and OBUs is taxed at 7.50% (now 15% effective January 1, 2018), while all other income of the FCDU is subject to the 30.00% corporate tax.

Relevant Tax Updates
Republic Act 10963, The Tax Reform for Acceleration and Inclusion (TRAIN), is first package of the comprehensive tax reform program of the government. The bill was signed into law on December 19, 2018 and took effect on January 1, 2018, amending some provisions of the old Philippine tax system.

Except for resident foreign corporations, which is still subject to the existing rate of 7.5%, tax on interest income of foreign currency deposit was increased to 15% under TRAIN. Documentary stamp tax on bank checks, drafts, certificate of deposit not bearing interest, all debt instruments, bills of exchange, letters of credit, mortgages, deeds and others are now subjected to a higher rate.

RR 4-2011
On March 15, 2011, the Bureau of Internal Revenue (BIR) issued Revenue Regulations (RR) No. 4−2011 which prescribed the attribution and allocation of expenses between FCDUs/EFCDUs or OBU and RBU and within RBU.

On April 6, 2015, the Bank and other member banks of the Bankers Association of the Philippines (BAP), filed a Petition for Declaratory Relief with Application for Temporary Restraining Order (TRO) and/or Writ of Preliminary Injunction with the Regional Trial Court of Makati (Makati Trial Court). Further, in Civil Case No. 15-287, the Bank and other BAP member banks assailed the validity of RR 4-2011 on the ground, among others, that (a) the RR violates the petitioner-banks substantive due process rights; (b) it is not only illegal but also unfair; (c) that it serves as a deterrent to banks to invest in capital market transactions to the prejudice of the economy; (d) it sets a dangerous precedent for the disallowance of full deductions due to the prescribes method of allocation; and (e) it violates the equal protection clause of the Constitution.

On April 8, 2015, the Makati Trial Court issued a TRO enjoining the BIR from enforcing RR 4-2011. Also, on April 25, 2015, Makati Trial Court issued a Writ of Preliminary Injunction enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR 4-2011 against the Bank and other BAP member banks, including issuing Preliminary Assessment Notice or Final Assessment Notice against them during the pendency of the litigation, unless sooner dissolved.

On June 10, 2015, the Makati Trial Court issued a Confirmatory Order stating that the TRO and Writ of Preliminary Injunction also prohibits the BIR from ruling or deciding on any administrative matter pending before it in relation to the subject revenue regulations and insofar as the Bank and other BAP member banks are concerned.

On May 25, 2019, the Makati Trial Court issued a decision annulling RR 4-2011 and making the Writ of Preliminary Injunction permanent.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulations, EAR expense allowed as a deductible expense is limited to the actual EAR paid or incurred but not to exceed 1.00% of the Parent Company’s net revenue.

The provision for income tax consists of:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Current						
Final tax	**₱1,420,644**	₱908,756	₱677,450	**1,402,657**	₱836,560	₱607,136
RCIT	**962,712**	1,070,191	977,968	**680,187**	926,792	829,109
MCIT	–	46,051	–	–	–	–
	2,383,356	2,024,998	1,655,418	**2,082,844**	1,763,352	1,436,245
Deferred	**(870,707)**	246,424	(166,241)	**(405,124)**	495,882	206,239
	₱1,512,649	₱2,271,422	₱1,489,177	**₱1,677,720**	₱2,259,234	₱1,642,484

The details of net deferred tax assets (liabilities) follow:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Net deferred tax assets on:				
Allowance for impairment and credit losses	**₱3,670,628**	₱2,806,637	**₱2,845,003**	₱2,340,436
Revaluation Increment on land (Notes 11 and 22)	**(547,405)**	(547,405)	**(547,405)**	(547,405)
Fair value adjustments on asset foreclosure and dacion transactions - net of depreciated portion	**271,947**	346,238	**23,376**	25,437
Net defined benefit asset	**(166,955)**	(243,812)	**(151,420)**	(228,277)
Others	**142,734**	151,231	**118,402**	149,029
	₱3,370,949	₱2,514,889	**₱2,287,956**	₱1,739,220

Deferred tax liabilities of the Group arose mainly from fair value adjustments related to the acquisition of PDB and Unity Bank.

The Group did not set up deferred tax assets on the following temporary differences as it believes that it is highly probable that these temporary differences will not be realized in the near foreseeable future:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Allowance for impairment and credit losses	**₱1,684,183**	₱2,809,469	**₱–**	₱163,062
Accrued compensated absences	**57,182**	–	–	–
NOLCO	–	329,959	–	–
Excess of MCIT over RCIT	**83,204**	46,122	–	–
Others	**34,065**	34,572	–	–
	₱1,858,634	₱3,220,122	**₱–**	₱163,062

As of December 31, 2019, details of the Subsidiary's NOLCO are as follows:

Inception Year	Original Amount	Used Amount	Expired Amount	Remaining Balance	Expiry Year
2016	₱–	₱–	₱–	₱–	2016
2017	–	–	–	–	2017
2018	288,559	288,559	–	–	2018
2019	–	–	–	–	2019
	₱288,559	₱288,559	₱–	₱–	

As of December 31, 2019, details of the excess of MCIT over RCIT of the Subsidiary follow:

Inception Year	Original Amount	Used Amount	Expired Amount	Remaining Balance	Expiry Year
2016	₱35,414	₱35,313	₱101	₱–	2016
2017	–	–	–	–	2017
2018	46,643	–	–	46,643	2018
2019	36,560	–	–	36,560	2019
	₱118,618	₱35,313	₱101	₱83,204	

The reconciliation of the statutory income tax to the provision for income tax follows:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Statutory income tax	**₱3,476,286**	₱3,116,258	₱2,703,632	**₱3,524,004**	₱3,110,883	₱2,746,937
Tax effects of						
FCDU income	**(730,776)**	(250,305)	(498,029)	**(714,703)**	(252,809)	(496,062)
Non–taxable income	**(690,059)**	(984,372)	(939,179)	**(1,458,268)**	(895,392)	(837,850)
Interest income subjected to final tax	**(1,609,292)**	(318,857)	(279,914)	**(622,878)**	(276,675)	(266,103)
Nondeductible expenses	**1,439,020**	827,904	771,915	**1,244,697**	676,253	612,065
Others	**(372,530)**	(119,204)	(269,248)	**(295,132)**	(103,027)	(116,503)
Provision for income tax	**₱1,512,649**	₱2,271,424	₱1,489,177	**₱1,677,720**	₱2,259,223	₱1,642,484

29. **Trust Operations**

Securities and other properties (other than deposits) held by the Parent Company in fiduciary or agency capacities for clients and beneficiaries are not included in the accompanying balance sheets since these are not assets of the Parent Company (Note 31).

In compliance with the requirements of current banking regulations relative to the Parent Company's trust functions : (a) government bonds included under HFT financial assets and financial assets at FVOCI with total face value of ₱1.87 billion and ₱1.78 billion as of December 31, 2019 and 2018, respectively, are deposited with the BSP as security for the Parent Company's faithful compliance with its fiduciary obligations (Note 9); and (b) a certain percentage of the Parent Company's trust fee income is transferred to surplus reserve. This yearly transfer is required until the surplus reserve for trust function equals 20.00% of the Parent Company's authorized capital stock.

30. **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 Group's related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members,
- significant investors
- subsidiaries, joint ventures and associates and their respective subsidiaries, and
- post−employment benefit plans for the benefit of the Group's employees.

The Group has several business relationships with related parties. Transactions with such parties are normally made in the ordinary course of business and based on the terms and conditions discussed below.

Transactions with Retirement Plans

Under PFRS, certain post−employment benefit plans are considered as related parties. The Group has business relationships with a number of its retirement plans pursuant to which it provides trust and management services to these plans. Income earned by the Group and Parent Company from such services amounted to₱50.78 million and ₱44.70 million, respectively, in 2019, ₱47.60 million and ₱44.38 million, respectively, in 2018, and ₱42.89 million and ₱41.69 million, respectively, in 2017.

The Group's retirement funds may hold or trade the Parent Company's shares or securities. Significant transactions of the retirement fund, particularly with related parties, are approved by the Trust Investment Committee (TIC) of the Parent Company. The members of the TIC are directors and key management personnel of the Parent Company.

A summary of transactions with related party retirement plans follows:

	Consolidated		**Parent Company**	
	2019	2018	**2019**	2018
Deposits in banks	**₱52,757**	₱560,672	**₱39,407**	₱399,395
Financial assets at FVOCI	**1,367,210**	1,479,097	**1,367,210**	1,479,097
Dividend income	**48,126**	45,301	**48,126**	45,301
Interest income	**21,484**	16,882	**18,975**	13,311
Total market value of shares	**1,367,210**	1,479,097	**1,367,210**	1,479,097
Number of shares held	**54,688**	54,579	**54,688**	54,579

In 2017, dividend income and interest income of the retirement plan from investments and placements in the Parent Company amounted to ₱45.75 million and ₱2.07 million, respectively, for the Group, and ₱47.75 million and ₱1.52 million, respectively, for the Parent Company.

Financial assets at FVOCI represent shares of stock of the Parent Company. Voting rights over the Parent Company's shares are exercised by an authorized trust officer.

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 Group, directly or indirectly. The Group considers the members of the ManCom to constitute key management personnel for purposes of PAS 24.

Total remunerations of key management personnel are as follows:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Short–term employee benefits	**₱550,767**	₱533,995	₱482,345	**₱468,271**	₱441,361	₱408,311
Post–employment benefits	**5,395**	5,064	2,501	**4,718**	4,418	2,501
	₱556,162	₱539,059	₱484,846	**₱472,989**	₱445,779	₱410,812

Members of the BOD are entitled to a per diem of ₱500.00 for attendance at each meeting of the Board or of any committees and to four percent (4.00%) of the Parent Company's net earnings, with certain deductions in accordance with BSP regulation. Non–executive directors do not receive any performance–related compensation. Directors' remuneration covers all Parent Company's Board activities and membership of committees and subsidiary companies.

The Group also provides banking services to directors and other key management personnel and persons connected to them. These transactions are presented in the tables below.

Other Related Party Transactions

Transactions between the Parent Company and its subsidiaries meet the definition of related party transactions. Transactions between the Group and its associated companies also qualify as related party transactions. Details of the Parent Company's subsidiaries and associate are disclosed in Notes 1 and 10.

Group

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

	December 31, 2019		
Category	**Amount / Volume**	**Outstanding Balance**	**Terms and Conditions**
Significant Investor			
Loans and receivables	**₱–**	**₱2,345,300**	Partially secured Loans with interest rate
Issuances	–	–	of 2 – 5.12% and maturity of two to
Repayments	**(4,421,200)**	–	seven years.
Deposit liabilities	–	**1,496**	These are checking accounts with annual
Deposits	**1,123**	–	average rate of 0.13%.
Withdrawals	–	–	
Associate			
Deposit liabilities	–	**300,620**	These are savings accounts with annual
Deposits	**666,996**	–	average interest rates ranging from
Withdrawals	**(532,748)**	–	0.25% to 1.00%.
Key Management Personnel			
Loans and receivables	**–**	**427**	Unsecured Officer's accounts from
Issuances	**–**	**–**	Credit card with interest of 3% and
Repayments	**(61)**	**–**	currently maturing and Fully secured OEL accounts with interest of 6%;Secured; no impairment; with annual fixed interest rates ranging from 0% to 5.50%
Deposit liabilities	–	**78,763**	These are checking, savings and time
Deposits	**255,582**	–	deposits with annual average interest
Withdrawals	**(257,836)**	–	rates ranging from 0.25% to 1.00%.
Other Related Parties			
Deposit liabilities	–	**389,714**	These are checking and savings accounts
Deposits	**22,632,109**	–	with annual average interest rates
Withdrawals	**(22,523,755)**	–	ranging from 0.13% to 1.00%.

Category	Amount / Volume	Outstanding Balance	Terms and Conditions
	December 31, 2018		
Significant Investor			
Loans and receivables		₱6,766,500	Partially secured Loans with interest rate of 2 – 5.12% and maturity of two to seven years.
Issuances	₱86,125,000		
Repayments	(2,350,000)		
Deposit liabilities		374	These are checking accounts with annual average rate of 0.13%.
Deposits	2,532,609		
Withdrawals	(2,532,493)		
Associate			
Deposit liabilities		166,372	These are savings accounts with annual average interest rates ranging from 0.25% to 1.00%.
Deposits	487,691		
Withdrawals	(399,123)		
Key Management Personnel			
Loans and receivables		488	Unsecured Officer's accounts from Credit card with interest of 3% and currently maturing and Fully secured OEL accounts with interest of 6%;Secured; no impairment; with annual fixed interest rates ranging from 0% to 5.50%
Issuances	388		
Repayments	(39,213)		
Deposit liabilities		79,241	These are checking, savings and time deposits with annual average interest rates ranging from 0.25% to 1.00%.
Deposits	406,225		
Withdrawals	(350,120)		
Other Related Parties			
Deposit liabilities		238,933	These are checking and savings accounts with annual average interest rates ranging from 0.13% to 1.00%.
Deposits	35,337,503		
Withdrawals	(35,165,054)		

Interest income earned and interest expense incurred from the above loans and deposit liabilities in 2019, 2018, and 2017 follow:

	Significant Investor			**Associate**		
	2019	2018	2017	**2019**	2018	2017
Interest income	**₱46,906**	₱42,601	₱169,706	**₱–**	₱–	₱–
Interest expense	**2**	3	61	**655**	168	1,849

	Key Management Personnel			**Other Related Parties**		
	2019	2018	2017	**2019**	2018	2017
Interest income	**₱26**	₱7,921	₱17,102	**₱–**	₱–	₱–
Interest expense	**1,952**	2,121	47	**2,376**	2,129	69

Related party transactions of the Group with significant investor, associate and other related parties pertain to transactions of the Parent Company with these related parties.

Parent Company

Related party transactions of the Parent Company by category of related party, except those already presented in the Group disclosures, are presented below.

Category	**Amount / Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
	December 31, 2019		
Significant Investor			
Loans and receivables		**2,345,300.00**	Partially secured Loans with interest rate of 2 - 5.25% and maturity of two to seven years.
Issuances			
Repayments	**(4,421,200.00)**		
Deposit liabilities		**₱1,496**	These are checking accounts with annual average rate of 0.13%.
Deposits	**₱1,123**		
Withdrawals			
Subsidiaries			
Deposit liabilities		**481,247**	These are checking and savings accounts with annual average interest rates ranging from 0.13% to 1.00%.
Deposits	**3,673,806**		
Withdrawals	**(3,306,898)**		
Associate			
Deposit liabilities		**300,538**	These are savings accounts with annual average interest rates ranging from0.25% to 1.00%.
Deposits	**666,995**		
Withdrawals	**(532,748)**		

(Forward)

	December 31, 2019		
Category	**Amount / Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Key Management Personnel			
Loans and receivables		**426.50**	Unsecured Officer's accounts from Credit card with interest of 3% and currently maturing and Fully secured OEL accounts with interest of 6%
Issuances			
Repayments	**(61.14)**		
Deposit liabilities		**27,009**	These are savings account with annual average interest rates ranging from 0.25% to 1.00%.
Deposits	**229,243**		
Withdrawals	**(216,803)**		
Other Related Parties			
Deposit liabilities		**168,085**	These are checking and savings accounts with annual average interest rates ranging from 0.13% to 1.00%.
Deposits	**22,528,359**		
Withdrawals	**(22,474,211)**		

	December 31, 2018		
Category	Amount / Volume	Outstanding Balance	Nature, Terms and Conditions
Significant Investor			
Loans and receivables		₱6,766,500	These are secured loans with interest rate of 5.13% and maturity of four years; collateral includes shares of stocks with fair value of ₱28.44 billion
Issuances	₱86,125,000		
Repayments	(2,350,000)		
Deposit liabilities		374	These are checking accounts with annual average rate of 0.13%.
Deposits	2,532,609		
Withdrawals	(2,532,493)		
Subsidiaries			
Deposit liabilities		114,339	These are checking and savings accounts with annual average interest rates ranging from 0.13% to 1.00%.
Deposits	3,668,567		
Withdrawals	(3,587,029)		
Associate			
Deposit liabilities		₱166,291	These are savings accounts with annual average interest rates ranging from0.25% to 1.00%.
Deposits	₱487,691		
Withdrawals	(399,123)		
Key Management Personnel			
Loans and receivables		488	Unsecured Officer's accounts from Credit card with interest of 3% and currently maturing and Fully secured OEL accounts with interest of 6%
Issuances	388		
Repayments	(39,213)		
Deposit liabilities		14,569	These are savings account with annual average interest rates ranging from 0.25% to 1.00%.
Deposits	365,236		
Withdrawals	(369,439)		
Other Related Parties			
Deposit liabilities			These are checking and savings accounts with annual average interest rates ranging from 0.13% to 1.00%.
Deposits	35,229,849	113,937	
Withdrawals	(35,167,475)		

In 2019 and 2017, the Parent Company sold its investment property to a related party for a total cash selling price of ₱382.33 million and ₱161.58 million, respectively, and recognized gain of ₱377.18 million and ₱142.61 million, respectively.

The related party transactions shall be settled in cash. There are no provisions for credit losses in 2019, 2018 and 2017 in relation to amounts due from related parties.

Interest income earned and interest expense incurred from the above loans and deposit liabilities in 2019, 2018 and 2017 follow:

	Subsidiaries			**Associate**		
	2019	2018	2017	**2019**	2018	2017
Interest expense	**₱743**	₱375	₱46	**₱654**	₱168	₱1,849

	Key Management Personnel			**Other Related Parties**		
	2019	2018	2017	**2019**	2018	2017
Interest income	**₱26**	₱11,277	₱46	**₱–**	₱–	₱–
Interest expense	**36**	19	47	**210**	131	69

	Significant Investor		
	2019	2018	2017
Interest income	**₱46,906**	₱42,601	₱169,706
Interest expense	**2**	3	61

Outright purchases and outright sale of debt securities of the Parent Company with its subsidiaries in 2019 and 2018 follow:

	Subsidiaries	
	2019	2018
Peso−denominated		
Outright purchase	**₱3,390,547**	₱817,030
Outright sale	**854,135**	4,246,628
Dollar – denominated (equity)		
Outright purchase	**6,550**	5,117
Outright sale	**450**	41,400

The following table shows the amount and outstanding balance of other related party transactions included in the financial statements:

	Subsidiaries		
	2019	2018	**Nature, Terms and Conditions**
Balance Sheet			
Accounts receivable	**₱1,144**	₱1,242	This pertains to various expenses advanced by CBC in behalf of CBSI
Security deposits	**2,270**	2,270	This pertains to the rental deposits with CBSI for office space leased out to the Parent Company
Accounts payable	**12,941**	4,858	This pertains to various unpaid rental to CBSI

	Subsidiaries			
	2019	2018	2017	**Nature, Terms and Conditions**
Income Statement				
Miscellaneous income	**₱1,800**	₱1,800	₱1,800	Human resources functions provided by the Parent Company to its subsidiaries (except CBC Forex and Unity Bank) such as recruitment and placement, training and development, salary and benefits development, systems and research, and employee benefits. Under the agreement between the Parent Company and its subsidiaries, the subsidiaries shall pay the Parent Company an annual fee
Occupancy cost	**20,067**	19,937	24,532	Certain units of the condominium owned by CBSI are being leased to the Parent Company for a term of five years, with no escalation clause
Miscellaneous expense	**222,414**	204,749	193,651	This pertains to the computer and general banking services provided by CBC−PCCI to the Parent Company to support its reporting requirements

31. **Commitments and Contingent Assets and Liabilities**

In the normal course of the Group's operations, there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. Management does not anticipate any material losses as a result of these transactions.

There are several suits, assessments or notices and claims that remain contested. Management believes, based on the opinion of its legal counsels, that the ultimate outcome of such suits, assessments and claims will not have a material effect on the Group's and the Parent Bank's financial position and results of operations.

32. **Segment Information**

The Group's operating businesses are recognized and managed separately according to the nature of services provided and the markets served, with each segment representing a strategic business unit.

The Group's business segments are as follows:

a. Lending Business – principally handles all the lending, trade finance and corollary banking products and services offered to corporate and institutional customers as well as selected middle market clients. It also handles home loans, contract–to–sell receivables, auto loans and credit cards for individual and/or corporate customers. Aside from the lending business, it also provides cash management services and remittance transactions;

b. Retail Banking Business – principally handles retail and commercial loans, individual and corporate deposits, overdrafts and funds transfer facilities, trade facilities and all other services for retail customers;

c. Financial Markets – principally provides money market, trading and treasury services, manages the Group's funding operations by the use of government securities, placements and acceptances with other banks as well as offers advisory and capital–raising services to corporate clients and wealth management services to high–net–worth customers; and

d. Others – handles other services including but not limited to trust and investment management services, asset management, insurance brokerage, credit management, thrift banking business, operations and financial control, and other support services.

The Group's businesses are organized to cater to the banking needs of market segments, facilitate customer engagement, ensure timely delivery of products and services as well as achieve cost efficiency and economies of scale. Accordingly, the corresponding segment information for all periods presented herein are restated to reflect such change.

The Group reports its primary segment information to the Chief Operating Decision Maker (CODM) on the basis of the above–mentioned segments. The CODM of the Group is the President.

Segment assets are those operating assets that are employed by a segment in its operating activities that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Interest income is reported net as management primarily relies on the net interest income as performance measure, not the gross income and expense.

The segment results include internal transfer pricing adjustments across business units as deemed appropriate by management. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to the business units based on its assets' and liabilities' repricing or maturity date using market-based yield curve approved by the Asset Liability Committee (ALCO).

Other operating income mainly consists of trading and securities gain (loss) − net, service charges, fees and commissions, trust fee income and foreign exchange gain − net. Other operating expense mainly consists of compensation and fringe benefits, provision for impairment and credit losses, taxes and licenses, occupancy, depreciation and amortization, stationery, supplies and postage and insurance. Other operating income and expense are allocated between segments based on equitable sharing arrangements.

The Group has no significant customers which contributes 10.00% or more of the consolidated revenues.

The Group's asset producing revenues are located in the Philippines (i.e., one geographical location); therefore, geographical segment information is no longer presented.

The following tables present relevant financial information regarding business segments measured in accordance with PFRS as of and for the years ended December 31, 2019, 2018 and 2017:

	Lending Business			**Retail Banking Business**		
	2019	2018	2017	**2019**	2018	2017
Results of Operations						
Net interest income						
Third party	**₱24,613,498**	₱19,034,015	₱13,876,995	**(₱5,338,849)**	(₱871,505)	₱855,933
Intersegment	**(18,388,536)**	(12,956,205)	(8,438,704)	**18,020,023**	11,763,393	7,915,744
	6,224,962	6,077,810	5,438,291	**12,681,174**	10,891,888	8,771,677
Other operating income	**2,281,689**	1,794,959	1,317,298	**2,209,567**	1,619,591	1,465,962
Total revenue	**8,506,651**	7,872,769	6,755,589	**14,890,741**	12,511,479	10,237,639
Other operating expense	**(5,608,740)**	(1,559,750)	(2,294,490)	**(10,229,225)**	(7,138,661)	(6,536,859)
Income before income tax	**2,897,911**	6,313,019	4,461,099	**4,661,516**	5,372,818	3,700,780
Provision for income tax	**(45,149)**	210,176	236,856	**(419,750)**	–	–
Net income	**₱2,852,762**	₱6,523,195	₱4,697,955	**₱4,241,766**	₱5,372,818	₱3,700,780
Total assets	**₱438,731,372**	₱376,187,705	₱299,052,197	**₱516,900,229**	₱471,540,704	₱431,622,883
Total liabilities	**5,042,977**	4,819,787	1,171,742	**569,897,912**	499,955,967	444,030,414
Depreciation and amortization	**54,477**	73,475	61,988	**1,185,539**	437,201	378,597
Provision for impairment and credit losses	**₱1,836,780**	₱(328,404)	₱668,360	**₱443,621**	₱103,780	₱238,645
Capital expenditures	**₱29,405**	₱66,105	₱63,136	**₱177,348**	₱148,179	₱118,378

	Financial Markets			**Other Business and Support Units**		
	2019	2018	2017	**2019**	2018	2017
Results of Operations						
Net interest income						
Third party	**₱3,462,384**	₱4,028,486	₱1,661,494	**₱3,314,263**	₱735,189	₱3,231,982
Intersegment	**1,041,115**	(434,176)	1,124,033	**(672,603)**	1,626,988	(601,073)
	4,503,499	3,594,310	2,785,527	**2,641,660**	2,362,177	2,630,909
Other operating income	**1,994,224**	522,523	879,737	**1,945,308**	1,721,223	2,438,697
Total revenue	**6,497,723**	4,116,833	3,665,264	**4,586,968**	4,083,400	5,069,606
Other operating expense	**(1,853,424)**	(916,021)	(1,264,773)	**(5,203,075)**	(8,582,525)	(6,619,869)
Income before income tax	**4,644,299**	3,200,812	2,400,491	**(616,107)**	(4,499,125)	(1,550,263)
Provision for income tax	**(1,240,335)**	(730,643)	(547,624)	**192,584**	(1,750,956)	(1,178,409)
Net income	**₱3,403,964**	₱2,470,169	₱1,852,867	**(₱423,523)**	₱(6,250,081)	(₱2,728,672)
Total assets	**₱230,368,926**	₱170,463,397	₱168,052,729	**(₱223,774,545)**	(₱152,120,165)	(₱147,280,299)
Total liabilities	**₱118,786,174**	₱88,040,610	₱140,321,883	**₱172,323,324**	₱185,398,690	₱82,267,974
Depreciation and amortization	**₱52,328**	₱49,433	₱41,852	**₱650,317**	₱737,576	₱735,052
Provision for impairment and credit losses	**₱92,689**	₱51,689	₱–	**₱197,078**	₱314,011	(₱152,834)
Capital expenditures	**₱8,542**	₱60,838	₱63,795	**₱209,829**	₱299,388	₱389,402

	Total		
	2019	2018	2017
Results of Operations			
Net interest income			
Third party	**₱26,051,296**	₱22,926,185	₱19,626,404
Intersegment	–	–	–
	26,051,296	22,926,185	19,626,404
Other operating income	**8,430,788**	5,658,296	6,101,694
Total revenue	**34,482,083**	28,584,481	25,728,098
Other operating expense	**(22,894,464)**	(18,196,957)	(16,715,991)
Income before income tax	**11,587,619**	10,387,524	9,012,107
Provision for income tax	**(1,512,650)**	(2,271,423)	(1,489,177)
Net income	**₱10,074,969**	₱8,116,101	₱7,522,930
Total assets	**₱962,225,982**	₱866,071,641	₱751,447,510
Total liabilities	**₱866,050,387**	₱778,215,054	₱667,792,013
Depreciation and amortization	**₱1,942,661**	₱1,297,685	₱1,217,489
Provision for impairment and credit losses	**₱2,570,168**	₱141,076	₱754,171
Capital expenditures	**₱425,124**	₱574,510	₱634,711

The Group's share in net income of an associate included in other operating income amounting to ₱184.66 million , ₱101.01 million and ₱73.13 million in 2019, 2018 and 2017, respectively are reported under 'Other Business and Support Units'.

33. **Earnings Per Share**

Basic EPS amounts are calculated by dividing the net income for the year by the weighted average number of common shares outstanding during the year (adjusted for stock dividends).

The following reflects the income and share data used in the basic earnings per share computations:

	2019	2018	2017
a. Net income attributable to equity holders of the parent	**₱10,068,960**	₱8,110,379	₱7,513,972
b. Weighted average number of common shares outstanding (Note 23)	**2,685,900**	2,685,826	2,581,182
c. EPS (a/b)	**₱3.75**	₱3.02	₱2.91

As of December 31, 2019, 2018 and 2017, there were no outstanding dilutive potential common shares.

34. **Supplementary Information for Cash Flow Analysis**

The following is a summary of certain non–cash investing activities that relate to the analysis of the statements of cash flows:

	Consolidated		
	2019	2018	2017
Addition to investment properties from settlement of loans	**₱832,290**	₱523,343	₱579,089
Fair value gain in AFS financial assets	**892,644**	(451,786)	158,946
Cumulative translation adjustment	**98,830**	(52,900)	(15,970)
Addition to chattel mortgage from settlement of loans	**618,298**	626,182	559,283

	Parent Company		
	2019	2018	2017
Addition to investment properties from settlement of loans	**₱471,020**	₱240,680	₱126,652
Fair value gain in AFS financial assets	**670,487**	(381,791)	113,020
Cumulative translation adjustment	**81,518**	(58,792)	(16,197)
Addition to chattel mortgage from settlement of loans	**10,332**	20,135	10,824

The following table shows the reconciliation analysis of liabilities arising from financing activities for the period ended December 31, 2019:

	2019	2018
Balance at beginning of year	**₱39,826,532**	₱20,118,031
Cash flows during the year		
Proceeds	**180,468,980**	184,568,424
Settlement	**(147,998,921)**	(171,215,735)
Non−cash changes		
Foreign exchange movement	**(1,319,934)**	4,132,800
Amortization of transaction cost	**(200,852)**	2,223,012
Balance at end of year	**₱70,775,804**	₱39,826,532

35. **Offsetting of Financial Assets and Liabilities**

The amendments to PFRS 7 require the Group 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 table.

December 31, 2019

Financial instruments recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a−b]	Effects of remaining rights of set−off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments	Fair value of financial collateral	Net exposure [c−d]
	[a]	[b]	[c]	[d]		[e]
Financial assets						
SPURA	₱5,447,293	₱–	₱5,447,293	₱5,447,293	₱5,447,293	₱–
Currency forwards	101,067	–	101,067	10,786	–	90,281
IRS	2,082	–	2,082	15	–	2,067
	₱5,550,442	₱–	₱5,550,442	₱5,458,094	₱5,447,293	₱92,348
Financial liabilities						
Bills payable	₱21,867,053	₱–	₱21,867,053	₱19,385,705	₱19,706,128	₱2,160,925
Currency forwards	278,942	–	278,942	37,058		241,883
IRS	44,355	–	44,355	10,786	–	33,569
	₱22,190,350	₱–	₱22,190,350	₱19,433,549	₱19,706,128	₱2,436,378

December 31, 2018						
				Effects of remaining rights of set−off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial instruments recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a−b]	Financial instruments	Fair value of financial collateral	Net exposure [c−d]
	[a]	[b]	[c]	[d]		[e]
Financial assets						
SPURA	₱7,000,000	₱–	₱7,000,000	₱7,000,000	₱7,000,000	₱0
Currency forwards	129,322	–	129,322	33,933		95,389
IRS	28,198	–	28,198	3,481		24,717
	₱7,157,525	₱–	₱7,157,525	₱7,037,414	₱7,000,000	₱120,106
Financial liabilities						
Bills payable	₱27,372,201	₱–	₱27,372,201	₱34,689,129	₱32,547,479	₱0
Currency forwards	52,249	-	52,249	33,933		18,316
IRS	20,963	–	20,963	4,481		16,482
	₱27,445,413	₱–	₱27,445,413	₱34,727,543	₱32,547,479	₱35,798

The amounts disclosed in column (d) include those rights to set−off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. These include amounts related to financial collateral both received and pledged, whether cash or non−cash collateral, excluding the extent of over−collateralization.

36. Approval of the Financial Statements

The accompanying consolidated and parent company financial statements were authorized for issue by the Parent Company's BOD on February 26, 2020.

37. Supplementary Information Required Under BSP Circular 1074

Presented below is the supplementary information required by BSP under Appendix 55 of BSP Circular 1074 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

Basic quantitative indicators of financial performance
The following basic ratios measure the financial performance of the Group and the Parent Company:

	Consolidated			**Parent Company**		
	2019	2018	2017	**2019**	2018	2017
Return on average equity	**11.04%**	9.54%	10.01%	**11.04%**	9.54%	10.01%
Return on average assets	**1.10%**	1.04%	1.12%	**1.22%**	1.17%	1.27%
Net interest margin	**3.39%**	3.10%	3.11%	**3.26%**	2.97%	2.91%

Description of capital instruments issued

None to report.

Significant credit exposures

The BSP considers that loan concentration exists when the total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio. As of December 31, 2019 and 2018, the Parent Company does not have credit concentration in any particular industry.

Status of loans

Information on the amounts of performing and non-performing loans and receivables (gross of allowance for impairment and credit losses) of the Group and Parent Company are as follows:

	Consolidated					
	2019			2018		
	Performing	**Non-Performing**	**Total**	Performing	Non-Performing	Total
Loans and discounts						
Corporate and commercial lending	**₱454,852,808**	**₱4,690,104**	**₱459,542,912**	₱408,396,312	₱3,259,100	₱411,655,412
Consumer lending:						
Housing	**69,504,381**	**2,427,211**	**71,931,592**	57,632,786	1,650,827	59,283,613
Auto	**22,155,296**	**702,476**	**22,857,772**	21,339,654	593,380	21,933,034
Credit Card	**1,209,616**	**304,222**	**1,513,838**	1,178,929	269,362	1,448,291
Others	**10,061,522**	**327,756**	**10,389,278**	4,299,580	139,926	4,439,506
Trade-related lending	**10,954,527**	**242,392**	**11,196,919**	13,794,546	23,319	13,817,865
Others*	**42,358**	**4,471**	**46,829**	51,815	4,701	56,516
	₱568,780,508	**₱8,698,632**	**₱577,479,140**	₱506,693,622	₱5,940,615	₱512,634,237

	Parent Company					
	2019			2018		
	Performing	**Non-Performing**	**Total**	Performing	Non-Performing	Total
Loans and discounts						
Corporate and commercial lending	**₱ 432,104,596**	**₱ 2,229,449**	**₱ 434,334,045**	₱ 380,318,161	₱ 1,086,188	₱ 381,404,349
Consumer lending:						
Housing	**53,033,152**	**1,908,416**	**54,941,568**	41,893,098	1,147,000	43,040,098
Auto	**7,956,005**	**185,153**	**8,141,158**	8,086,688	107,934	8,194,622
Credit Card	**1,209,616**	**304,222**	**1,513,838**	1,178,928	269,361	1,448,289
Others	**1,463**	**-**	**1,463**	1,521		1,521
Trade-related lending	**10,666,662**	**235,906**	**10,902,568**	12,914,287	23,319	12,937,606
Others*	**34,340**	**1**	**34,341**	39,489	271	39,760
	₱ 505,005,834	**₱ 4,863,147**	**₱ 509,868,981**	₱ 444,432,172	₱ 2,634,073	₱ 447,066,245

Loans per security

As of December 31, 2019 and 2018, secured and unsecured non–performing loans (NPLs) of the Group and the Parent Company follow:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Secured	**₱3,177,507**	₱2,771,745	**₱935,742**	₱493,929
Unsecured	**5,521,125**	3,173,971	**3,927,405**	2,140,143
	₱8,698,632	₱5,945,716	**₱4,863,147**	₱2,634,072

According to BSP Circular 941 *Amendments to the Regulations on Past Due and Non–Performing Loans* effective January 1, 2018, loans shall be considered non–performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/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.

Secured liability and assets pledged as security

As of December 31, 2019, the carrying amount of foreign currency–denominated investment securities at amortized cost pledged by the Parent Company as collateral for its interbank borrowings amounted to ₱9.00 billion. The carrying amount of peso–denominated investment securities at amortized cost pledged by the Parent Company as collateral for its interbank borrowings amounted to ₱10.39 billion.

The fair value of investment securities at amortized cost pledged as collateral amounted to ₱19.71 billion as of December 31, 2019.

As of December 31, 2018, the carrying amount of foreign currency–denominated investment securities at amortized cost and FVOCI pledged by the Parent Company as collateral for its interbank borrowings amounted to ₱13.32 billion and ₱0.73 billion, respectively. The carrying amount of peso–denominated investment securities at amortized cost pledged by the Parent Company as collateral for its interbank borrowings amounted to ₱20.69 billion. The fair value of investment securities at amortized cost pledged as collateral amounted to ₱31.86 billion as of December 31, 2019.

Related party loans
As required by the BSP, the Group discloses loan transactions with its and affiliates and investees and with certain directors, officers, stockholders and related interests (DOSRI). Under existing banking regulations, the limit on the amount of individual loans to DOSRI, of which 70.00% must be secured, should not exceed the regulatory capital or 15.00% of the total loan portfolio, whichever is lower. These limits do not apply to loans secured by assets considered as non–risk as defined in the regulations.

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

	Consolidated			
	2019		**2018**	
	DOSRI Loans	**Related Party Loans (inclusive of DOSRI Loans)**	DOSRI Loans	Related Party Loans (inclusive of DOSRI Loans)
Total outstanding DOSRI loans	**₱3,782,090**	**₱56,663,748**	₱10,273,436	₱39,862,519
Percent of DOSRI/Related Party loans to total loan portfolio	**0.65%**	**9.81%**	2.00%	7.77%
Percent of unsecured DOSRI/Related Party loans to total loan portfolio	**5.16%**	**76.60%**	1.78%	68.57%
Percent past due DOSRI/Related Party loans to total loan portfolio	**–**	**–**	–	–
Percent of non–performing DOSRI/Related Party loans to total loan portfolio	**–**	**–**	–	–

	Parent			
	2019		**2018**	
	DOSRI Loans	**Related Party Loans (inclusive of DOSRI Loans)**	DOSRI Loans	Related Party Loans (inclusive of DOSRI Loans)
Outstanding DOSRI loans	**₱3,775,723**	**₱55,832,398**	₱10,268,296	₱39,535,110
Percent of DOSRI/Related Party loans to total loan portfolio	**0.74%**	**10.94%**	2.30%	8.84%
Percent of unsecured DOSRI/Related Party loans to total loan portfolio	**5.16%**	**77.71%**	1.77%	69.12%
Percent past due DOSRI/Related Party loans to total loan portfolio	**–**	**–**	–	–
Percent of non–performing DOSRI/Related Party loans to total loan portfolio	**–**	**–**	–	–

The amounts of loans disclosed for related parties above differ with the amounts disclosed for key management personnel since the composition of DOSRI is more expansive than that of key management personnel.

BSP Circular No. 560 provides that the total outstanding loans, other credit accommodation and guarantees to each of the bank's/quasi–bank's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi–bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi–bank; and the subsidiaries and affiliates of the lending bank/quasi–bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi–bank.

On May 12, 2009, BSP issued Circular No. 654 allowing a separate individual limit of twenty–five (25.00%) of the net worth of the lending bank/quasi–bank to loans of banks/quasi–banks to their subsidiaries and affiliates engaged in energy and power generation.

Commitments and contingencies

The following is a summary of contingencies and commitments of the Group and the Parent Company with the equivalent peso contractual amounts:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Trust department accounts (Note 28)	**₱169,339,175**	₱133,806,226	**₱169,339,175**	₱133,806,226
Committed credit lines	**46,506,112**	122,804,833	**46,506,112**	122,280,671
Unused commercial letters of credit (Note 29)	**18,227,610**	20,978,009	**18,110,275**	20,829,020
Foreign exchange bought	**30,941,342**	37,359,690	**30,941,342**	37,359,690
Foreign exchange sold	**18,229,910**	24,678,551	**18,229,910**	24,678,551
Credit card lines	**11,048,767**	12,568,703	**11,048,767**	12,568,703
IRS receivable	**26,523,850**	11,366,980	**26,523,850**	11,366,980
Outstanding guarantees issued	**1,022,261**	944,262	**688,045**	420,100
Inward bills for collection	**4,423,799**	2,563,604	**4,423,799**	2,563,604
Standby credit commitment	**2,200,316**	3,149,787	**2,200,316**	3,149,787
Spot exchange sold	**11,965,938**	3,624,709	**11,965,938**	3,624,709
Spot exchange bought	**10,896,547**	3,247,995	**10,896,547**	3,247,995
Deficiency claims receivable	**285,745**	287,647	**285,745**	287,647
Late deposits/payments received	**525,953**	495,347	**492,597**	458,675
Outward bills for collection	**88,197**	55,135	**86,344**	53,211
Others	**37,114**	1,846	**36,951**	1,694

38. Supplementary Information Required Under RR No. 15–2010

In compliance with the requirements set forth by RR No. 15–2010, hereunder are the details of percentage and other taxes paid or accrued by the Parent Company in 2019.

Gross receipts tax	₱1,722,992
Documentary stamps tax	1,322,819
Local taxes	76,196
Fringe benefit tax	13,669
Others	20,173
Balance at end of year	₱3,155,849

Withholding Taxes
Details of total remittances of withholding taxes in 2019 and amounts outstanding as of December 31, 2019 are as follows:

	Total remittances	Amounts outstanding
Final withholding taxes	₱3,362,053	₱261,612
Withholding taxes on compensation and benefits	555,303	31,699
Expanded withholding taxes	149,719	10,235
	₱4,067,075	₱303,546