C O V E R   S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

P	W	-	0	0	0	0	6	8	6	

C O M P A N Y   N A M E

PHILIPPINE BANK OF COMMUNICATIONS

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

PBCom Tower, 6795 Ayala Avenue Corner V. A. Rufino Street, Makati City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS		

C O M P A N Y   I N F O R M A T I O N

Company's Email Address	Company's Telephone Number	Mobile Number
customercare@pbcom.com.ph	(02)8777-2266	n/a

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
357	7/14	12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Atty. Michael Stephen H. Lao	mshlao@pbcom.com.ph	(02) 8830-7000	n/a

CONTACT PERSON's ADDRESS

5th Floor, PBCOM Tower 6795 Ayala Ave., Cor. V.A. Rufino St., Makati City

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

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

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

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 Stockholders and the Board of Directors
Philippine Bank of Communications
PBCom Tower, 6795 Ayala Avenue
Corner V. A. Rufino Street, Makati City

Report on the Consolidated and Parent Company Financial Statements

Opinion

We have audited the consolidated financial statements of Philippine Bank of Communications and its subsidiaries (the Group) and the parent company financial statements of Philippine Bank of Communications (the Parent Company), which comprise the consolidated and parent company statements of financial position 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 (the 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 application of the ECL model in calculating the allowance for credit losses is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the 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 ₱2.16 billion. Provision for credit losses of the Group and the Parent Company in 2019 amounted to ₱0.38 billion.

Refer to Note 17 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 that 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) tested the definition of default and significant increase in credit risk criteria against historical analysis of accounts and credit risk management policies and practices in place, (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) tested loss given default by inspecting historical recoveries and related costs, write-offs and collateral valuations; (e) tested exposure at default considering outstanding commitments and repayment scheme; (f) checked the reasonableness of forward-looking information used for overlay through statistical test and corroboration using publicly available information and our understanding of the Group's and the Parent Company's lending portfolios and broader industry knowledge; and (g) tested the effective interest rate used in discounting the expected loss.

SGV
Building a better working world

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

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

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

Realizability of deferred tax assets
Deferred tax assets have been recognized to the extent that management has assessed that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. We considered the realizability of deferred tax assets as a key audit matter 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 relating to deferred tax assets are included in Note 30 to the financial statements.

Audit response
We involved our internal specialist in understanding the Group's deferred income tax calculation process, including the applicable tax rules and regulations. We reviewed the management's assessment on the availability of future taxable profit in reference to financial forecast and tax strategies. We evaluated the management's forecast by comparing the expected growth rates of the loan and deposit portfolios 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.

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. As of January 1, 2019, this resulted in the recognition of right of use assets amounting to ₱183.61 million, lease liability amounting to ₱192.80 million, and reduction in the carrying amount on leashold rights improvements (LRI) amounting to ₱47.93 million as a result of amortizing LRI based on the reassessed lease terms upon adoption of PFRS 16, and the recognition of depreciation expense of ₱113.34 million and interest expense of ₱18.71 million for the Group and the Parent Company 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 master lease schedule. On a test basis, we inspected lease agreements (i.e., lease agreements existing prior to the adoption of PFRS 16 and new lease agreements), 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.*

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 do not and 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 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 audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 the 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 the 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 the Parent Company's internal control.

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

SGV
Building a better working world

- 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 the 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.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 38 and Revenue Regulations No. 15-2010 in Note 39 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 Philippine Bank of Communications. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas

Ray Francis C. Balagtas0
Partner
CPA Certificate No. 108795
SEC Accreditation No. 1510-AR-1 (Group A),
September 18, 2018, 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

April 29, 2020

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION

	Consolidated		Parent Company	
	December 31		December 31	
	2019	2018	**2019**	2018
	(Amounts in Thousands)			
ASSETS				
Cash and Other Cash Items	**₱2,698,682**	₱1,389,869	**₱2,698,682**	₱1,357,609
Due from Bangko Sentral ng Pilipinas (Notes 18 and 19)	**10,213,521**	15,224,382	**10,213,521**	15,168,302
Due from Other Banks	**357,960**	379,723	**357,960**	228,578
Interbank Loans Receivable (Note 8)	**717,736**	206,964	**717,736**	206,964
Financial Assets at Fair Value through Profit or Loss (Note 9)	**1,667,827**	893,216	**1,667,827**	893,216
Financial Assets at Fair Value through Other Comprehensive Income (Note 10)	**8,094,362**	6,798,230	**8,094,362**	6,798,230
Investment Securities at Amortized Cost (Note 11)	**12,849,500**	13,341,599	**12,849,500**	13,341,599
Loans and Receivables (Note 12)	**61,257,040**	60,079,206	**61,259,793**	58,221,179
Investments in Subsidiaries and an Associate (Note 7)	**13,849**	13,318	**20,053**	990,226
Property and Equipment (Note 13)	**725,739**	1,021,349	**725,739**	922,943
Investment Properties (Note 14)				
Condominium units for lease	**1,836,941**	1,832,726	**1,836,941**	1,832,726
Foreclosed properties	**588,451**	772,425	**588,451**	612,535
Office units for lease	**3,274**	3,624	**3,274**	3,624
Intangible Assets (Note 15)	**673,089**	703,775	**673,089**	439,983
Goodwill (Note 15)	**–**	182,227	**–**	–
Deferred Tax Assets - Net (Note 30)	**–**	74,487	**–**	40,808
Other Assets (Note 16)	**1,042,533**	832,202	**1,041,144**	808,283
TOTAL ASSETS	**₱102,740,504**	₱103,749,322	**₱102,748,072**	₱101,866,805
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 18 and 31)				
Demand	**₱27,204,604**	₱20,257,138	**₱27,213,580**	₱20,262,969
Savings	**9,180,273**	7,810,642	**9,180,273**	7,262,325
Time	**36,594,232**	43,058,221	**36,594,232**	41,907,303
Long-term negotiable certificates of deposits	**2,902,730**	2,902,730	**2,902,730**	2,902,730
	75,881,839	74,028,731	**75,890,815**	72,335,327
Bills Payable (Note 19)	**13,064,824**	17,659,083	**13,064,824**	17,591,284
Outstanding Acceptances	**91,855**	46,344	**91,855**	46,344
Manager's Checks	**442,811**	97,447	**442,811**	97,447
Accrued Interest, Taxes and Other Expenses (Note 20)	**712,428**	685,009	**712,277**	642,697
Income Tax Payable	**23,441**	3,735	**23,441**	1,791
Deferred Tax Liabilities - Net (Note 30)	**782**	66,261	**782**	–
Other Liabilities (Note 21)	**1,167,323**	836,798	**1,166,066**	816,605
TOTAL LIABILITIES	**91,385,303**	93,423,408	**91,392,871**	91,531,495

(Forward)

	Consolidated		Parent Company	
	December 31		December 31	
	2019	2018	**2019**	2018
	(Amounts in Thousands)			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Common stock (Note 23)	**₱12,016,129**	₱12,016,129	**₱12,016,129**	₱12,016,129
Additional paid-in capital	**2,262,246**	2,252,826	**2,262,246**	2,262,246
Surplus reserves (Note 23)	**105,952**	105,893	**105,952**	105,893
Deficit (Notes 2 and 23)	**(2,807,067)**	(3,916,336)	**(2,807,067)**	(3,916,336)
Unrealized gain on financial assets carried at fair value through other comprehensive income (Note 10)	**87,932**	19,416	**87,932**	19,416
Cumulative translation adjustment	**(231,664)**	(177,059)	**(231,664)**	(177,059)
Remeasurement gains (losses) on retirement liability (Note 27)	**(78,327)**	25,021	**(78,327)**	25,021
	11,355,201	10,325,890	**11,355,201**	10,335,310
NON-CONTROLLING INTERESTS	**–**	24	**–**	–
TOTAL EQUITY	**11,355,201**	10,325,914	**11,355,201**	10,335,310
TOTAL LIABILITIES AND EQUITY	**₱102,740,504**	₱103,749,322	**₱102,748,072**	₱101,866,805

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES

STATEMENTS OF INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018	2017	**2019**	2018	2017
	(Amounts in Thousands, Except Earnings per Share)					
INTEREST INCOME						
Loans and receivables (Notes 12 and 31)	**₱4,468,479**	₱3,723,359	₱2,921,640	**₱4,468,479**	₱3,723,359	₱2,921,310
Investment securities (Note 26)	**588,317**	709,008	536,988	**588,317**	709,008	536,988
Financial Assets at Fair Value through Profit or Loss (Note 26)	**159,297**	15,810	153,670	**159,297**	15,810	153,670
Interbank loans receivable and securities purchased under resale agreements (Note 8)	**40,246**	41,291	38,905	**40,246**	41,291	38,905
Deposits with other banks	**11,981**	10,845	12,739	**11,981**	10,845	12,739
	5,268,320	4,500,313	3,663,942	**5,268,320**	4,500,313	3,663,612
INTEREST AND FINANCE CHARGES						
Deposit liabilities (Notes 18 and 31)	**1,501,587**	1,161,819	774,411	**1,501,587**	1,161,819	773,574
Bills payable, borrowings and others (Note 19)	**561,700**	468,685	225,029	**561,700**	468,685	225,029
	2,063,287	1,630,504	999,440	**2,063,287**	1,630,504	998,603
NET INTEREST INCOME	**3,205,033**	2,869,809	2,664,502	**3,205,033**	2,869,809	2,665,009
Rent income (Notes 14, 28 and 31)	**736,341**	661,017	562,970	**736,341**	661,196	563,245
Trading and securities gain (loss) - net (Note 26)	**408,413**	23,336	(13,243)	**408,413**	23,336	(13,243)
Service charges, fees and commissions	**407,507**	342,915	318,834	**407,507**	342,915	317,721
Profit (loss) from assets sold (Notes 13, 14 and 16)	**97,739**	(9,562)	21,966	**97,739**	(9,562)	21,966
Foreign exchange gain - net	**49,873**	49,953	69,787	**49,873**	49,953	69,787
Income from trust operations (Note 25)	**21,095**	15,707	15,404	**21,095**	15,707	15,404
Gain (loss) on assets exchange - net (Note 14)	**(11,850)**	13,133	(162)	**(11,850)**	13,133	(162)
Miscellaneous	**137,783**	114,176	103,700	**137,783**	114,176	103,478
TOTAL OPERATING INCOME	**5,051,934**	4,080,484	3,743,758	**5,051,934**	4,080,663	3,743,205

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018	2017	**2019**	2018	2017
	(Amounts in Thousands, Except Earnings per Share)					
OPERATING EXPENSES						
Compensation and fringe benefits (Notes 14, 27 and 31)	**₱978,869**	₱1,040,602	₱1,056,936	**₱978,153**	₱1,039,169	₱1,055,169
Taxes and licenses (Notes 14 and 30)	**624,122**	542,936	427,231	**624,115**	542,911	427,136
Depreciation and amortization (Note 13)	**445,979**	386,917	395,549	**445,979**	386,917	395,332
Provision for credit and impairment losses - net (Notes 17)	**377,613**	209,914	288,911	**377,613**	209,914	288,911
Insurance	**139,771**	141,847	124,391	**139,771**	141,847	124,391
Occupancy and other equipment-related costs (Notes 14, 28 and 31)	**130,220**	243,921	210,812	**130,169**	243,769	210,864
Loss on sale of a subsidiary (Note 7)	**–**	–	–	**171,173**	–	–
Management and professional fees	**106,543**	112,989	103,261	**106,443**	112,889	103,161
Security, clerical, messengerial and janitorial services	**97,754**	96,210	81,584	**97,747**	96,135	81,549
Entertainment, amusement and recreation	**82,483**	86,137	81,981	**82,483**	86,137	81,981
Communications	**48,661**	53,645	53,597	**48,661**	53,645	53,595
Miscellaneous (Notes 14 and 29)	**432,394**	338,062	332,001	**432,394**	338,047	331,953
TOTAL OPERATING EXPENSES	**3,464,409**	3,253,180	3,156,254	**3,634,701**	3,251,380	3,154,042
INCOME BEFORE SHARE IN NET INCOME OF SUBSIDIARIES AND AN ASSOCIATE	**1,587,525**	827,304	587,504	**1,417,233**	829,283	589,163
SHARE IN NET INCOME (LOSS) OF SUBSIDIARIES (Note 7)	**–**	–	–	**(58,116)**	22,981	10,649
SHARE IN NET INCOME OF AN ASSOCIATE (Note 7)	**531**	250	692	**531**	250	692
INCOME BEFORE INCOME TAX	**1,588,056**	827,554	588,196	**1,359,648**	852,514	600,504
PROVISION FOR INCOME TAX (Note 30)	**202,391**	226,281	203,964	**202,391**	226,281	204,048
NET INCOME FROM CONTINUING OPERATIONS	**1,385,665**	601,273	384,232	**1,157,257**	626,233	396,456
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS (Note 7)	**(228,408)**	24,963	12,227	**–**	–	–
NET INCOME	**₱1,157,257**	₱626,236	₱396,459	**₱1,157,257**	₱626,233	₱396,456
Attributable to:						
Equity holders of the Parent Company	**₱1,157,257**	₱626,233	₱396,456			
Non-controlling interests	**–**	3	3			
	₱1,157,257	₱626,236	₱396,459			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 32)	**₱2.41**	₱1.30	₱0.82			

See accompanying Notes to Financial Statements

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018	2017	**2019**	2018	2017
	(Amounts in Thousands)					
NET INCOME FOR THE YEAR	**₱1,157,257**	₱626,236	₱396,459	**₱1,157,257**	₱626,233	₱396,456
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX						
Items that may be reclassified to profit or loss in subsequent periods:						
Net unrealized gain (loss) on debt securities at fair value through other comprehensive income (Note 10)	**68,516**	(114,964)	–	**68,516**	(114,964)	–
Net movement in cumulative translation adjustment	**(54,605)**	(54,796)	(49,524)	**(54,605)**	(54,796)	(49,524)
Unrealized gain as a result of reclassification of debt securities from amortized cost to fair value through other comprehensive income (Note 3)	–	56,901	–	–	56,901	–
	13,911	(112,859)	(49,524)	**13,911**	(112,859)	(49,524)
Items that may not be reclassified to profit or loss in subsequent periods:						
Unrealized gain on equity securities carried at fair value through other comprehensive income (Note 10)	–	14,479	38,397	–	14,479	38,397
Change in remeasurement gains on retirement liability (Note 27)	**(111,505)**	97,755	34,587	**(111,505)**	94,704	31,424
Income tax relating to change in remeasurement gains on retirement liability	**8,157**	(10,866)	(776)	**8,157**	(9,951)	–
Income tax relating to unrealized gain on equity securities carried at fair value through other comprehensive income	–	(1,450)	(7,914)	–	(1,450)	(7,914)
	(103,348)	99,918	64,294	**(103,348)**	97,782	61,907
	(89,437)	(12,941)	14,770	**(89,437)**	(15,077)	12,383
TOTAL OTHER COMPREHENSIVE INCOME BEFORE SHARE IN OTHER COMPREHENSIVE INCOME OF SUBSIDIARIES	**1,067,820**	613,295	411,229	**1,067,820**	611,156	408,839
SHARE IN OTHER COMPREHENSIVE INCOME OF SUBSIDIARIES						
Item that may not be reclassified to profit or loss in subsequent periods:						
Change in remeasurement gains on retirement liability (Note 27)	–	–	–	–	3,051	3,163
Income tax relating to components of other comprehensive income (Note 7)	–	–	–	–	(915)	(776)
	–	–	–	–	2,136	2,387
TOTAL OTHER COMPREHENSIVE INCOME	**₱1,067,820**	₱613,295	₱411,229	**₱1,067,820**	₱613,292	₱411,226
Attributable to:						
Equity holders of the Parent Company	**₱1,067,820**	₱613,292	₱411,226			
Non-controlling interests	–	3	3			
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱1,067,820**	₱613,295	₱411,229			

See accompanying Notes to Financial Statements.

[PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

.

	Consolidated										
	Years Ended December 31, 2019, 2018 and 2017										
	Equity Attributable to Equity Holders of the Parent Company										
	Common Stock (Note 23)	**Subscribed Common Stock - net** (Note 23)	**Additional Paid-in Capital**	**Surplus Reserves** (Note 23)	**Deficit** (Notes 2 and 23)	**Unrealized Gain (Loss) on Financial Assets Carried at Fair Value Through Other Comprehensive Income** (Note 10)	**Cumulative Translation Adjustment**	**Remeasurement Gains (Losses) on Retirement Liability** (Note 27)	**Total**	**Non-Controlling Interests**	**Total Equity**
						(Amounts in Thousands)					
Balances at December 31, 2018, as previously reported	**₱12,016,129**	**₱–**	**₱2,252,826**	**₱105,893**	**(₱3,916,336)**	**₱19,416**	**(₱177,059)**	**₱25,021**	**₱10,325,890**	**₱24**	**₱10,325,914**
Effect of the adoption of PFRS 16, *Leases* (Note 2)	–	–	–	–	**(47,929)**	–	–	–	**(47,929)**	**-**	**(47,929)**
Balances at January 1, 2019, as restated	**12,016,129**	**–**	**2,252,826**	**105,893**	**(3,964,265)**	**19,416**	**(177,059)**	**25,021**	**10,277,961**	**24**	**10,277,985**
Derecognition of share of PRBI as a result of sale	**–**	**–**	**9,420**	**–**	**–**	**–**	**–**	**–**	**9,420**	**(24)**	**9,396**
Transfer to surplus reserves	**–**	**–**	**–**	**59**	**(59)**	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income (loss) for the year	**–**	**–**	**–**	**–**	**1,157,257**	**68,516**	**(54,605)**	**(103,348)**	**1,067,820**	**–**	**1,067,820**
Balances at December 31, 2019	**₱12,016,129**	**₱–**	**₱2,262,246**	**₱105,952**	**(₱2,807,067)**	**₱87,932**	**(₱231,664)**	**(₱78,327)**	**₱11,355,201**	**₱-**	**₱11,355,201**
Balances at January 1, 2018, as restated	12,016,129	–	2,252,826	105,824	(4,311,607)	64,104	(122,263)	(61,868)	9,943,145	26	9,943,171
Effect of the adoption of PFRS 9, *Financial Instruments* (Note 2)	–	–	–	–	(230,893)	346	–	–	(230,547)	(5)	(230,552)
Balances at January 1, 2018	12,016,129	–	2,252,826	105,824	(4,542,500)	64,450	(122,263)	(61,868)	9,712,598	21	9,712,619
Transfer to surplus reserves	–	–	–	69	(69)	–	–	–	–	–	–
Total comprehensive income (loss) for the year	–	–	–	–	626,233	(45,034)	(54,796)	86,889	613,292	3	613,295
Balances at December 31, 2018	₱12,016,129	₱–	₱2,252,826	₱105,893	(₱3,916,336)	₱19,416	(₱177,059)	₱25,021	₱10,325,890	₱24	₱10,325,914
Balances at January 1, 2017, as restated	7,489,114	4,581,340	813,515	105,772	(4,708,011)	33,621	(72,739)	(95,679)	8,146,933	(8,223)	8,138,710
Collection of subscription receivable (Note 23)	–	1,394,320	–	–	–	–	–	–	1,394,320	–	1,394,320
Issuance of common stock (Note 23)	4,527,015	(5,975,660)	1,448,645	–	–	–	–	–	–	–	–
Transfer to surplus reserves	–	–	–	52	(52)	–	–	–	–	–	–
Total comprehensive income (loss) for the year	–	–	–		396,456	30,483	(49,524)	33,811	411,226	3	411,229
Acquisition of non-controlling interests (Note 7)	–	–	(9,334)	–	–	–	–	–	(9,334)	8,246	(1,088)
Balances at December 31, 2017	₱12,016,129	₱–	₱2,252,826	₱105,824	(₱4,311,607)	₱64,104	(₱122,263)	(₱61,868)	₱9,943,145	₱26	₱9,943,171

	Common Stock (Note 23)	Subscribed Common Stock - net (Note 23)	Additional Paid-in Capital	Surplus Reserves (Note 23)	Deficit (Notes 2 and 23)	Unrealized Gain (Loss) on Financial Assets Carried at Fair Value Through Other Comprehensive Income (Note 10)	Cumulative Translation Adjustment	Remeasurement Gains (Losses) on Retirement Liability (Note 27)	Total Equity
	Parent Company								
	Years Ended December 31, 2019, 2018 and 2017								
					(Amounts in Thousands)				
Balances at December 31, 2018, as previously reported	**₱12,016,129**	**₱–**	**₱2,262,246**	**₱105,893**	**(₱3,916,336)**	**₱19,416**	**(₱177,059)**	**₱25,021**	**₱10,335,310**
Effect of the adoption of PFRS 16, *Leases* (Note 2)	–	–	–	–	**(47,929)**	–	–	–	**(47,929)**
Balances at January 1, 2019, as restated	**12,016,129**	–	**2,262,246**	**105,893**	**(3,964,265)**	**19,416**	**(177,059)**	**25,021**	**10,287,381**
Derecognition of share of PRBI as a result of sale	–	–	–	–	–	–	–	–	–
Transfer to surplus reserves	–	–	–	**59**	**(59)**	–	–	–	–
Total comprehensive income (loss) for the year	–	–	–	–	**1,157,257**	**68,516**	**(54,605)**	**(103,348)**	**1,067,820**
Balances at December 31, 2019	**₱12,016,129**	**₱–**	**₱2,262,246**	**₱105,952**	**(₱2,807,067)**	**₱87,932**	**(₱231,664)**	**(₱78,327)**	**₱11,355,201**
Balances at January 1, 2018, as restated	12,016,129	–	2,262,246	105,824	(4,311,607)	64,104	(122,263)	(61,868)	9,952,565
Effect of the adoption of PFRS 9, *Financial Instruments* (Notes 2 and 3)	–	–	–	–	(230,893)	346	–	–	(230,547)
Balances at January 1, 2018	12,016,129	–	2,262,246	105,824	(4,542,500)	64,450	(122,263)	(61,868)	9,722,018
Transfer to surplus reserves	–	–	–	69	(69)	–	–	–	–
Total comprehensive income (loss) for the year	–	–	–	–	626,233	(45,034)	(54,796)	86,889	613,292
Balances at December 31, 2018	₱12,016,129	₱–	₱2,262,246	₱105,893	(₱3,916,336)	₱19,416	(₱177,059)	₱25,021	₱10,335,310
Balances at January 1, 2017, as restated	7,489,114	4,581,340	813,601	105,772	(4,708,011)	33,621	(72,739)	(95,679)	8,147,019
Collection of subscription receivable (Note 23)	–	1,394,320	–	–	–	–	–	–	1,394,320
Issuance of common stock (Note 23)	4,527,015	(5,975,660)	1,448,645	–	–	–	–	–	–
Transfer of surplus reserves	–	–	–	52	(52)	–	–	–	–
Total comprehensive income (loss) for the year	–	–	–	–	396,456	30,483	(49,524)	33,811	411,226
Balances at December 31, 2017	₱12,016,129	₱–	₱2,262,246	₱105,824	(₱4,311,607)	₱64,104	(₱122,263)	(₱61,868)	₱9,952,565

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018	2017	**2019**	2018	2017
	(Amounts in Thousands)					
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax from continuing operations	**₱1,588,056**	₱827,554	₱588,196	**₱1,359,648**	₱852,514	₱600,504
Income before income tax from discontinued operations	**(226,132)**	26,412	24,611	**–**	–	–
Income before income tax	**1,361,924**	853,966	612,807	**1,359,648**	852,514	600,504
						–
Adjustments to reconcile income before income tax to net cash generated from (used for) operations:						
Depreciation and amortization (Note 13)	**445,979**	386,915	395,549	**445,979**	386,917	395,332
Provision for credit and impairment losses (Note 17)	**377,613**	209,914	288,911	**377,613**	209,914	288,911
Trading gains on financial assets at FVOCI (Note 26)	**(309,176)**	(32,522)	–	**(309,176)**	(32,522)	–
Loss (profit) from assets sold (Notes 13, 14 and 16)	**(97,739)**	9,562	(21,966)	**(97,739)**	9,562	(21,966)
Accretion of interest on unquoted debt securities (Note 12)	**(88,233)**	(94,844)	(93,478)	**(88,233)**	(94,844)	(93,478)
Accretion of interest on lease liability (Note 21)	**18,711**	–	–	**18,711**	–	–
Loss on sale of a subsidiary (Note 7)	**–**	–	–	**171,173**	–	–
Loss (gain) on assets exchange (Note 14)	**11,850**	(13,133)	162	**11,850**	(13,133)	162
Share in net income of subsidiaries and an associate (Note 7)	**(531)**	(250)	(692)	**57,584**	(23,231)	(11,341)
Unrealized loss (gain) on financial assets at fair value through profit or loss	**(1,495)**	(5,195)	4,832	**(1,495)**	(5,195)	4,832
Changes in operating assets and liabilities:						
Decrease (increase) in the amounts of:						
Loans and receivables (Note 33)	**(3,678,579)**	(7,339,515)	(7,499,218)	**(3,675,826)**	(7,156,411)	(7,738,667)
Financial assets at fair value through profit or loss	**(773,116)**	1,852,450	(2,444,820)	**(773,116)**	1,852,450	(2,444,820)
Other assets	**(361,667)**	(70,826)	(326,804)	**(363,056)**	(63,370)	(189,622)
Increase (decrease) in the amounts of:						
Deposit liabilities	**3,546,513**	3,292,913	7,565,179	**3,555,488**	3,290,312	7,845,913
Manager's checks	**345,364**	(329,958)	127,020	**345,364**	(329,958)	127,020
Accrued interest, taxes and other expenses	**32,576**	263,342	4,949	**32,425**	250,926	40,743
Other liabilities	**421,668**	7,918	240,749	**421,677**	9,202	207,515
Net cash provided by (used in) operations	**1,251,662**	(1,009,263)	(1,146,820)	**1,488,871**	(856,867)	(988,962)
Income taxes paid	**(210,254)**	(231,355)	(197,870)	**(207,978)**	(227,778)	(181,616)
Net cash provided by (used in) operating activities	**1,041,408**	(1,240,618)	(1,344,690)	**1,280,893**	(1,084,645)	(1,170,578)
CASH FLOWS FROM INVESTING ACTIVITIES						
Decrease (increase) in interbank loans receivable	**13,121**	49,290	(12,692)	**13,121**	49,290	(12,692)
Acquisitions of:						
Financial assets at FVTOCI	**(68,324,130)**	(18,623,917)	–	**(68,324,130)**	(18,623,917)	–
Investment securities at amortized cost	**–**	(41,444)	(2,351,707)	**–**	(41,444)	(2,351,707)
Property and equipment (Note 13)	**(87,133)**	(105,732)	(21,544)	**(87,133)**	(109,712)	(21,544)
Software costs (Note 15)	**(39,172)**	(33,583)	(30,358)	**(39,172)**	(32,979)	(30,358)
Investment properties (Notes 13 and 14)	**–**	(423)	–	**–**	(423)	–
Subsidiaries	**–**	–	(2,634)	**–**	–	–
Additional investments in subsidiaries	**–**	–	(1,088)	**–**	–	–

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018	2017	**2019**	2018	2017
	(Amounts in Thousands)					
Proceeds from disposals of:						
Financial assets at FVTOCI	**₱67,695,250**	₱13,604,095	₱–	**₱67,695,250**	₱13,604,095	₱–
Investment properties (Note 14)	**314,655**	30,634	48,852	**314,655**	1,128	57,032
Property and equipment (Note 13)	**20,532**	14,816	15,860	**20,532**	14,293	11,102
Chattel mortgage	**91,812**	154,313	85,349	**91,812**	154,313	85,349
Subsidiary	**500,220**	–		**500,220**	–	
Proceeds from maturity of investment securities	**200,000**	405,000	70,000	**200,000**	405,000	70,000
Net cash provided by (used in) investing activities	**385,155**	(4,546,951)	(2,199,962)	**385,155**	(4,580,356)	(2,192,818)
CASH FLOWS FROM FINANCING ACTIVITIES						
Availments of:						
Bills payable	**392,583,853**	423,360,260	190,375,643	**392,583,853**	423,185,782	190,375,643
Outstanding acceptances	**573,187**	265,439	324,197	**573,187**	265,440	324,197
Marginal deposits	**321,701**	2,391	3,410	**321,701**	2,391	3,410
Settlements of:						
Bills payable	**(397,121,016)**	(418,263,661)	(187,907,410)	**(397,121,016)**	(418,156,982)	(187,907,410)
Outstanding acceptances	**(522,775)**	(285,122)	(295,302)	**(522,775)**	(285,123)	(295,302)
Marginal deposits	**(287,657)**	(2,619)	(3,043)	**(287,657)**	(2,619)	(3,043)
Lease liabilties	**(119,169)**	–	–	**(119,169)**	–	–
Proceeds from shares subscription (Note 23)	**–**	–	1,394,320	**–**	–	1,394,320
Net cash provided by (used in) financing activities	**(4,571,876)**	5,076,688	3,891,815	**(4,571,876)**	5,008,889	3,891,815
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENT	**(54,605)**	(54,796)	(49,524)	**(54,605)**	(54,796)	(49,524)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(3,199,918)**	(765,677)	297,639	**(2,960,433)**	(710,908)	478,895
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**1,389,869**	974,207	1,042,611	**1,357,609**	941,823	1,011,756
Due from Bangko Sentral ng Pilipinas	**15,224,382**	15,340,711	13,356,075	**15,168,302**	15,279,084	13,276,681
Due from other banks	**379,723**	1,166,063	2,996,758	**228,578**	965,820	2,631,497
Interbank loans receivable (Note 33)	**193,843**	472,513	260,411	**193,843**	472,513	260,411
	17,187,817	17,953,494	17,655,855	**16,948,332**	17,659,240	17,180,345
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**2,698,682**	1,389,869	974,207	**2,698,682**	1,357,609	941,823
Due from Bangko Sentral ng Pilipinas	**10,213,521**	15,224,382	15,340,711	**10,213,521**	15,168,302	15,279,084
Due from other banks	**357,960**	379,723	1,166,063	**357,960**	228,578	965,820
Interbank loans receivable (Note 33)	**717,736**	193,843	472,513	**717,736**	193,843	472,513
	₱13,987,899	₱17,187,817	17,953,494	**₱13,987,899**	₱16,948,332	₱17,659,240

OPERATIONAL CASH FLOWS FROM INTEREST

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018	2017	**2019**	2018	2017
	(Amounts in Thousands)					
Interest paid	**₱2,121,862**	₱1,514,955	₱973,150	**₱2,103,611**	₱1,461,109	₱973,150
Interest received	**5,547,387**	4,678,218	3,485,682	**5,592,985**	4,368,913	3,485,682

See accompanying Notes to Financial Statements.

1. Corporate Information

Philippine Bank of Communications (the Parent Company) is a publicly listed domestic commercial bank organized in the Philippines, primarily to engage in commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange and trust services.

The Parent Company's principal place of business is at the PBCom Tower, 6795 Ayala Avenue corner V. A. Rufino Street, Makati City. It has a network of 89 regular branches, 3 branch-lite units and 89 regular branches to serve its customers, as at December 31, 2019 and 2018, respectively.

The Parent Company's original Certificate of Incorporation was issued by the Securities and Exchange Commission (SEC) on August 23, 1939. On June 21, 1988, the Board of Directors (BOD) of the Parent Company approved the amendment of Article IV of its Amended Articles of Incorporation to extend the corporate life of the Parent Company for another 50 years or up to August 23, 2039. The Amended Articles of Incorporation was approved by the SEC on November 23, 1988.

The Parent Company acquired a license to operate as an expanded commercial bank from the Bangko Sentral ng Pilipinas (BSP) on December 24, 1993. On March 31, 2000, the BSP's Monetary Board approved the amendment of the Parent Company's license to a regular commercial banking.

The Parent Company's subsidiaries and an associate (collectively referred to as the Group) are engaged in the following businesses:

Entity	Effective Percentage of Ownership **2019**	Effective Percentage of Ownership 2018	Principal Place of Business and Country of Incorporation	Line of Business
Subsidiaries				
PBCom Rural Bank, Inc. (formerly Banco Dipolog, Inc. A Rural Bank (BDI)) (PRBI)	**–**	99.99%	Philippines	Rural Bank
PBCom Insurance Services Agency, Inc. (PISAI)	**100.00%**	100.00%	Philippines	Insurance Agent
Associate				
PBCom Finance Corporation (PBCom Finance)	**40.00%**	40.00%	Philippines	Financing Company

On July 9, 2018, through the approval granted by the SEC, BDI officially changed its corporate name to PBCom Rural Bank, Inc. On July 27, 2018, the BSP authorized the change in the corporate name.

Sale of PRBI

On July 29, 2019, PBCOM sold its stake in PBCom Rural Bank, Inc. as it consolidate its efforts and resources at the parent level. In 2019, Parent bank and PISAI comprises the consolidated financial statements of the Group (Note 7).

Strategic third party investors
On August 5, 2014, the Parent Company signed a subscription agreement with P.G. Holdings Inc. (PGH), for the latter's subscription of the Parent Company's 181,080,608 common shares valued at ₱33.00 per share. These shares were issued out of the unissued portion of the Parent Company's authorized capital stock. On August 6, 2014, in compliance with banking law and regulations, the Parent Company and PGH submitted the Subscription Agreement to the BSP for its approval.

The subscription by PGH to the new shares of the Parent Company amounting to ₱5.98 billion was approved by the BSP on September 23, 2014. The first installment of ₱1.79 billion was paid by PGH on September 25, 2014. Subsequently, on October 1, 2014, VFC Land Resources Inc. (VFC) bought 59.24 million shares at ₱33.00 per share from the ISM Group. PGH and VFC are beneficially owned by the family of Mr. Lucio Co, bringing his total stake in the Parent Company to 49.99%.

On September 22, 2015, June 29, 2016 and September 11, 2017, the Parent Company received the second, third and final installment payments, respectively, each amounting to ₱1.39 billion for the subscribed shares of PGH.

In 2015, both PGH and VFC bought additional 2.40 million shares. The following year, additional 0.49 million shares and 9.49 million shares were acquired by PGH and VFC, respectively. In 2018, PGH bought an additional 2.27 million shares. In 2019, VFC acquired 0.49 million additional shares in 2019 bringing the Co Family's total stake in the Parent Company at 53.65% as of December 31, 2019.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Presentation
The financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVTOCI) and derivatives that are measured at fair value. The financial statements are presented in Philippine peso (PHP or ₱) and all values are rounded to the nearest thousand, unless otherwise stated.

The financial statements of the Parent Company include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and the FCDU is the PHP and United States dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in PHP, which is the Parent Company's presentation currency (see accounting policy on Foreign Currency Translation). The financial statements individually prepared for these units are combined after eliminating inter-unit accounts and transactions.

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 PHP.

Statement of Compliance
The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements
The Group and the Parent Company present its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 22.

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries. The consolidated financial statements of the Group are prepared for the same reporting year as the Parent Company using consistent accounting policies. Subsidiaries are consolidated from the date on which control is transferred to the Parent Company. The Parent Company controls an investee if, and only if, the Parent Company has:

- Power over the investee (that is, 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.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company 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 agreements; and
- The Parent Company's voting rights and potential voting rights.

The Parent Company 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 Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income, expenses and other comprehensive income (OCI) of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to align their accounting policies with the Parent Company's accounting policies. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities in the Group are eliminated in full on consolidation.

A change in ownership interest of a subsidiary, without a loss of control, is accounted for within equity as an adjustment to 'Additional paid-in capital'. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted by the Group to reflect the changes in its relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Parent Company.

When a change in ownership interest in a subsidiary occurs, which results in loss of control over the subsidiary, the Parent Company:

- 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 the statement of income or surplus;

- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained; and
- Recognizes any surplus or deficit in the statement of income.

Non-controlling Interests

Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Parent Company.

Non-controlling interests are presented separately in the consolidated statement of income, consolidated statement of comprehensive income, and within equity in the consolidated statement of financial position, separately from equity attributable to the equity holders of the Parent Company. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interests even if this results in the non-controlling interests 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 adoption of new standards and amendments effective as of January 1, 2019. The Group did not early adopt any other standard, interpretation or amendment that has been issued but is not yet effective.

PFRS 16, *Leases*

PFRS 16 supersedes Philippine Accouting Standard (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 statement of financial position.

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

The Company adopted PFRS 16 using the modified retrospective approach upon adoption of PFRS 16 in 2019 and elects to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC-4.

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

	Increase (decrease)
Statement of financial position:	
Other assets (right-of-use assets)	₱183,605
Accrued expenses	(9,198)
Lease liability	192,803
Leasehold right improvements	(47,929)
Deficit	47,929

Before the adoption of PFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to page 29 for the accounting policy prior to January 1, 2019.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to page 27 for the accounting policy beginning January 1, 2019.

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

The Company also applied the available practical expedients wherein it:
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

The lease liability as at January 1, 2019 as can be reconciled to the operating lease commitments as of December 31, 2018 follows:

Operating lease commitments as at 31 December 2018 (Note 28)	**₱398,160**
Less: Commitments relating to short term leases	138,051
	260,109
Weighted average incremental borrowing rate at 1 January 2019	8.41%
Lease liabilities recognized at January 1, 2019	**₱192,803**

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 statement of financial position immediately before the date of initial application. Accordingly, upon transition on January 1, 2019, the Group increased the accumulated amortization of LRI by ₱47.93 million following the contractual lease term of the related premises. This resulted in decrease in LRI and increase in deficit by the same amount as of January 1, 2019. As the modified retrospective approach is adopted, the comparative periods are not restated.

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

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

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

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

The adoption of the following pronouncements did not have any significant impact on the Group's financial position or performance:

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*

Foreign Currency Translation
RBU
As of the statement of financial position date, foreign currency-denominated monetary assets and monetary liabilities of the RBU are translated into PHP based on the Bankers Association of the Philippines (BAP) closing rate for 2019 and 2018 prevailing at the statement of financial position date and foreign currency-denominated income and expenses, based on the spot rate at date of transactions. Foreign exchange differences arising from the restatement of foreign currency-denominated monetary assets and liabilities in the RBU are credited to or charged against the statement of income in the year in which the rates change. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of 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 of the statement of financial position date, the FCDU's assets and liabilities are translated into PHP, the Parent Company's presentation currency, at the BAP closing rate for 2019 and 2018

prevailing at the statement of financial position date, and income and expenses are translated at BAP weighted average rate for 2019 and 2018 and PDS weighted average rate for 2017. Exchange differences arising on translation are taken directly to the statement of comprehensive income as 'Cumulative translation adjustment'. Upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.

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

The principal or the most advantageous market must be accessible 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.

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 statement of financial position date.

External and internal valuers are involved for the valuation of investment properties. Selection criteria include market knowledge, reputation, independence, relevant accreditation, and whether professional standards are maintained.

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

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, and interbank loans receivable with original maturities of three months or less from dates of placements and that are subject to insignificant risks of changes in value. Due from BSP includes the statutory reserves required by the BSP which the Group considers as cash equivalents since withdrawals can be made to meet the Group's cash requirements as allowed by the BSP. The components of cash and cash equivalents are shown in the statement of cash flows. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

Securities Purchased under Resale Agreements (SPURA)
The Group enters into short-term purchases of securities under resale agreements of identical securities with the BSP. Resale agreements are contracts under which a party purchases securities and resells such securities to the same selling party at a specified future date at a fixed price. The amounts advanced under resale agreements are carried as SPURA in the statement of financial position. SPURA are carried at cost. Interest earned on resale agreements is reported as 'Interest income' in the statement of income.

Financial Instruments - Date of Recognition
The Group recognizes financial instruments when, and only when, it becomes a party to the contractual terms of the instrument. Purchases or sales of financial assets 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 unrecognized financial asset is recognized in the statement of income or in equity, depending on the classification of the financial asset. Loans and receivables are recognized when cash is advanced to the borrowers while financial liabilities are recognized when cash is received by the Group.

Classification, Measurement and Reclassification of Financial Assets
Classification and measurement of financial assets
For purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer (under PAS 32, *Financial Instruments: Presentation*). All other non-derivative financial instruments are 'debt instruments'.

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVTOCI, and FVTPL. The classification depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

In order for a financial asset to be classified and measured at amortized cost or FVTOCI, it needs to give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Business model test
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 Group'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 Group'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.

SPPI test
As a second step of its classification process, the Group assesses the contractual terms of financial instruments to identify whether they meet the 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 (for example, if there are repayments of principal or amortization of the premium/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 Group applies judgment 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 SPPI on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

a. 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 a business model with the objective to hold 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. These are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for credit losses, with the interest calculated recognized as 'Interest income' in the statement of income. Gains and losses are recognized in the statement of income when the financial assets are derecognized and impaired, as well as through the amortization process.

The losses arising from impairment of such assets are recognized in the statement of income under ‘Provision for credit and impairment losses - net’. The effects of restatement on foreign currency-denominated financial assets at amortized cost are recognized in the statement of income.

The Group classified ‘Cash and other cash items’, ‘Due from BSP’, ‘Due from other banks’, ‘Interbank loans receivable’, ‘Loans and receivables’, ‘Investment securities at amortized cost’ and certain financial assets under ‘Other assets’ as financial assets at amortized cost.

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. As of December 31, 2019 and 2018, the Group has not made such designation.

b. Financial Assets at FVTOCI
Financial assets at FVTOCI include debt and equity securities.

Debt Instruments at FVTOCI
The Group applies the new category under PFRS 9 of debt instruments measured at FVTOCI when both 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.

The initial measurement of these financial instruments includes transaction costs. Subsequently, these are measured at fair value with gains or losses arising due to changes in fair value recognized in OCI under ‘Unrealized gain on financial assets carried at fair value through other comprehensive income’. Interest income and foreign exchange gains and losses are recognized in the statement of income in the same manner as for financial assets measured at amortized cost. When the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in, first-out basis. On derecognition, cumulative gains or losses recognized in OCI are reclassified from OCI to the statement of income.

Equity Instruments at FVTOCI
At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity instruments at FVTOCI. Designation at FVTOCI is not permitted if the investment in equity instrument is held for trading.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, these are measured at fair value, with no deduction for sale or disposal costs. Gains and losses arising from changes in fair value are recognized in OCI and accumulated in ‘Unrealized gain on financial assets carried at fair value through other comprehensive income’ in the statement of financial position. When the asset is disposed of, the cumulative gain or loss previously recognized in ‘Unrealized gain on financial assets carried at fair value through other comprehensive income’ is not reclassified to the statement of income, but is reclassified to ‘Deficit’.

Dividends earned on these investments in equity instruments are recognized in the statement of income when the Group’s right to receive the dividends is established in accordance with PFRS 9, unless the dividends clearly represent recovery of a part of the cost of the investment. Dividends earned are recognized in the statement of income, under ‘Miscellaneous income’.

c. Financial Assets at FVTPL
Debt instruments that do not meet the amortized cost or FVTOCI criteria, or that meet the criteria but the Group has chosen to designate as at FVTPL at initial recognition, are measured at fair value through profit or loss.

Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity instrument that is not held for trading as at FVTOCI at initial recognition.

The Group's financial assets at FVTPL include government securities and private bonds held for trading purposes.

As of December 31, 2019 and 2018, the Group has not designated any debt instrument that meets the amortized cost or FVTOCI criteria as at FVTPL.

Financial assets at FVTPL are carried at fair value, with net changes in fair value recognized as 'Trading and securities gain (loss) - net' in the statement of income. Interest earned on these investments is reported as 'Interest income' in the statement of income.

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the BAP closing rate for 2019 and 2018 the statement of financial position date. The foreign exchange component forms part of its fair value gain or loss.

d. Derivative Instruments
Derivative instruments are initially recorded at fair value and carried as financial assets when their fair value is positive and as financial liabilities when their fair value is negative.

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.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of PFRS 9 (for example, financial liabilities and non-financial host contracts) are treated as separate derivatives when their risks and economic characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. The Group assesses the existence of an embedded derivative on the date it first becomes a party to the contract, and performs re-assessment only when there is a change to the contract that significantly modifies the contractual cash flows.

Reclassification of financial assets
The Group can reclassify financial assets if the objective of its business model for managing those financial assets changes. The Group is required to reclassify as follows:
- From amortized cost or FVTOCI to FVTPL, if the objective of the business model changes so that the amortized cost or FVTOCI criteria are no longer met;
- From FVTPL to amortized cost or FVTOCI, if the objective of the business model changes so that the amortized cost or FVTOCI criteria start to be met and the characteristics of the instrument's contractual cash flows are SPPI; and
- From amortized cost to FVTOCI if the business model changes so that the objective becomes both to collect contractual cash flows and to sell or from FVTOCI to amortized cost if the business model becomes solely for the collection of contractual cash flows.

Reclassification of financial assets designated as at FVTPL or equity financial assets at FVTOCI at initial recognition is not permitted.

A change in the objective of the Group's business model must be effected before the reclassification date. The reclassification date is the beginning of the next reporting period following the change in the business model.

Impairment of Financial Assets (Effective January 1, 2018)

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

Both the 12-month ECL and lifetime ECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the instrument. Based on this process, the Group categorizes its credit exposures into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1: When loans are first recognized, the Group recognizes an allowance based on the 12-month ECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a SICR since origination, the Group records an allowance for lifetime ECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered as credit-impaired or non-performing. The Group records an allowance for lifetime ECL.

The major portfolios of financial assets identified upon initial analysis of the Group's credit exposures are loan receivables and treasury accounts. Loan receivables are availed by corporations or specific individuals. Hence, this portfolio is further segmented to corporate and consumer portfolios.

Definition of 'default' and 'cure'
Loan receivables
The Group defines a financial instrument as in default based on the following:

- Loans and receivables which are past due for more than 90 days;
- There is a breach of any key covenants/agreements that will adversely affect the borrower's capacity to pay;
- Weak financial condition and results of operations that leads to the borrower's inability to generate sufficient cash flow for debt servicing; or
- Restructuring of principal and interest or any concession granted by the Group relating to the borrower's difficulty.

A financial instrument is considered to be no longer in default (that is, to have cured) when it no longer meets any of the default criteria and has exhibited a satisfactory track record.

Treasury exposures
Treasury exposures are considered in default upon occurrence of a credit event, such as but not limited to bankruptcy, failure of meeting its obligations to depositors and non-deposit obligations, becoming critically undercapitalized, restructuring of obligations, or request for moratorium.

Credit risk at initial recognition
The Group uses an 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.

SICR
The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a 30-day 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 risk assessment, the borrower or counterparty is determined to require close monitoring or with well-defined credit weaknesses. For exposures without internal grades, if contractual payments are more than 30 days past due, 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. Due dates are determined without considering any grace period that might be available to the borrower.

For other credit risk exposures such as cash in banks, interbank loans and receivables, and debt securities at amortized cost and at FVTOCI, the Group applies the low credit risk simplification. The Group considers a debt financial asset to have low risk when its credit rating is equivalent to the definition of investment grade. The Group evaluates whether the debt financial asset, on an individual basis, is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort.

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 Group shall revert to recognizing a 12-month ECL:

- For corporate loans, an account under Stage 3 may be reverted back to Stage 2 if it shows collection history of at least six consecutive payments. If an account continuous to shows collection history of another 6 consecutive payments, and other qualitative indicators representing substantial increase in credit risk has abated, the account will be further reverted back to Stage 1.
- For consumer loans, an account under Stage 3 may be reverted back to Stage 2 if at least six consecutive payments are received and days past due bucket improves to 31 to 90. If the status of an account further improves to current, it will be reverted back to Stage 1.
- For treasury exposures, the transfer from Stage 3 to Stage 2 must be evident with payments of interest and/or principal for at least six months. The Group shall transfer credit exposures from Stage 2 to Stage 1 if the rating upgrades and the resulting rating falls under investment grade rating bands.

Restructuring
In certain circumstances, the Group 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.

ECL parameters and methodologies
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. The PD for each individual type of 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 Group segmented its loan-related credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each loan 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. On the other hand, PD for cash and cash equivalents, interbank loans and receivables, debt securities at amortized cost and debt securities at FVTOCI are assessed on an individual basis using publicly available information.

EAD is modelled on historical data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. Two modelling approaches were employed during EAD estimation. A Balance-Based model for on-balance sheet accounts and a Credit Conversion Factor (CCF)-Based model for off-balance sheet accounts.

LGD is the amount that may not be recovered in the event of default and is modelled based on historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate. LGD takes into consideration the amount and quality of any collateral held. During LGD estimation, the discounted amounts of potential payments and expected recoveries from sale of the collateral are compared to the discounted amounts of corresponding direct expenses related with obtaining and selling of assets.

Economic overlays
The Group incorporates economic overlays into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A broad range of economic overlays is considered as economic inputs, such as Gross Domestic Product (GDP) growth rates, crude oil prices, inflation rates, business confidence index, household final consumption expenditure index, unemployment rates, interest rates and BSP statistical indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect these, quantitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

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

Collateral valuation
To mitigate its credit risks on financial assets, the Group seeks to use collateral, if 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. Collateral, unless repossessed, is not recorded on the Group's statement of financial position. However, the fair value

of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at the inception and re-assessed annually.

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 the data provided by internal and external appraisers.

Write-offs
Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery.

Undrawn loan commitments
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 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.

Impairment of Financial Assets (Prior to January 1, 2018)
The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets measured at amortized cost is impaired. A financial asset or a group of financial assets is deemed to be impaired, if and only if, there is objective evidence as a result of one or more events that had occurred after the initial recognition of the asset and that loss event 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 a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets 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.

For individually assessed financial assets, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of 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 flow that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is probable or continues to be recognized are not included in a collective assessment of impairment.

In addition to impairment assessment against individually significant financial assets, the Group also makes a collective impairment assessment against exposures, which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally planned. The assets are grouped based on credit risk characteristics and are subjected to collective impairment assessment. Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience which is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently, for assets with credit risk characteristics similar to those in the group. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (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.

The carrying amount of the financial asset at amortized cost is reduced by the impairment loss (included under 'Provision for credit and impairment losses - net' in the statement of income) directly for all financial assets at amortized cost with the exception of 'Loans and receivables', where the carrying amount is reduced through the use of an allowance account. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collaterals have been realized. The amount of impairment loss is recognized under 'Provision for credit and impairment losses - net' in the statement of income. Interest income continues to be recognized based on the original EIR of the asset. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the statement of income to the extent that the carrying amount of the financial asset at the date the impairment reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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 as past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loan continues 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 credit and impairment losses - net' in the statement of income.

Classification and Measurement of Financial Liabilities
Financial liabilities are classified, at initial recognition, either as financial liabilities at FVTPL or other financial liabilities at amortized cost.

Financial liabilities at amortized cost
These liabilities are classified as such when the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

These financial liabilities are measured initially at fair value, net of directly attributable transaction costs. After initial measurement, these liabilities are subsequently measured at amortized cost using the effective interest method.

Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

This accounting policy relates to the statement of financial position captions ‘Deposit liabilities’, ‘Bills payable’, ‘Outstanding acceptances’, ‘Manager’s checks’, and certain financial liabilities under ‘Accrued interest, taxes and other expenses’ and ‘Other liabilities’ which are not designated at FVTPL.

Financial Guarantees, Letters of Credit and Undrawn Loan Commitments
The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognized in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group’s liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the statement of income, and – under PAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under PFRS 9 – an ECL provision.

The premium received is recognized in the statement of income in ‘Service charges, fees and commissions’ on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits 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. Similar to financial guarantee contracts, under PAS 39, a provision was made if they were an onerous contract but, from January 1, 2018, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position. The nominal values of these instruments together with the disclosure on ECLs are disclosed in Note 24.

Derecognition of Financial Assets and Financial Liabilities

Derecognition due to substantial modification of terms and conditions
Effective January 1, 2018, the Group derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit impaired.

When assessing whether or not to derecognize a loan to a customer, amongst others, the Group considers the following factors:
- Change in the currency of the loan;
- Introduction of an equity feature;
- Change in counterparty; or
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Prior to January 1, 2018, modifications do not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Derecognition other than substantial modification

Financial Asset
A financial asset (or, when applicable, a part of a financial asset or part of a group of financial assets) is derecognized (that is, removed from the statement of financial position) when:
- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement, and either the Group:
  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 the control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

Financial Liability
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. When 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 the derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in the statement of income.

Repurchase and reverse repurchase agreements
Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized in the statement of financial position as a loan to the Group, reflecting the economic substance of such transaction.

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

The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Investments in Subsidiaries and an Associate in the Parent Company Financial Statements

Subsidiaries

A subsidiary is an entity in which the Parent Company holds more than half of the issued share capital or controls more than 50% of the voting power, or exercises control over the operations and management of the subsidiary.

Associate

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

The Parent Company's investments in its subsidiaries and an associate and the Group's investment in an associate are accounted for using the equity method. Under the equity method, the investments in subsidiaries and an associate is initially recognized at cost. The carrying amount of the investments in subsidiaries and an associate is adjusted to recognize changes in the Group's and the Parent Company's share in the net assets of the subsidiaries and an associate since the acquisition date. Goodwill relating to the subsidiaries and an associate is included in the carrying value of the investments and is not amortized.

The statement of income reflects the Group's and the Parent Company's share of the results of operations of the subsidiaries and an associate. Any change in OCI of the investee is presented as part of the Group's and the Parent Company's OCI. In addition, when there has been a change recognized directly in the equity of the subsidiary or associate, the Group and the Parent Company recognize their share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the subsidiaries and associate are eliminated to the extent of the interest in the subsidiaries and associate. The aggregate of the Group's share in net income (loss) of subsidiaries and associate is shown in the statement of income and represents profit or loss after tax and non-controlling interests in the subsidiaries and associate.

If the Parent Company's share of losses in a subsidiary or an associate equals or exceeds its interest in the subsidiary or associate, the Parent Company discontinues recognizing its share in further losses.

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

Dividends received are treated as a reduction to the carrying amount of the investments.

Post-acquisition changes in the share of net assets of the subsidiaries include the share in the:

a. Income or losses; and
b. Remeasurement losses or gains on retirement liability.

Property and Equipment

Property and equipment, are stated at cost less accumulated depreciation and amortization and any impairment in value, except land, which is carried at cost less impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are charged against the statement of income in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation on property and equipment is computed using the straight-line method based on the estimated useful life (EUL) of the depreciable assets.

	EUL
Condominium properties	50 years
Buildings and improvements	25 years
Furniture, fixtures and equipment	5
Leasehold improvements	Shorter of 5 years or related lease terms

The residual values, EULs and methods of depreciation and amortization of property and equipment are reviewed at each reporting date and adjusted prospectively, if appropriate.

Fully depreciated property and equipment are retained in the accounts until these are no longer used and no further depreciation and amortization is charged to the statement of income.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Upon derecognition, the cost and the related accumulated depreciation and amortization and any impairment in value of the asset are removed from the accounts, and any resulting gain or loss (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is reflected as income or loss in the statement of income.

Investment Properties

Investment properties include condominium and office units for lease and foreclosed properties in settlement of loan receivables.

Condominium and office units for lease

Condominium and office units for lease are carried at cost, less accumulated depreciation and impairment in value. All costs that are directly attributable to the acquisition and development of property are capitalized, including borrowing costs incurred to finance the property development. Depreciation is computed on a straight-line basis over 25 to 50 years.

Foreclosed properties

Foreclosed properties consist of land, building and improvements.

Land is carried at cost less impairment in value. Building and improvements are carried at cost, which is the fair value at acquisition date, less accumulated depreciation and accumulated impairment losses. Transaction costs, which include nonrefundable capital gains tax and documentary stamp tax, incurred in connection with foreclosure are capitalized as part of the carrying values of the foreclosed properties.

Foreclosed properties are recorded as 'Investment properties' upon:
a. Entry of judgment in case of judicial foreclosure;
b. Execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
c. Notarization of the Deed of Dacion in case of dation in payment (dacion en pago).

The Group applies the cost model in accounting for foreclosed properties. Depreciation is computed on a straight-line basis over the EUL of 10 years for buildings and improvements.

The EUL of investment properties and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties.

The carrying values of the investment properties are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the investment property or cash-generating units (CGUs) it is related to are written down to their recoverable amounts.

Transfers are made to investment property 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 property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell.

Investment properties are derecognized when they have either been disposed of or when they are permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on retirement or disposal of investment properties are recognized in the statement of income in the year of retirement or disposal under 'Profit from assets sold'.

<u>Business Combinations</u>
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 elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed as incurred.

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

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9, is measured at fair value with changes in fair value recognized in the statement of income. If the contingent consideration is not within the scope of PFRS 9, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

Common Control Business Combinations
Business combinations involving entities or businesses under common control are business combinations in which all of the entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Business combinations under common control are accounted for similar to pooling of interests method. Under the pooling of interests method:

- The assets, liabilities and equity of the acquired companies are included in the consolidated financial statements at their carrying amounts;
- No adjustments are made to reflect the fair values, or recognize any new assets or liabilities at the date of the combination. The only adjustments would be to harmonize accounting policies between the combining entities;
- No 'new' goodwill is recognized as a result of the business combination; and
- The consolidated statement of income in the year of acquisition reflects the results of the combining entities for the full year, irrespective of when the combination took place. The comparative financial information in the consolidated financial statements for periods prior to the combination is restated only for the period that the entities were under common control.

Intangible Assets
Intangible assets consist of goodwill, branch licenses and software costs.

Goodwill and branch licenses
Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The cost of branch licenses acquired in a business combination is its fair value at the date of acquisition.

Following initial recognition, goodwill and branch licenses are measured at cost less any accumulated impairment losses.

Branch licenses have an indefinite useful life as there is no foreseeable limit to the period over which these assets are expected to generate net cash inflows.

The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Software costs
Software costs, which are purchased by the Group separately for use in its operations, are measured on initial recognition at cost. Following initial recognition, software costs are carried at cost less accumulated amortization and any accumulated impairment losses.

Software costs are amortized over the economic useful life of 2 to 5 years. The amortization period and method for software costs are reviewed at least at each statement of financial position date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in this asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on software costs is recognized in the statement of income.
Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

Impairment of Non-financial Assets
Investments in subsidiaries and an associate, property and equipment, software costs and right-of-use assets under other assets
At each statement of financial position date, the Group assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of the recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from those other assets or groups of assets, in which case, the recoverable amount is assessed as part of the CGU to which it belongs.

When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing VIU, 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.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged against the statement of income in the period in which it arises.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation and amortization) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to the current statement of income.

Goodwill and branch licenses
Goodwill and branch licenses are 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 and branch licenses by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill and branch licenses relate. When the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill and branch licenses have 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. For branch licenses, a previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of this asset, but not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized for this asset in prior years.

Common Stock and Additional Paid-in Capital
Common stocks are recorded at par. Proceeds in excess of par value are recognized under equity as 'Additional-paid-in capital' in the statement of financial position. 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.

Subscribed Common Stock
Subscribed common stock is recognized at subscribed amount, net of subscription receivable. This will be debited upon full payment of the subscription and issuance of the shares of stock.

Subscription Receivable
Subscription receivable refers to the total amount of subscription to be received. The Parent Company accounted for the subscription receivable as a contra equity account.

Revenue Recognition
Effective January 1, 2018, under PFRS 15, revenue from contracts with customers is recognized when control of the services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

Prior to January 1, 2018, under PAS 18, *Revenue*, revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received.

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has generally concluded that it is the principal in its revenue arrangements.

The following specific recognition criteria must be met before revenue is recognized:

Revenue within the scope of PFRS 15

a. Service Charges and Penalties
   Service charges and penalties are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectability.

b. Fees and Commissions
   Loan fees that are directly related to the acquisition and origination of loans are included in the initial carrying amount of the loan and are amortized using the effective interest method over the term of the loan. Loan commitment fees are recognized as earned over the term of the credit lines granted to each borrower. Loan syndication fees are recognized upon completion of all syndication activities and where the Group does not have further obligation to perform under the syndication agreement.

Revenue outside the scope of PFRS 15

a. Interest Income
   Interest on interest-bearing financial assets at FVTPL are recognized based on contractual rate. Interest on financial instruments measured at amortized cost and debt instruments classified as FVTOCI is recognized based on the EIR method.

The EIR method is a method of calculating the amortized cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period.

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Under PFRS 9, when a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3 (as discussed under 'Impairment of financial assets (effective January 1, 2018)' above), the Group calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis. Under PAS 39, once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

b. Trading and Securities Gain (Loss) - Net
   Trading and securities gain (loss) - net represents results arising from trading activities, including gains and losses from changes in fair value of financial assets and liabilities at FVTPL.

c. Dividends
   Dividends are recognized when the Group's right to receive the payments is established.

d. Rental
   Rental income arising from leased premises is accounted for on a straight-line basis over the lease terms of ongoing leases.

Expense Recognition
Expenses are recognized at the same time as the initial recognition of a liability, or an increase in the carrying amount of a liability, or the derecognition of an asset, or a decrease in the carrying amount of an asset. Expenses are recognized in the statement of income:
- On the basis of a direct association between the costs incurred and the earning of specific items of income;
- On the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- Immediately when the expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify for recognition in the statement of financial position as an asset.

Expenses in the statement of income are presented using the nature of expense method. General and administrative expenses are costs attributable to administrative and other business activities of the Group.

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 to.

Retirement Benefits

Defined benefit plans

The Parent Company and PRBI maintain separate defined benefit plans covering all of their respective officers and regular employees.

The net retirement liability is the aggregate of the present value of defined benefit obligation at the statement of financial position date reduced by the fair value of plan assets and adjusted for any effect of limiting a net retirement asset to the asset ceiling. The defined benefit obligation is calculated annually by an independent actuary. The present value of 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 net retirement. 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.

Retirement costs comprise of service costs and net interest on the net retirement liability.

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

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on retirement liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to the statement of income 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 risks 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.

Defined contribution plans

The Parent Company also contributes to its contributory, defined-contribution type staff provident plan based on a fixed percentage of the employees' salaries as defined in the plan.

PRBI also has another plan where it contributes an amount equal to 5.00% of the member's plan salary plus the contribution of the member as deducted from the member's plan salary.

Payments to the defined contribution plans are recognized as expenses when employees have rendered service in exchange for these contributions.

Leases

Policy beginning 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 presented under Other 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.

Policy 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 re-assessment is made after inception of the lease only if one of the following applies:
a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
b. A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. There is a substantial change to the asset.

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

Group as 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.

Group as 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.

<u>Income Taxes</u>
Current tax
Current tax assets and current tax liabilities are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the statement of financial position date.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax
Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognized for all deductible temporary differences and carryforward of unused tax credits from the excess of Minimum Corporate Income Tax (MCIT) over the Regular Corporate Income Tax (RCIT), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits from excess MCIT over RCIT 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 or loss.

The carrying amount of deferred tax assets is reviewed at each statement of financial position 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 assets to be utilized.

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

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

Provisions
Provisions are recognized when an obligation (legal or constructive) is incurred as a result of a past event and when it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When 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. When discounting is used, the increase in the provision due to the passage of time is recognized as an ‘Interest expense’ in the statement of income.

Contingent Assets and Contingent Liabilities
Contingent assets are not recognized but are disclosed in the notes to financial statements when an inflow of economic benefits is probable. Contingent liabilities are not recognized in the financial statements but are disclosed in the notes to financial statements, unless the possibility of an outflow of assets embodying economic benefits is remote.

Earnings Per Share (EPS)
Basic EPS is computed by dividing the net income for the year by the weighted average number of common shares outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any.

Diluted EPS is calculated by dividing the net income attributable to common shareholders by the weighted average number of common shares outstanding during the year adjusted for the effects of any 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 BOD of the Parent Company. Dividends for the year that are approved after the statement of financial position date are dealt with as an event after the statement of financial position 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 are presented in Note 6. No geographical segment information is presented as all of the Group's operations are in the Philippines.

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 Statement of Financial Position Date
Post year-end events that provide additional information about the Group's financial position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material to the financial statements.

3. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

Business model test
The Group's business model can be to hold financial assets to collect contractual cash flows even when sales of certain financial assets occur. PFRS 9, however, emphasizes that if more than an infrequent number of sales are made out of a portfolio of financial assets carried at amortized cost, the 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 the following, among others:

a. Sales attributable to an anticipated or in reaction to events of systemic proportions that may adversely affect the behavior of customer deposits and/or the Group's creditors. This is particularly important, among others, for securities that are funded principally through repurchase agreements with international banks or foreign currency swaps;
b. Sales made due to occurrence of systemic events affecting the industry that severely curtails access to credit and funding other than the lending facilities of the BSP as lender of last resort in order to forestall the need for the Group to draw on the emergency lending facilities;
c. Sales attributable to the corrective measures of the Asset and Liability Committee (ALCO) to bring the asset-liability structure and regulatory capital within the BOD's risk appetite and targeted ratios;
d. Sales attributable to a unanticipated significant decline in the debt instrument's liquidity characteristics to meet the minimum eligibility criteria of stock of High Quality Liquid Assets (HQLA); and
e. Sales attributable to systemic movements that have been generally accepted to negatively impact economic conditions, credit quality, and/or the liability profile of the Group.

In February 2019, the BOD approved the sale of the Parent Company's dealer generated auto-loan portfolio. The Bank assessed the the sale to be infrequent. The disposal was made support the Parent Company's plan to focus its auto-loan business to branch referrals instead of dealer generated auto-loans (Note 12).

Cash flow characteristics test
When the financial assets are held within a business model to collect its contractual cash flows or a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Group assesses whether the contractual terms of these financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding. The assessment as to whether the cash flows meet the SPPI test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria.

Fair value of financial instruments
Where the fair values of financial instruments cannot be derived from active markets, they are determined using valuation techniques. The inputs to these valuation models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

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 4.

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 counsels 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 its financial position. It is possible, however, that future financial performance could be materially affected by

changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 24).

Change in use of assets
PAS 40, *Investment Property,* requires management to use its judgment to determine whether a property qualifies as an investment property. The Group has developed criteria so it can exercise its judgment consistently. A property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other assets held by the Group is accounted for as investment properties. On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cash flows as a stand-alone asset are accounted for as property and equipment. The Group assesses on an annual basis the accounting classification of its properties taking into consideration the current use of such properties.

Reclassifications from and to investment properties are discussed in Notes 13 and 14.

Estimates and Assumptions
ECLs on loans and other receivables (Effective January 1, 2018)
The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

Elements of the ECL models that are considered significant accounting judgments and estimates include:
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- The definition of default;
- The Group's internal grading model, which impacts the PDs assigned to the exposures;
- The Group's criteria for assessing if there has been a SICR and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs, such as Inflation rates, Import growth rates, Interest rates, Gross Domestic Product (GDP) growth rates, business confidence index, household final consumption expenditure index, consumer confidence index, bank average lending rates, unemployment rates and BSP statistical indicators, and the effect on PDs;
- Selection of forward-looking macroeconomic scenario variables; and
- Calculation of expected recoveries from defaulted accounts.

The carrying value of loans and receivables and allowance for credit losses on loans and receivables are disclosed in Notes 12 and 17, respectively.

Adequacy of allowance for credit losses on loans and receivables (Prior to January 1, 2018)
The Group reviews its loans and receivables, which mainly consist of corporate and consumer loans, at each statement of financial position date, to assess whether an allowance for credit losses should be recorded in the statement of income. The Group provides specific allowance on individually significant corporate loans. The other loans are grouped based on credit risk characteristics and are provided with collective allowance.

The identification of impairment and the determination of the recoverable amount involve various assumptions and factors. These include the financial condition of the counterparty, estimated future cash flows and estimated selling prices of the collateral.

The carrying value of loans and receivables and allowance for credit losses on loans and receivables are disclosed in Notes 12 and 17, respectively.

Extension and termination options
The Group has several lease contracts that include extension and termination options. The Group applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors such as leasehold improvements and location that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassess the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Estimating the incremental borrowing rate
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR 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 to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

The Company's lease liabilities amounted to ₱270.55 million as of December 31, 2019.

Realizability of deferred tax assets
Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on assumptions that are affected by expected future market or economic conditions and the expected performance of the Group. These assumptions include management's expectations on growth of the Group's loans and deposit portfolios and future operating costs and expenses.

The recognized and unrecognized deferred tax assets are disclosed in Note 30.

Impairment of goodwill and branch licenses
The Group determines whether goodwill and branch licenses are impaired at least on an annual basis. Goodwill and branch licenses are written down for impairment where the net present value of the forecasted future cash flows from the relevant CGU is insufficient to support its carrying value.

The recoverable amount of the CGU has been determined based on a VIU calculation using the CGU's cash flow projections from a strategic plan approved by management covering a 5-year period. Key assumptions in the VIU calculations are most sensitive to the following assumptions:

- Discount rate, which is based on the cost of equity by reference to comparable entities using the capital asset pricing model;
- Loan and deposit portfolios growth rates; and
- Growth rate to project cash flows beyond the budget period.

The carrying values of goodwill and branch licenses and details of the VIU calculations are disclosed in Note 15.

Present value of defined benefit obligation
The cost of defined benefit plans, as well as the present value of defined benefit obligation, is determined using an actuarial valuation. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, salary increase rates, mortality rates and employee turnover rates. Due to the complexity of the actuarial valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each statement of financial position date.

In determining the appropriate discount rate, the Group considers the interest rates of Philippine government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

Salary increase rates are based on historical annual merit, market and promotional increase and future inflation rates.

Other assumptions, such as mortality rates and employee turnover rates, are based on publicly available mortality tables and the Group's historical experience.

The retirement asset and liability as of December 31, 2019 and 2018 are disclosed in Note 16, 20 and 27.

4. Fair Value Measurement

The following tables provide the fair value hierarchy of the Group's and the Parent Company's assets and liabilities measured at fair value and those for which fair values should be disclosed:

	Consolidated				
	2019				
		Fair Value			
	Carrying Value	Total	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value					
Financial assets at FVTPL:					
Government securities	**₱1,667,827**	**₱1,667,827**	**₱1,667,827**	**₱–**	**₱–**
Financial assets at FVTOCI:					
Debt securities:					
Government securities	**5,696,443**	**5,696,443**	**5,696,443**	**–**	**–**
Private bonds	**2,292,800**	**2,292,800**	**2,292,800**	**–**	**–**
Equity securities	**105,119**	**105,119**	**–**	**73,909**	**31,210**
Currency forwards	**8,035**	**8,035**	**–**	**8,035**	**–**
	9,770,224	**9,770,224**	**9,657,070**	**81,944**	**31,210**
Assets for which fair values are disclosed					
Investment securities at amortized cost:					
Government securities	**12,849,500**	**14,452,873**	**6,498,711**	**7,954,162**	**–**
Loans and receivables:					
Receivables from customers:					
Corporate loans	**52,527,412**	**53,759,907**	**–**	**–**	**53,759,907**
Auto loans	**925,725**	**1,069,262**	**–**	**–**	**1,069,262**
Home loans	**4,730,893**	**4,109,819**	**–**	**–**	**4,109,819**
Personal loans	**650,253**	**599,434**	**–**	**–**	**599,434**
Unquoted debt securities	**1,068,193**	**1,500,826**	**–**	**–**	**1,500,826**
	72,751,976	**75,492,121**	**6,498,711**	**7,954,162**	**61,039,248**
Investment properties:					
Condominium units for lease	**1,836,941**	**8,416,719**	**–**	**–**	**8,416,719**
Foreclosed properties	**588,451**	**772,512**	**–**	**–**	**772,512**
Office units for lease	**3,274**	**33,827**	**–**	**–**	**33,827**
	2,428,666	**9,223,058**	**–**	**–**	**9,223,058**

	Consolidated 2019				
		Fair Value			
	Carrying Value	**Total**	**Quoted Prices in Active Market (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
	₱84,950,866	**₱94,485,403**	**₱16,155,781**	**₱8,036,106**	**₱70,293,516**
Liability measured at fair value					
Liabilities for which fair value is disclosed					
Financial liabilities at amortized cost:					
Time deposits	**₱36,594,232**	**₱36,391,833**	**₱–**	**₱–**	**₱36,391,833**
LTNCD	**2,902,730**	**3,123,878**	**–**	**3,123,878**	**–**
Bills payable	**13,064,824**	**13,065,561**	**–**	**–**	**13,065,561**
	₱52,561,786	**₱52,581,272**	**₱–**	**₱3,123,878**	**₱49,457,394**

	Consolidated 2018				
		Fair Value			
	Carrying Value	Total	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value					
Financial assets at FVTPL:					
Government securities	₱893,216	₱893,216	₱318,045	₱575,171	₱–
Financial assets at FVTOCI:					
Debt securities:					
Government securities	4,641,275	4,641,275	3,396,249	1,245,026	–
Private bonds	2,051,836	2,051,836	2,051,836	–	–
Equity securities	105,119	105,119	–	74,210	30,909
	7,691,446	7,691,446	5,766,130	1,894,407	30,909
Assets for which fair values are disclosed					
Investment securities at amortized cost:					
Government securities	13,341,599	10,915,596	2,751,738	8,163,858	–
Loans and receivables:					
Receivables from customers:					
Corporate loans	44,040,079	44,046,526	–	–	44,046,526
Auto loans	5,410,223	5,376,965	–	–	5,376,965
Home loans	5,638,979	5,152,065	–	–	5,152,065
Personal loans	2,592,860	3,090,295	–	–	3,090,295
Unquoted debt securities	1,403,428	1,755,359	–	–	1,755,359
	72,427,168	70,336,806	2,751,738	8,163,858	59,421,210
Investment properties:					
Condominium units for lease	1,832,726	6,452,358	–	–	6,452,358
Foreclosed properties	772,425	1,269,312	–	–	1,269,312
Office units for lease	3,624	54,543	–	–	54,543
	2,608,775	7,776,213	–	–	7,776,213
	₱82,727,389	₱85,804,465	₱8,517,868	₱10,058,265	₱67,228,332
Liability measured at fair value					
Currency forwards	₱726	₱726	₱–	₱726	₱–
Liabilities for which fair value is disclosed					
Financial liabilities at amortized cost:					
Time deposits	43,058,221	43,039,801	–	–	43,039,801
LTNCD	2,902,730	2,948,648	–	2,948,648	–
Bills payable	17,659,083	17,667,527	–	–	17,667,527
	63,620,034	63,655,976	–	2,948,648	60,707,328
	₱63,620,760	₱63,656,702	₱–	₱2,949,374	₱60,707,328

	Parent Company 2019				
		Fair Value			
	Carrying Value	Total	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value					
Financial assets at FVTPL:					
Government securities	₱1,667,827	₱1,667,827	₱1,667,827	₱–	₱–
Financial assets at FVTOCI:					
Debt securities:					
Government securities	5,696,443	5,696,443	5,696,443		–
Private bonds	2,292,800	2,292,800	2,292,800	–	–
Equity securities	105,119	105,119	–	73,909	31,210
Currency forwards	8,035	8,035	–	8,035	–
	9,770,224	9,770,224	9,657,070	81,944	31,210
Assets for which fair values are disclosed					
Investment securities at amortized cost:					
Government securities	12,849,500	14,452,873	6,498,711	7,954,162	–
Loans and receivables:					
Receivables from customers:					
Corporate loans	52,527,412	53,759,907	–	–	53,759,907
Auto loans	925,725	1,069,262	–	–	1,069,262
Home loans	4,730,893	4,109,819	–	–	4,109,819
Personal loans	650,253	599,434	–	–	599,434
Unquoted debt securities	1,068,193	1,500,826	–	–	1,500,826
	72,751,976	75,492,121	6,498,711	7,954,162	61,039,248
Investment properties:					
Condominium units for lease	₱1,836,941	₱8,416,719	₱–	₱–	₱8,416,719
Foreclosed properties:	588,451	772,512	–	–	772,512
Office units for lease	3,274	33,827	–	–	33,827
	2,428,666	9,223,058	–	–	9,223,058
	₱84,950,866	₱94,485,403	₱16,155,781	₱8,036,106	₱70,293,516
Liability measured at fair value					
Liabilities for which fair value is disclosed					
Financial liabilities at amortized cost:					
Time deposits	₱36,594,232	₱36,391,833	₱–	₱–	₱36,391,833
LTNCD	2,902,730	3,123,878	–	3,123,878	–
Bills payable	13,064,824	13,065,561	–	–	13,065,561
	₱52,561,786	₱52,581,272	₱–	₱3,123,878	₱49,457,394

	Parent Company 2018				
		Fair Value			
	Carrying Value	Total	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value					
Financial assets at FVTPL:					
Government securities	₱893,216	₱893,216	₱318,045	₱575,171	₱–
Financial assets at FVTOCI:					
Debt securities:					
Government securities	4,641,275	4,641,275	3,396,249	1,245,026	–
Private bonds	2,051,836	2,051,836	2,051,836	–	–
Equity securities	105,119	105,119	–	74,210	30,909
	7,691,446	7,691,446	5,766,130	1,894,407	30,909
Assets for which fair values are disclosed					
Investment securities at amortized cost:					
Government securities	13,341,599	10,915,596	2,751,738	8,163,858	–

(Forward)

	Parent Company				
	2018				
		Fair Value			
	Carrying Value	Total	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Loans and receivables:					
Receivables from customers:					
Corporate loans	₱44,040,079	₱44,046,526	₱–	₱–	₱44,046,526
Auto loans	5,410,223	5,376,965	–	–	5,376,965
Home loans	5,638,979	5,152,065	–	–	5,152,065
Personal loans	829,531	1,185,849	–	–	1,185,849
Unquoted debt securities	1,403,428	1,755,359	–	–	1,755,359
	70,663,839	68,432,360	2,751,738	8,163,858	57,516,764
Condominium units for lease	₱1,832,726	₱6,452,358	₱–	₱–	₱6,452,358
Foreclosed properties:	612,535	1,048,473	–	–	1,048,473
Office units for lease	3,624	54,543	–	–	54,543
	2,448,885	7,555,374	–	–	7,555,374
	₱80,804,170	₱83,679,180	₱8,517,868	₱10,058,265	₱65,103,047
Liability measured at fair value					
Currency forwards	₱726	₱726	₱–	₱726	₱–
Liabilities for which fair value is disclosed					
Financial liabilities at amortized cost:					
Time deposits	41,907,303	41,897,905	–	–	41,897,905
LTNCD	2,902,730	2,948,648	–	2,948,648	–
Bills payable	17,591,284	17,596,902	–	–	17,596,902
	62,401,317	62,443,455	–	2,948,648	59,494,807
	₱62,402,043	₱62,444,181	₱–	₱2,949,374	₱59,494,807

Movements in the fair value measurement of 'Financial assets at fair value through other comprehensive income' categorized within Level 3 pertain only to the changes in fair value of unquoted equity securities. No additions and disposals were made in 2019 and 2018.

There were no transfers between Level 1 and Level 2 fair value measurements and no transfers out of Level 3 fair value measurements in 2019 and 2018.

The methods and assumptions used by the Group in estimating the fair value of its assets and liabilities are as follows:

Investment Securities

Debt securities

Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using consensus prices obtained from Bloomberg.

Equity securities - club shares

Fair values of club shares are based on prices published in GG&A Club Shares and G&W Club Shares. GG&A Club Shares and G&W Club Shares are involved in trading and leasing proprietary and non-proprietary club shares.

Unquoted equity securities

Fair values of unquoted equity securities are estimated using the guideline publicly-traded company method, which utilizes publicly available information from publicly-traded comparable companies that are the same or similar to the unlisted company being valued.

Loans and Receivables

Cash and other cash items, amounts due from BSP and other banks and interbank loans receivable
Carrying amounts approximate fair values considering that these accounts consist mostly of overnight deposits.

Receivables from customers
Fair values of receivables from customers are estimated using the discounted cash flow methodology that makes use of the Group's current incremental lending rates for similar types of loans and receivables.

Unquoted debt securities
Fair values are estimated based on the discounted cash flow methodology that makes use of interpolated risk-free rates plus spread.

Accrued interest receivable and returned checks and other cash items (RCOCI)
Carrying amounts approximate fair values due to the short-term nature of the accounts, with some items that are due and demandable.

Accounts receivable, sales contracts receivable and refundable security deposits
Quoted market prices are not available for these assets. These are not reported at fair value and are not significant in relation to the Group's total portfolio of financial instruments.

Derivative Assets/Liabilities

Currency forwards
Fair values are calculated by reference to the prevailing interest differential and spot exchange rate as of the statement of financial position date, taking into account the remaining term to maturity of the derivative assets/liabilities.

Financial Liabilities at Amortized Cost

Deposit liabilities (excluding LTNCD)
Fair values of time deposits are estimated based on the discounted cash flow methodology that makes use of the current incremental borrowing rates for similar types of borrowings. The carrying amount of demand and savings deposit liabilities approximate fair value considering that these are due and demandable.

LTNCD
Fair values of LTNCD is determined based on the market yield rate of the Bank's LTNCD as provided by the Philippine Dealing and Exchange Corporation (PDEx).

Bills payable
The fair value is estimated using the discounted cash flow methodology that makes use of the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. Where the instrument has a relatively short maturity, carrying amounts approximate fair values.

Outstanding acceptances, manager's checks, accrued interest payable, accrued other expenses, accounts payable, refundable security deposits and due to the Treasurer of the Philippines
Carrying amounts approximate fair values due to the short-term nature of these accounts, with some items that are due and demandable.

Investment Properties

Fair values of investment properties are determined based on valuations made by professionally qualified appraisers accredited by the BSP and SEC and internal appraisers. The fair values of foreclosed assets were derived based on market sales comparison approach. Under this approach, recent transactions for similar properties in the same areas as the investment properties were considered, taking into account the economic conditions prevailing at the time the valuations were made. Prices of recent transactions are adjusted to account for differences in a property's size, shape, location, marketability and bargaining allowances. For depreciable properties, other inputs considered in the valuations are the age and remaining life of the buildings.

On the other hand, the fair values of the condominium and office units for lease were determined using the income capitalization approach model. The income capitalization approach model is used since the properties generate revenue from rental income. Income capitalization approach is a method used to convert an estimate of a single year's income expectancy into an indication of value in one direct step – either by dividing the income estimate by an appropriate income rate or by multiplying the income estimate by an appropriate income factor. The rate of interest calculated represents the relationship between income and value observed in the market and is derived through comparable sales analysis. The income from a property, usually the annual net operating income or pre-tax cash flow, is divided by its sale or equity price to obtain the income rate.

The valuation, therefore, is based on the following critical assumptions:

- Rental rates;
- Capitalization rate (income rate), which is based on market rent for similar properties;
- Vacancy rates, which are based on vacancy rates for comparable properties within the area where the Group's properties are located; and
- The floor areas, which are based on the total leasable area.

Significant Unobservable Inputs

Quantitative information about the Group's and the Parent Company's fair value measurements using significant unobservable inputs (Level 3) on unquoted equity securities follows:

Year	Fair Value at December 31	Valuation Technique(s)	Unobservable Input(s)	Range	Reasonably Possible Alternative Assumption	Sensitivity of the Fair Value to the Input
2019	**₱31,210**	**Guideline publicly-traded company method**	**Price to book ratio**	**0.73:1 - 0.92:1**	**+0.10**	**₱111**
					-0.10	**(111)**
			Discount for lack of marketability	**30%**	**+10%**	**92**
					-10%	**(92)**
2018	₱30,909	Guideline publicly-traded company method	Price to book ratio	0.70:1 - 0.98:1	+0.10	₱3,821
					-0.10	(3,821)
			Discount for lack of marketability	30%	+10%	(4,139)
					-10%	4,139

The Parent Company estimates the fair value of the unquoted equity securities using the 'benchmark multiples' of comparable publicly-traded companies. The identification of comparable companies considers the similarities between the subject company being valued and the guideline companies in terms of industry, market, product line or service type, growth, etc. The Parent Company also determines an appropriate discount adjustment for the lack of marketability of these unquoted equity securities based on empirical evidence gathered from available public market research.

The use of reasonably possible alternative assumptions in the significant unobservable inputs will affect the fair value of the unquoted equity securities and the OCI (before tax) as presented above.

There has been no change in the valuation techniques used from 2018 to 2019.

5. Financial Risk Management Objectives and Policies

Introduction

Risk is inherent in the Group's activities but is managed through a continuing and pro-active process of identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

The Group is exposed to the following risks from its financial instruments:

a. Credit risk
b. Liquidity risk
c. Market risk
   i. Interest rate risk
   ii. Foreign currency risk
   iii. Equity price risk

Risk management structure

The Group's risk management environment is characterized by a well-defined risk organizational structure, flow of risk information, risk-based audit coverage, and an established compliance system.

BOD

The BOD of the Parent Company and PRBI are responsible for establishing and maintaining a sound risk management system and is ultimately accountable for identifying and controlling risks; there are, however, separate independent bodies responsible for managing and monitoring risks.

a. Parent Company

   Risk Oversight Committee (ROC)

   The ROC has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits.

   Enterprise Risk Management Group (ERMG)

   The ERMG is an independent unit within the Parent Company that directly reports to the ROC. It is the responsibility of the ERMG to identify, analyze and measure risks from the Parent Company's trading, lending, borrowing and other transactional activities. It also recommends control policies and procedures to mitigate risk in identified risk areas in Treasury, Credit, Trust and other areas of operations.

   Risk control

   The Risk Control function performs the important day-to-day monitoring of risk exposures of the Parent Company against approved limits and reporting of such exposures, and implementation of policies and control procedures.

   Treasury segment

   The Treasury Segment is responsible for managing the Parent Company's assets and liabilities. It is also primarily responsible for the management of the funding and liquidity risks of the Parent Company.

b. PRBI

Senior Management Team (SMT)

The SMT assists other board committees in fulfilling its oversight responsibilities prior to elevation of concerns to the BOD. The SMT has the authority to conduct or authorize investigations into any matters within its scope of responsibility as follows:

- Monitor the proper execution of management policies;
- Verify with branches all data relevant in its preparation of various proposals;
- Review and subsequently recommend for BOD approval and adoption of all proposals;
- Seek any information it requires from employees who are directed to cooperate with the committee's requests or external parties; and
- Meet with company officers, external auditors, or outside counsel, as necessary.

Compliance Group

Through the Group's Compliance Group, relevant Philippine laws and regulations, as well as pertinent BSP circulars governing the operations of rural banks, are continuously identified for guidelines on implementation. The Compliance Group is also responsible for the systematic and effective communications systems to keep management always conscious of their obligations and legal responsibility as trustee of public funds. It ensures the Group's adherence to the rules and regulations and the provisions of the Manual of Regulations for Banks (MORB) prescribed by the BSP.

Internal Audit Group (IAG)

Risk management processes throughout the Group are audited by the IAG which examines both the adequacy of the procedures and the Group's compliance thereto. The IAG discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment.

The Group also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks are primarily performed based on limits established by the Group. These limits reflect both the business strategy and market environment of the Group, as well as the level of risk that the Group is willing to accept. In addition, the Group monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information gathered from all the businesses is evaluated and processed in order to analyze, control and identify risks early. All significant information is presented to the BOD, the ROC, and the head of each business division. The report includes credit exposure to groups and industries, Value-at-Risk (VaR), liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis for prudential and financial reporting.

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

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group's credit risk arises from its lending and trading of securities and foreign exchange activities. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual borrowers and groups of borrowers, as well as limits on large lines and industry concentrations. The ERMG monitors exposures in relation to these limits.

The Group obtains security where appropriate, enters into collateral arrangements with counterparties, and limits the duration of exposures. The Group's credit risk management process is guided by policies and procedures established by Corporate & Commercial Banking Group (CCBG), Consumer Finance Group and ERMG and approved by the BOD.

For the corporate loan portfolio, the Group has an internal credit risk rating system (ICRRS) for the purpose of measuring credit risk for every exposure in a consistent manner that is as accurate as possible and uses the risk information for business and financial decision making. The ICRRS shall cover all credit exposures to companies regardless of asset size, except those whose facilities are purely 1:1 which will be given a default Borrower Risk Rating of 1. The system has two components, namely: (a) Borrower Risk Rating (BRR) System, which provides an assessment of credit risk without considering the security arrangements, and (b) Facility Risk Factor, which is an account rating taking into account the collateral and other credit risk mitigants. The rating scale consists of 14 grades, ten of which fall under unclassified accounts and the remaining four are classified accounts according to regulatory provisioning guidelines.

The Group uses a set of Minimum Risk Acceptance Criteria for its consumer loan portfolio as part of its credit undertaking. Risks are mitigated by focusing on the accounts with a low PD while exercising prudent judgement on accounts whose risks are higher than normal but remains within the Group's risk appetite.

The Group also has a post approval loan portfolio quality and credit process review in place that allows the Group to continuously identify and assess the risks on credit exposures and take corrective actions. This function is carried out by the Group's Credit Policy and Review Division.

Effective January 1, 2018, the Group transitioned to using PFRS 9 compliant models to meet the requirements of BSP Circular No. 1011, *Guidelines on the Adoption of PFRS 9, Financial Instruments*. These mandated all Philippine banks to adopt a forward looking ECL model approach in measuring credit impairment. In response to this, the Group created quantitative models through statistical, economic, financial and mathematical techniques to calculate credit impairment provisions. Credit risk management and policy and governance over the new ECL models were likewise strengthened.

Credit risk at initial recognition

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

Maximum exposure to credit risk
The tables below provide the analysis of the maximum exposure of the Group's and the Parent Company's financial instruments to credit risk, excluding those where the carrying values as reflected in the statements of financial position 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			2018		
	Gross Maximum Exposure*	**Net Exposure**	**Financial Effect of Collateral or Credit Enhancement**	Gross Maximum Exposure*	Net Exposure	Financial Effect of Collateral or Credit Enhancement
Receivables from customers:						
Corporate loans	**₱52,526,449**	**₱33,129,545**	**₱19,396,904**	₱44,040,079	₱26,042,312	₱17,997,767
Consumer loans	**6,306,872**	**2,103,673**	**4,203,199**	13,642,062	4,444,575	9,197,487
Credit exposure	**₱58,833,321**	**₱35,233,218**	**₱23,600,103**	₱57,682,141	₱30,486,887	₱27,195,254

** Net of allowance for credit losses and unearned discount*

	Parent Company					
	2019			2018		
	Gross Maximum Exposure*	**Net Exposure**	**Financial Effect of Collateral or Credit Enhancement**	Gross Maximum Exposure*	Net Exposure	Financial Effect of Collateral or Credit Enhancement
Receivables from customers:						
Corporate loans	**₱52,526,449**	**₱33,129,545**	**₱19,396,904**	₱44,040,079	₱26,042,312	₱17,997,767
Consumer loans	**6,306,872**	**2,103,673**	**4,203,199**	11,878,733	2,735,618	9,143,115
Credit exposure	**₱58,833,321**	**₱35,233,218**	**₱23,600,103**	₱55,918,812	₱28,777,930	₱27,140,882

** Net of allowance for credit losses and unearned discount*

For sales contracts receivable, the fair value of collaterals and their corresponding financial effect on credit exposure are no longer disclosed since the system does not regularly monitor such information. The carrying value of these sales contracts receivable are disclosed in Note 12.

Risk concentrations by industry
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 Group's performance to developments affecting a particular industry.

Group exposures and risk concentrations to industries are monitored and reported in accordance with the Group's policies on group lending/inter-corporate earmarking and managing large exposure and credit risk concentrations.

Credit-related commitment risks
The Parent Company makes available to its customers guarantees that may require the Parent Company to make payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Parent Company to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Parent Company to similar risks to loans and are mitigated by the same control processes and policies.

The industry sector analysis of the maximum exposure of the Group to credit risk concentration follows (amounts in millions):

	Consolidated									
	2019					2018				
	Loans and Receivables	Loans and Advances to Banks*	Debt Investment Securities	Others**	Total	Loans and Receivables	Loans and Advances to Banks*	Debt Investment Securities	Others**	Total
Government	₱225	₱10,213	₱20,224	₱–	₱30,662	₱393	₱15,168	₱18,876	₱–	₱34,437
Wholesale and retail trade	13,315	–	–	741	14,056	12,069	–	–	541	12,610
Construction and real estate	17,770	–	251	700	18,721	14,634	–	246	130	15,010
Manufacturing	12,030	–	–	788	12,818	9,545	–	–	1,149	10,694
Banks and financial institutions	2,846	1,076	2,042	–	5,964	3,479	643	1,468	–	5,590
Transportation, storage, communication	2,163	–	–	5	2,168	3,599	–	–	–	3,599
Electricity, gas and water supply	3,375	–	–	–	3,375	3,485	–	–	5	3,490
Agriculture, hunting and forestry	1,196	–	–	1	1,197	910	–	–	–	910
Mining and quarrying	157	–	–	–	157	238	–	–	–	238
Others	10,341	–	–	62	10,403	14,198	–	345	48	14,591
	63,418	11,289	22,517	2,297	99,521	62,550	15,811	20,935	1,873	101,169
Less allowance for ECL	2,161	–	11	–	2,172	2,471	–	7	–	2,478
	₱61,257	₱11,289	₱22,506	₱2,297	₱97,349	₱60,079	₱15,811	₱20,928	₱1,873	₱98,691

* *Consist of due from BSP, due from other banks, and interbank loans receivable*
** *Consist of RCOCI, refundable deposits, and commitments and contingencies*

	Parent Company									
	2019					2018				
	Loans and Receivables	Loans and Advances to Banks*	Debt Investment Securities	Others**	Total	Loans and Receivables	Loans and Advances to Banks*	Debt Investment Securities	Others**	Total
Government	₱225	₱10,213	₱20,224	₱–	₱30,662	₱393	₱15,168	₱18,876	₱–	₱34,437
Wholesale and retail trade	13,315	–	–	741	14,056	11,994	–	–	541	12,535
Construction and real estate	17,770	–	251	700	18,721	14,634	–	246	130	15,010
Manufacturing	12,030	–	–	788	12,818	9,545	–	–	1,149	10,694
Banks and financial institutions	2,846	1,076	2,042	–	5,964	3,477	436	1,468	–	5,381
Transportation, storage, communication	2,163	–	–	5	2,168	3,599	–	–	–	3,599
Electricity, gas and water supply	3,375	–	–	–	3,375	3,485	–	–	5	3,490
Agriculture, hunting and forestry	1,196	–	–	1	1,197	839	–	–	–	839
Mining and quarrying	157	–	–	–	157	238	–	–	–	238
Others	10,344	–	–	62	10,406	12,459	–	345	46	12,850
	63,421	11,289	22,517	2,297	99,524	60,663	15,604	20,935	1,871	99,073
Less allowance for ECL	2,161	–	11	–	2,172	2,442	–	7	–	2,449
	₱61,260	₱11,289	₱22,506	₱2,297	₱97,352	₱58,221	₱15,604	₱20,928	₱1,871	₱96,624

* *Consist of due from BSP, due from other banks, and interbank loans receivable*
** *Consist of RCOCI, refundable deposits, and commitments and contingencies*

Collateral and other credit enhancements
The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding 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 commercial lending: deposit hold-out, mortgages over real estate properties, machineries, inventories and trade receivables
- For retail lending: mortgages over residential properties and motor vehicles

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

Collaterals obtained by the Group and the Parent Company from settlement of loans and receivables which remain outstanding as of December 31, 2019 amounted to ₱210.00 million and as of December 31, 2018 amounted to ₱113.02 million and ₱101.26 million, respectively (see Note 14).

The Group does not hold collateral on financial assets which it may sell or repledge in the absence of default by the owner of the collateral.

Credit quality per class of financial assets
In compliance with MORB Sec. X178, the Group has developed and continuously reviews and calibrates its internal risk rating system for credit exposures aimed at uniformly assessing its credit portfolio in terms of risk profile. Where appropriate, it obtains security, enters into master netting agreements, and limits the duration of exposures to maintain and even further enhance the quality of the Group's credit exposures.

The credit quality of financial assets is monitored and managed using internal ratings and where available, external ratings.

a. Loans and Receivables
   Receivables from customers

   In 2019, the Parent Company adopted new BRR scorecards by segmenting its portfolio further thus improve on the previous scorecards. The Parent Company employs specific scorecards for each segment of the portfolio and uses specific scorecards for different classes of financial intermediaries. The new scorecards are more flexible and innovatively uses more forward-looking elements into the scoring mechanism. making the results more accurate. In 2018, BRR Grade is determined through the use of Moody's Analytics. For purposes of computing ECL allowance, the Parent Company has prepared a transition matrix to bridge the Moody's Analytics rating grades to the new BRR scorecards.

The description and definition of the loan grades or ICRRS used by the Group for corporate loans follow:

BRR Grade	Description	Definition
1	Excellent	Excellent capacity to meet its financial commitments with minimal credit risk
2	Strong	Strong capacity to meet its financial commitments with very low credit risk
3	Good	Good capacity to meet its financial commitments with low credit risk.
4	Fairly Good	An obligor rated 4 differs from rated 3 obligor only to a small degree and has a fairly good capacity to meet its financial commitments with low credit risk.
5	Satisfactory	Satisfactory capacity to meet its financial commitments with moderate credit risk
6	Fairly Satisfactory	Fairly satisfactory capacity to meet its financial commitments with moderate credit risk
7	Acceptable	Acceptable capacity to meet its financial commitments with substantial credit risk
8	Acceptable with Care	A credit, though acceptable, needs care in granting facilities. However, the borrower is still creditworthy.
9	Acceptable with Caution	A credit, though acceptable, needs significant caution to be exercised while granting facilities to the borrower. The borrower is still creditworthy but has problems that need to be addressed.
10	Watch List	An obligor rated 10 is judged to be of poor credit standing and is subject to high default risk.
11	Especially Mentioned	These are loans that have potential weaknesses that deserve management's close attention. If left uncorrected, said weaknesses may affect the repayment of the loan.
12	Substandard	Loans that have well-defined weaknesses that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow, or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.
13	Doubtful	Loans that exhibit more sever weaknesses than those under "Substandard", whose characteristics on the basis of currently known facts, conditions, and values make collection or liquidation highly improbable, however, the exact amount remains undeterminable as yet.
14	Loss	Loans which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted.

The credit quality of the Group's corporate loans under receivables from customers, which is based on the ICRRS grade, is grouped as follows:

High Grade (BRR 1 to 7)
Under this category, the borrower has the apparent ability to satisfy its obligations in full and therefore, no loss in ultimate collection is anticipated. These loans or portions thereof are secured by hold-outs on deposits/deposit substitute, margin deposits or government-supported securities, other readily marketable collateral or are supported by sufficient credit and financial information of favorable nature to assure repayment as agreed.

Standard Grade (BRR 8 to 10)
Under this category are accounts not considered adversely classified but require close supervision/monitoring due to some warning signals such as start-up business, substantial changes in the business affecting operation or management, three continuous years of substantial decline in income (exclusive of extraordinary income/losses).

Substandard Grade or Past-Due (BRR 11 to 14)
Under this category are loans which exhibit unfavorable record or unsatisfactory characteristics, or where existing facts, conditions and values, make collection or liquidation in full improbable. The credit quality of the Group's consumer loans under receivables from customers, which is based on the age and status of delinquency of receivables and the credit standing of the counterparties, is grouped as follows:

High Grade
This category is comprised of current receivables with no history of defaults and delayed payments and other financial assets with counterparties that have the apparent ability to satisfy their obligations in full. This rating includes amounts due from the BSP and due from other banks.

Standard Grade
This category is comprised of receivables that are technically past due, with period of default of 1 to 30 days, but are still regarded as good credit quality since the counterparties have the apparent ability to satisfy their obligations in full.

Past Due but not Impaired
These are accounts which are classified as delinquent, with period of default of 31 to 90 days.

Past Due and Impaired
This comprised of receivables and other financial assets whick are classified as non-performing, with period of default of more than 90 days.

Positive and vigorous management action is required to avert or minimize loss.

As of December 31, 2019, the credit quality of receivables from customers, net of unearned discount and capitalized interest of the Group and Parent Company follows:

Consolidated and Parent Company	2019			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans:				
High grade	**₱45,719,910**	**₱3,215,973**	**₱–**	**₱48,935,883**
Standard grade	**3,513,182**	**116,937**	**–**	**3,630,119**
Substandard grade	**–**	**22,249**	**–**	**22,249**
Past due but not impaired	**–**	**615**	**–**	**615**
Past due and impaired	**–**	**–**	**1,171,838**	**1,171,838**
	49,233,092	**3,355,774**	**1,171,838**	**53,760,704**
Consumer loans:				
Auto loans:				
High grade	**600,069**	**–**	**–**	**600,069**
Standard grade	**104,549**	**–**	**–**	**104,549**
Past due but not impaired	**–**	**86,645**	**–**	**86,645**
Past due and impaired	**–**	**–**	**457,568**	**457,568**
	704,618	**86,645**	**457,568**	**1,248,831**
Home loans:				
High grade	**4,226,737**	**–**	**–**	**4,226,737**
Standard grade	**231,743**	**–**	**–**	**231,743**
Past due but not impaired	**–**	**109,941**	**–**	**109,941**
Past due and impaired	**–**	**–**	**271,893**	**271,893**
	4,458,480	**109,941**	**271,893**	**4,840,314**
Personal loans:				
High grade	**542,093**	**–**	**–**	**542,093**
Standard grade	**28,104**	**–**	**–**	**28,104**
Past due but not impaired	**–**	**22,695**	**–**	**22,695**
Past due and impaired	**–**	**–**	**529,920**	**529,920**
	570,197	**22,695**	**529,920**	**1,122,812**
Total consumer loans:				
High grade	**₱5,368,899**	**₱–**	**₱–**	**₱5,368,899**
Standard grade	**364,396**	**–**	**–**	**364,396**
Past due but not impaired	**–**	**219,281**	**–**	**219,281**
Past due and impaired	**–**	**–**	**1,259,381**	**1,259,381**
	5,733,295	**219,281**	**1,259,381**	**7,211,957**
Total receivables from customers:				
High grade	**51,088,809**	**3,215,973**	**–**	**54,304,782**
Standard grade	**3,877,578**	**116,937**	**–**	**3,994,515**
Substandard grade	**–**	**22,249**	**–**	**22,249**
Past due but not impaired	**–**	**219,896**	**–**	**219,896**
Past due and impaired	**–**	**–**	**2,431,219**	**2,431,219**
	₱54,966,387	**₱3,575,055**	**₱2,431,219**	**₱60,972,661**

Consolidated	2018			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans:				
High grade	₱25,798,350	₱1,645,892	₱–	₱27,444,242
Standard grade	12,973,153	3,534,137	–	16,507,290
Substandard grade	–	194,687	–	194,687
Past due but not impaired	–	324,011	–	324,011
Past due and impaired	–	–	722,756	722,756
	38,771,503	5,698,727	722,756	45,192,986

(Forward)

Consolidated	2018			
	Stage 1	Stage 2	Stage 3	Total
Consumer loans:				
Auto loans:				
High grade	₱4,722,044	₱–	₱–	₱4,722,044
Standard grade	436,369	–	–	436,369
Past due but not impaired	–	205,062	–	205,062
Past due and impaired	–	–	402,398	402,398
	5,158,413	205,062	402,398	5,765,873
Home loans:				
High grade	5,032,429	–	–	5,032,429
Standard grade	371,655	–	–	371,655
Past due but not impaired	–	171,067	–	171,067
Past due and impaired	–	–	176,120	176,120
	5,404,084	171,067	176,120	5,751,271
Personal loans:				
High grade	2,417,302	–	–	2,417,302
Standard grade	62,291	–	–	62,291
Past due but not impaired	–	70,110	–	70,110
Past due and impaired	–	–	466,672	466,672
	2,479,593	70,110	466,672	3,016,375
Total consumer loans:				
High grade	₱12,171,775	₱–	₱–	₱12,171,775
Standard grade	870,315	–	–	870,315
Past due but not impaired	–	446,239	–	446,239
Past due and impaired	–	–	1,045,190	1,045,190
	13,042,090	446,239	1,045,190	14,533,519
Total receivables from customers:				
High grade	37,970,125	1,645,892	–	39,616,017
Standard grade	13,843,468	3,534,137	–	17,377,605
Substandard grade	–	194,687	–	194,687
Past due but not impaired	–	770,250	–	770,250
Past due and impaired	–	–	1,767,946	1,767,946
	₱51,813,593	₱6,144,966	₱1,767,946	₱59,726,505

Parent Company	2018			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans:				
High grade	₱25,798,350	₱1,645,892	₱–	₱27,444,242
Standard grade	12,973,153	3,534,137	–	16,507,290
Substandard grade	–	194,687	–	194,687
Past due but not impaired	–	324,011	–	324,011
Past due and impaired	–	–	722,756	722,756
	38,771,503	5,698,727	722,756	45,192,986
Consumer loans:				
Auto loans				
High grade	4,722,044	–	–	4,722,044
Standard grade	436,369	–	–	436,369
Past due but not impaired	–	205,062	–	205,062
Past due and impaired	–	–	402,398	402,398
	5,158,413	205,062	402,398	5,765,873
Home loans:				
High grade	5,032,429	–	–	5,032,429
Standard grade	371,655	–	–	371,655
Past due but not impaired	–	171,067	–	171,067
Past due and impaired	–	–	176,120	176,120
	5,404,084	171,067	176,120	5,751,271

(Forward)

Parent Company	2018			
	Stage 1	Stage 2	Stage 3	Total
Personal loans:				
High grade	₱698,885	₱–	₱–	₱698,885
Standard grade	32,259	–	–	32,259
Past due but not impaired	–	23,357	–	23,357
Past due and impaired	–	–	473,217	473,217
	731,144	23,357	473,217	1,227,718
Total consumer loans:				
High grade	10,453,358	–	–	10,453,358
Standard grade	840,283	–	–	840,283
Past due but not impaired	–	399,486	–	399,486
Past due and impaired	–	–	1,051,735	1,051,735
	11,293,641	399,486	1,051,735	12,744,862
Total receivables from customers:				
High grade	36,251,708	1,645,892	–	37,897,600
Standard grade	13,813,436	3,534,137	–	17,347,573
Substandard grade	–	194,687	–	194,687
Past due but not impaired	–	723,497	–	723,497
Past due and impaired	–	–	1,774,491	1,774,491
	₱50,065,144	₱6,098,213	₱1,774,491	₱57,937,848

Movements during 2019 and 2018 for receivables from customers follows:

Consolidated	**2019**			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans:				
Balance at January 1, 2019	**₱38,771,503**	**₱5,698,727**	**₱722,756**	**₱45,192,986**
New assets originated or Purchased	**37,382,075**	**–**	**–**	**37,382,075**
Assets derecognized or repaid	**(26,093,918)**	**(2,079,284)**	**(149,177)**	**(28,322,379)**
Transfers to Stage 1	**–**	**–**	**–**	**–**
Transfers to Stage 2	**(1,778)**	**1,778**	**–**	**–**
Transfers to Stage 3	**(743,322)**	**(264,246)**	**1,007,568**	**–**
Accounts written-off	**–**	**–**	**(408,009)**	**(408,009)**
Foreign exchange adjustments	**(81,468)**	**(1,201)**	**(1,300)**	**(83,969)**
Balance at December 31, 2019	**49,233,092**	**3,355,774**	**1,171,838**	**53,760,704**
Consumer loans:				
Auto loans:				
Balance at January 1, 2019	**5,158,413**	**205,062**	**402,398**	**5,765,873**
New assets originated or purchased	**197,813**	**–**	**–**	**197,813**
Assets derecognized or repaid	**(4,515,468)**	**(82,331)**	**(117,056)**	**(4,714,855)**
Transfers to Stage 1	**45,810**	**(40,452)**	**(5,358)**	**–**
Transfers to Stage 2	**(85,045)**	**86,744**	**(1,699)**	**–**
Transfers to Stage 3	**(96,906)**	**(82,377)**	**179,283**	**–**
Balance at December 31, 2019	**704,617**	**86,646**	**457,568**	**1,248,831**
Home loans:				
Balance at January 1, 2019	**5,404,084**	**171,067**	**176,120**	**5,751,271**
New assets originated or Purchased	**596,826**	**–**	**–**	**596,826**
Assets derecognized or repaid	**(1,359,217)**	**(47,973)**	**(100,593)**	**(1,507,783)**
Transfers to Stage 1	**26,261**	**(25,102)**	**(1,159)**	**–**
Transfers to Stage 2	**(91,843)**	**91,843**	**–**	**–**
Transfers to Stage 3	**(117,631)**	**(79,894)**	**197,525**	**–**
Balance at December 31, 2019	**4,458,480**	**109,941**	**271,893**	**4,840,314**
Personal loans:				
Balance at January 1, 2019	**2,479,593**	**70,110**	**466,672**	**3,016,375**
New assets originated or purchased	**320,122**	**–**	**–**	**320,122**
Assets derecognized or repaid	**(2,146,405)**	**(48,131)**	**(19,149)**	**(2,213,685)**
Transfers to Stage 1	**2,807**	**(2,235)**	**(572)**	**–**
Transfers to Stage 2	**(21,834)**	**21,915**	**(81)**	**–**
Transfers to Stage 3	**(64,084)**	**(18,964)**	**83,048**	**–**
Accounts written-off	**–**	**–**	**–**	**–**
Balance at December 31, 2019	**570,199**	**22,695**	**529,918**	**1,122,812**

Consolidated	2019			
	Stage 1	Stage 2	Stage 3	Total
Total consumer loans:				
Balance at January 1, 2019	**13,042,090**	**446,239**	**1,045,190**	**14,533,519**
New assets originated or purchased	**1,114,761**	**–**	**–**	**1,114,761**
Assets derecognized or repaid	**(8,021,090)**	**(178,435)**	**(236,798)**	**(8,436,323)**
Transfers to Stage 1	**74,878**	**(67,789)**	**(7,089)**	**–**
Transfers to Stage 2	**(198,722)**	**200,502**	**(1,780)**	**–**
Transfers to Stage 3	**(278,621)**	**(181,235)**	**459,856**	**–**
Accounts written-off	**–**	**–**	**–**	**–**
Balance at December 31, 2019	**5,733,296**	**219,282**	**1,259,379**	**7,211,957**
Total receivables from customers:				
Balance at January 1, 2018	**51,813,593**	**6,144,966**	**1,767,946**	**59,726,505**
New assets originated or purchased	**38,496,836**	**–**	**–**	**38,496,836**
Assets derecognized or repaid	**(34,115,008)**	**(2,257,719)**	**(385,975)**	**(36,758,702)**
Transfers to Stage 1	**74,878**	**(67,789)**	**(7,089)**	**–**
Transfers to Stage 2	**(200,500)**	**202,280**	**(1,780)**	**–**
Transfers to Stage 3	**(1,021,943)**	**(445,481)**	**1,467,424**	**–**
Accounts written-off	**–**	**–**	**(408,009)**	**(408,009)**
Foreign exchange adjustments	**(81,468)**	**(1,201)**	**(1,300)**	**(83,969)**
	₱54,966,388	**₱3,575,056**	**₱2,431,217**	**₱60,972,661**

Parent Company	2019			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans:				
Balance at January 1, 2019	**₱38,771,503**	**₱5,698,727**	**₱722,756**	**₱45,192,986**
New assets originated or Purchased	**37,382,075**	**–**	**–**	**37,382,075**
Assets derecognized or repaid	**(26,093,918)**	**(2,079,284)**	**(149,177)**	**(28,322,379)**
Transfers to Stage 1	**–**	**–**	**–**	**–**
Transfers to Stage 2	**(1,778)**	**1,778**	**–**	**–**
Transfers to Stage 3	**(743,322)**	**(264,246)**	**1,007,568**	**–**
Accounts written-off	**–**	**–**	**(408,009)**	**(408,009)**
Foreign exchange adjustments	**(81,468)**	**(1,201)**	**(1,300)**	**(83,969)**
Balance at December 31, 2019	**49,233,092**	**3,355,774**	**1,171,838**	**53,760,704**
Consumer loans:				
Auto loans:				
Balance at January 1, 2019	**5,158,413**	**205,062**	**402,398**	**5,765,873**
lNew assets originated or purchased	**197,813**	**–**	**–**	**197,813**
Assets derecognized or repaid	**(4,515,468)**	**(82,331)**	**(117,056)**	**(4,714,855)**
Transfers to Stage 1	**45,810**	**(40,452)**	**(5,358)**	**–**
Transfers to Stage 2	**(85,045)**	**86,744**	**(1,699)**	**–**
Transfers to Stage 3	**(96,906)**	**(82,377)**	**179,283**	**–**
Balance at December 31, 2019	**704,617**	**86,646**	**457,568**	**1,248,831**
Home loans:				
Balance at January 1, 2019	**5,404,084**	**171,067**	**176,120**	**5,751,271**
New assets originated or Purchased	**596,826**	**–**	**–**	**596,826**
Assets derecognized or repaid	**(1,359,217)**	**(47,973)**	**(100,593)**	**(1,507,783)**
Transfers to Stage 1	**26,261**	**(25,102)**	**(1,159)**	**–**
Transfers to Stage 2	**(91,843)**	**91,843**	**–**	**–**
Transfers to Stage 3	**(117,631)**	**(79,894)**	**197,525**	**–**
Balance at December 31, 2019	**4,458,480**	**109,941**	**271,893**	**4,840,314**
Personal loans:				
Balance at January 1, 2019	**731,144**	**23,357**	**473,217**	**1,227,718**
New assets originated or purchased	**320,122**	**–**	**–**	**320,122**
Assets derecognized or repaid	**(397,956)**	**(1,378)**	**(25,694)**	**(425,028)**
Transfers to Stage 1	**2,807**	**(2,235)**	**(572)**	**–**
Transfers to Stage 2	**(21,834)**	**21,915**	**(81)**	**–**
Transfers to Stage 3	**(64,084)**	**(18,964)**	**83,048**	**–**
Accounts written-off	**–**	**–**	**–**	**–**
Balance at December 31, 2019	**570,199**	**22,695**	**529,918**	**1,122,812**

(Forward)

Parent Company	**2019**			
	Stage 1	Stage 2	Stage 3	Total
Total consumer loans:				
Balance at January 1, 2019	**₱11,293,641**	**₱399,486**	**₱1,051,735**	**₱12,744,862**
New assets originated or purchased	**1,114,761**	**–**	**–**	**1,114,761**
Assets derecognized or repaid	**(6,272,641)**	**(131,682)**	**(243,343)**	**(6,647,666)**
Transfers to Stage 1	**74,878**	**(67,789)**	**(7,089)**	**–**
Transfers to Stage 2	**(198,722)**	**200,502**	**(1,780)**	**–**
Transfers to Stage 3	**(278,621)**	**(181,235)**	**459,856**	**–**
Accounts written-off	**–**	**–**	**–**	**–**
Balance at December 31, 2019	**5,733,296**	**219,282**	**1,259,379**	**7,211,957**
Total receivables from customers:				
Balance at January 1, 2018	**50,065,144**	**6,098,213**	**1,774,491**	**57,937,848**
New assets originated or purchased	**38,496,836**	**–**	**–**	**38,496,836**
Assets derecognized or repaid	**(32,366,559)**	**(2,210,966)**	**(392,520)**	**(34,970,045)**
Transfers to Stage 1	**74,878**	**(67,789)**	**(7,089)**	**–**
Transfers to Stage 2	**(200,500)**	**202,280**	**(1,780)**	**–**
Transfers to Stage 3	**(1,021,943)**	**(445,481)**	**1,467,424**	**–**
Accounts written-off	**–**	**–**	**(408,009)**	**(408,009)**
Foreign exchange adjustments	**(81,468)**	**(1,201)**	**(1,300)**	**(83,969)**
	₱54,966,388	**₱3,575,056**	**₱2,431,217**	**₱60,972,661**

Consolidated	2018			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans:				
Balance at January 1, 2018	₱32,558,851	₱4,306,440	₱1,468,771	₱38,334,062
New assets originated or purchased	33,414,147	–	–	33,414,147
Assets derecognized or repaid	(22,946,320)	(3,137,998)	(103,590)	(26,187,908)
Transfers to Stage 1	1,126,622	(1,126,622)	–	–
Transfers to Stage 2	(5,398,566)	5,619,504	(220,938)	–
Transfers to Stage 3	(17,038)	(19,965)	37,003	–
Accounts written-off	–	–	(461,739)	(461,739)
Foreign exchange adjustments	33,807	57,368	3,249	94,424
Balance at December 31, 2018	38,771,503	5,698,727	722,756	45,192,986
Consumer loans:				
Auto loans:				
Balance at January 1, 2018	5,497,587	200,348	299,246	5,997,181
New assets originated or purchased	1,540,289	–	–	1,540,289
Assets derecognized or repaid	(1,578,390)	(108,978)	(84,229)	(1,771,597)
Transfers to Stage 1	74,012	(69,749)	(4,263)	–
Transfers to Stage 2	(229,038)	229,714	(676)	–
Transfers to Stage 3	(146,047)	(46,273)	192,320	–
Balance at December 31, 2018	5,158,413	205,062	402,398	5,765,873
Home loans:				
Balance at January 1, 2018	4,716,554	48,222	32,822	4,797,598
New assets originated or purchased	1,994,994	–	–	1,994,994
Assets derecognized or repaid	(997,468)	(12,057)	(31,796)	(1,041,321)
Transfers to Stage 1	15,986	(9,219)	(6,767)	–
Transfers to Stage 2	(171,129)	171,129	–	–
Transfers to Stage 3	(154,853)	(27,008)	181,861	–
Balance at December 31, 2018	5,404,084	171,067	176,120	5,751,271
Personal loans:				
Balance at January 1, 2018	2,239,193	49,599	459,760	2,748,552
New assets originated or purchased	2,675,052	–	–	2,675,052
Assets derecognized or repaid	(2,243,049)	(22,282)	(47,287)	(2,312,618)
Transfers to Stage 1	7,363	(3,068)	(4,295)	–
Transfers to Stage 2	(75,657)	76,056	(399)	–
Transfers to Stage 3	(123,309)	(30,195)	153,504	–
Accounts written-off	–	–	(94,611)	(94,611)
Balance at December 31, 2018	2,479,593	70,110	466,672	3,016,375

(Forward)

Consolidated	2018			
	Stage 1	Stage 2	Stage 3	Total
Total consumer loans:				
Balance at January 1, 2018	₱12,453,334	₱298,169	₱791,828	₱13,543,331
New assets originated or purchased	6,210,335	–	–	6,210,335
Assets derecognized or repaid	(4,818,907)	(143,317)	(163,312)	(5,125,536)
Transfers to Stage 1	97,361	(82,036)	(15,325)	–
Transfers to Stage 2	(475,824)	476,899	(1,075)	–
Transfers to Stage 3	(424,209)	(103,476)	527,685	–
Accounts written-off	–	–	(94,611)	(94,611)
Balance at December 31, 2018	13,042,090	446,239	1,045,190	14,533,519
Total receivables from customers:				
Balance at January 1, 2018	45,012,185	4,604,609	2,260,599	51,877,393
New assets originated or purchased	39,624,482			39,624,482
Assets derecognized or repaid	(27,765,227)	(3,281,315)	(266,902)	(31,313,444)
Transfers to Stage 1	1,223,983	(1,208,658)	(15,325)	–
Transfers to Stage 2	(5,874,390)	6,096,403	(222,013)	–
Transfers to Stage 3	(441,247)	(123,441)	564,688	–
Accounts written-off	–	–	(556,350)	(556,350)
Foreign exchange adjustments	33,807	57,368	3,249	94,424
	₱51,813,593	₱6,144,966	₱1,767,946	₱59,726,505

Parent Company	2018			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans:				
Balance at January 1, 2018	₱32,558,851	₱4,306,440	₱1,468,771	₱38,334,062
New assets originated or purchased	33,414,147	–	–	33,414,147
Assets derecognized or repaid	(22,946,320)	(3,137,998)	(103,590)	(26,187,908)
Transfers to Stage 1	1,126,622	(1,126,622)	–	–
Transfers to Stage 2	(5,398,566)	5,619,504	(220,938)	–
Transfers to Stage 3	(17,038)	(19,965)	37,003	–
Accounts written-off	–	–	(461,739)	(461,739)
Foreign exchange adjustments	33,807	57,368	3,249	94,424
Balance at December 31, 2018	38,771,503	5,698,727	722,756	45,192,986
Consumer loans:				
Auto loans:				
Balance at January 1, 2018	5,497,587	200,348	299,246	5,997,181
New assets originated or purchased	1,540,289	–	–	1,540,289
Assets derecognized or repaid	(1,578,390)	(108,978)	(84,229)	(1,771,597)
Transfers to Stage 1	74,012	(69,749)	(4,263)	–
Transfers to Stage 2	(229,038)	229,714	(676)	–
Transfers to Stage 3	(146,047)	(46,273)	192,320	–
Balance at December 31, 2018	5,158,413	205,062	402,398	5,765,873
Home loans:				
Balance at January 1, 2018	4,716,554	48,222	32,822	4,797,598
New assets originated or purchased	1,994,994	–	–	1,994,994
Assets derecognized or repaid	(997,468)	(12,057)	(31,796)	(1,041,321)
Transfers to Stage 1	15,986	(9,219)	(6,767)	–
Transfers to Stage 2	(171,129)	171,129	–	–
Transfers to Stage 3	(154,853)	(27,008)	181,861	–
Balance at December 31, 2018	5,404,084	171,067	176,120	5,751,271
Personal loans:				
Balance at January 1, 2018	601,258	23,265	444,308	1,068,831
New assets originated or purchased	556,735	–	–	556,735
Assets derecognized or repaid	(364,426)	(9,793)	(18,477)	(392,696)
Transfers to Stage 1	6,551	(2,673)	(3,878)	–
Transfers to Stage 2	(29,450)	29,849	(399)	–
Transfers to Stage 3	(39,524)	(17,291)	56,815	–
Accounts written-off	–	–	(5,152)	(5,152)
Balance at December 31, 2018	731,144	23,357	473,217	1,227,718

(Forward)

Parent Company	2018			
	Stage 1	Stage 2	Stage 3	Total
Total consumer loans:				
Balance at January 1, 2018	₱10,815,399	₱271,835	₱776,376	₱11,863,610
New assets originated or purchased	4,092,018	–	–	4,092,018
Assets derecognized or repaid	(2,940,284)	(130,828)	(134,502)	(3,205,614)
Transfers to Stage 1	96,549	(81,641)	(14,908)	–
Transfers to Stage 2	(429,617)	430,692	(1,075)	–
Transfers to Stage 3	(340,424)	(90,572)	430,996	–
Accounts written-off	–	–	(5,152)	(5,152)
Balance at December 31, 2018	11,293,641	399,486	1,051,735	12,744,862
Total receivables from customers:				
Balance at January 1, 2018	43,374,250	4,578,275	2,245,147	50,197,672
New assets originated or purchased	37,506,165	–	–	37,506,165
Assets derecognized or repaid	(25,886,604)	(3,268,826)	(238,092)	(29,393,522)
Transfers to Stage 1	1,223,171	(1,208,263)	(14,908)	–
Transfers to Stage 2	(5,828,183)	6,050,196	(222,013)	–
Transfers to Stage 3	(357,462)	(110,537)	467,999	–
Accounts written-off	–	–	(466,891)	(466,891)
Foreign exchange adjustments	33,807	57,368	3,249	94,424
	₱50,065,144	₱6,098,213	₱1,774,491	₱57,937,848

As of December 31, 2019 and 2018, the credit quality of the Group's and the Parent Company's financial guarantees, letters of credit and loan commitments follows:

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
High grade	**₱2,231,290**	**₱–**	**₱–**	**₱2,231,290**
Standard grade	**4,000**	**–**	**–**	**4,000**
	₱2,235,290	**₱–**	**₱–**	**₱2,235,290**

	2018			
	Stage 1	Stage 2	Stage 3	Total
High grade	₱1,831,230	₱–	₱–	₱1,831,230
Standard grade	2,850	–	–	2,850
	₱1,834,080	₱–	₱–	₱1,834,080

Movements during 2019 and 2018 for the Group's and the Parent Company's financial guarantees, letters of credit and loan commitments follows:

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at January 1	**₱1,834,080**	**₱–**	**₱–**	**₱1,834,080**
New assets originated or purchased	**401,210**	**–**	**–**	**401,210**
Balance at December 31	**₱2,235,290**	**₱–**	**₱–**	**₱2,235,290**

	2018			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱3,508,000	₱–	₱–	₱3,508,000
Utilized or extinguished	(1,673,920)	–	–	(1,673,920)
Balance at December 31	₱1,834,080	₱–	₱–	₱1,834,080

As of December 31, 2019 and 2018 the credit quality of other receivables, gross of allowance for ECL follows:

Consolidated	2019			
	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
High grade	**₱1,068,193**	**₱–**	**₱–**	**₱1,068,193**
Accrued interest receivable:				
High grade	**417,613**	**62,970**	–	**480,583**
Standard grade	**28,014**	**291**	–	**28,305**
Substandard grade		**132**	–	**132**
Past due but not impaired	–	**1,402**	–	**1,402**
Past due and impaired	–	–	**59,071**	**59,071**
	445,627	**64,795**	**59,071**	**569,493**
Accounts receivable:				
High grade	**684,904**	–	–	**684,904**
Standard grade	**3,562**	–	–	**3,562**
Past due but not impaired	–	**4,774**	–	**4,774**
Past due and impaired	–	–	**12,005**	**12,005**
	688,466	**4,774**	**12,005**	**705,245**
Sales contracts receivable:				
High grade	**41,642**	–	–	**41,642**
Standard grade	–	**16,859**	–	**16,859**
Past due but not impaired	–	**20,944**	–	**20,944**
Past due and impaired	–	–	**22,763**	**22,763**
	41,642	**37,803**	**22,763**	**102,208**
Total other receivables:				
High grade	**2,212,352**	**62,970**	–	**2,275,322**
Standard grade	**31,576**	**17,150**	–	**48,726**
Substandard grade	–	**132**	–	**132**
Past due but not impaired	–	**27,120**	–	**27,119**
Past due and impaired	–	–	**93,839**	**93,839**
	₱2,243,928	**₱107,372**	**₱93,839**	**₱2,445,139**

Parent Company	2019			
	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
High grade	**₱1,068,193**	**₱–**	**₱–**	**₱1,068,193**
Accrued interest receivable:				
High grade	**417,613**	**62,970**	–	**480,583**
Standard grade	**28,015**	**291**	–	**28,306**
Substandard grade		**132**	–	**132**
Past due but not impaired	–	**1,402**	–	**1,402**
Past due and impaired	–	–	**59,071**	**59,071**
	445,628	**64,795**	**59,071**	**569,494**
Accounts receivable:				
High grade	**687,658**	–	–	**687,658**
Standard grade	**3,562**	–	–	**3,562**
Past due but not impaired	–	**4,774**	–	**4,774**
Past due and impaired	–	**4,919**	**7,085**	**12,004**
	691,220	**9,693**	**7,085**	**707,998**
Sales contracts receivable:				
High grade	**41,642**	–	–	**41,642**
Standard grade	–	**16,859**	–	**16,859**
Past due but not impaired	–	**20,944**	–	**20,944**
Past due and impaired	–	–	**22,763**	**22,763**
	41,642	**37,803**	**22,763**	**102,208**

(Forward)

Parent Company	**2019**			
	Stage 1	Stage 2	Stage 3	Total
Total other receivables:				
High grade	**₱2,215,106**	**₱62,970**	**₱–**	**₱2,278,076**
Standard grade	**31,577**	**17,150**	**–**	**48,727**
Substandard grade	**–**	**132**	**–**	**132**
Past due but not impaired	**–**	**27,120**	**–**	**27,120**
Past due and impaired	**–**	**4,919**	**88,919**	**93,838**
	₱2,246,683	**₱112,291**	**₱88,919**	**₱2,447,893**

Consolidated	2018			
	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
High grade	₱1,404,422	₱–	₱–	₱1,404,422
Accrued interest receivable:				
High grade	385,991	4,497	–	390,488
Standard grade	71,426	27,597	–	99,023
Substandard grade		98	–	98
Past due but not impaired	–	5,411	–	5,411
Past due and impaired	–	–	414,459	414,459
	457,417	37,603	414,459	909,479
Accounts receivable:				
High grade	299,881	–	–	299,881
Standard grade	2,594	–	–	2,594
Past due but not impaired	–	3,906	–	3,906
Past due and impaired	–	–	26,917	26,917
	302,475	3,906	26,917	333,298
Sales contracts receivable:				
High grade	133,850	–	–	133,850
Standard grade	1,780	–	–	1,780
Past due but not impaired	–	17,329	–	17,329
Past due and impaired	–	–	23,429	23,429
	135,630	17,329	23,429	176,388
Total other receivables:				
High grade	2,224,144	4,497	–	2,228,641
Standard grade	75,800	27,597	–	103,397
Substandard grade	–	98	–	98
Past due but not impaired	–	26,646	–	26,646
Past due and impaired	–	–	464,805	464,805
	₱2,299,944	₱58,838	₱464,805	₱2,823,587

Parent Company	2018			
	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
High grade	₱1,404,422	₱–	₱–	₱1,404,422
Accrued interest receivable:				
High grade	371,237	4,496	–	375,733
Standard grade	70,711	27,597	–	98,308
Substandard grade	–	98	–	98
Past due but not impaired	–	3,929	–	3,929
Past due and impaired	–	–	404,843	404,843
	441,948	36,120	404,843	882,911
Accounts receivable:				
High grade	293,452	–	–	293,452
Past due but not impaired	–	3,776	–	3,776
Past due and impaired	–	–	15,891	15,891
	293,452	3,776	15,891	313,119

(Forward)

Parent Company	2018			
	Stage 1	Stage 2	Stage 3	Total
Sales contracts receivable:				
High grade	₱86,111	₱–	₱–	₱86,111
Standard grade	987	–	–	987
Past due but not impaired	–	17,329	–	17,329
Past due and impaired	–	–	20,699	20,699
	87,098	17,329	20,699	125,126
Total other receivables:				
High grade	2,155,222	4,496	–	2,159,718
Standard grade	71,698	27,597	–	99,295
Substandard grade	–	98	–	98
Past due but not impaired	–	25,034	–	25,034
Past due and impaired	–	–	441,433	441,433
	₱2,226,920	₱57,225	₱441,433	₱2,725,578

Movements during 2019 and 2018 for other receivables follows:

Consolidated	**2019**			
	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
Balance at January 1, 2019	**₱1,404,422**	**₱–**	**₱–**	**₱1,404,422**
Assets derecognized or repaid	**(336,229)**	–	–	**(336,229)**
Balance at December 31, 2019	**1,068,193**	–	–	**1,068,193**
Accrued interest receivable:				
Balance at January 1, 2019	**457,417**	**37,603**	**414,459**	**909,479**
New assets originated or Purchased	**290,786**	–	–	**290,786**
Assets derecognized or repaid	**(247,915)**	**(13,650)**	**(368,923)**	**(630,488)**
Transfers to Stage 1	**342**	**(341)**	**(1)**	–
Transfers to Stage 2	**(42,552)**	**42,552**	–	–
Transfers to Stage 3	**(12,449)**	**(1,370)**	**13,819**	–
Accounts written-off	–	–	**(283)**	**(283)**
Balance at December 31, 2019	**445,629**	**64,794**	**59,071**	**569,494**
Accounts receivable:				
Balance at January 1, 2019	**302,475**	**3,906**	**26,917**	**333,298**
New assets originated or Purchased	**9,870,359**	–	–	**9,870,359**
Assets derecognized or repaid	**(9,474,459)**	**(3,585)**	**(15,569)**	**(9,493,613)**
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	**(9,672)**	**9,371**	**301**	–
Transfers to Stage 3	**(236)**	–	**236**	–
Accounts written-off	–	–	**(4,800)**	**(4,800)**
Balance at December 31, 2019	**688,467**	**9,692**	**7,085**	**705,244**
Sales contract receivable:	**135,630**	**17,329**	**23,429**	**176,388**
New assets originated or Purchased	**9,454**	–	–	**9,454**
Assets derecognized or repaid	**(64,066)**	**(11,364)**	**(8,204)**	**(83,634)**
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	**(32,480)**	**32,480**	–	–
Transfers to Stage 3	**(6,898)**	**(641)**	**7,539**	–
Balance at December 31, 2019	**41,640**	**37,804**	**22,764**	**102,208**
Total other receivables:				
Balance at January 1, 2019	**2,299,944**	**58,838**	**464,805**	**2,823,587**
New assets originated or purchased	**10,170,599**	–	–	**10,170,599**
Assets derecognized or repaid	**(10,122,669)**	**(28,599)**	**(392,696)**	**(10,543,964)**
Transfers to Stage 1	**342**	**(341)**	**(1)**	–
Transfers to Stage 2	**(84,704)**	**84,403**	**301**	–
Transfers to Stage 3	**(19,583)**	**(2,011)**	**21,594**	–
Accounts written-off	–	–	**(5,083)**	**(5,083)**
	₱2,243,929	**₱112,290**	**₱88,920**	**₱2,445,139**

Parent Company	2019			
	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
Balance at January 1, 2019	**₱1,404,422**	**₱–**	**₱–**	**₱1,404,422**
Assets derecognized or repaid	**(336,229)**	–	–	**(336,229)**
Balance at December 31, 2019	**1,068,193**	–	–	**1,068,193**
Accrued interest receivable:				
Balance at January 1, 2019	**441,948**	**36,120**	**404,843**	**882,911**
New assets originated or Purchased	**290,786**	–	–	**290,786**
Assets derecognized or repaid	**(232,446)**	**(12,167)**	**(359,307)**	**(603,920)**
Transfers to Stage 1	**342**	**(341)**	**(1)**	–
Transfers to Stage 2	**(42,552)**	**42,552**	–	–
Transfers to Stage 3	**(12,449)**	**(1,370)**	**13,819**	–
Accounts written-off	–	–	**(283)**	**(283)**
Balance at December 31, 2019	**445,629**	**64,794**	**59,071**	**569,494**
Accounts receivable:				
Balance at January 1, 2019	**293,452**	**3,776**	**15,891**	**313,119**
New assets originated or Purchased	**9,870,359**	–	–	**9,870,359**
Assets derecognized or repaid	**(9,462,682)**	**(3,455)**	**(4,543)**	**(9,470,680)**
Transfers to Stage 1	**(9,672)**	**9,672**	–	–
Transfers to Stage 2	–	**(301)**	**301**	–
Transfers to Stage 3	**(236)**	–	**236**	–
Accounts written-off	–	–	**(4,800)**	**(4,800)**
Balance at December 31, 2019	**691,221**	**9,692**	**7,085**	**707,998**
Sales contract receivable:				
Balance at January 1, 2019	**87,098**	**17,329**	**20,699**	**125,126**
New assets originated or Purchased	**9,454**	–	–	**9,454**
Assets derecognized or repaid	**(15,534)**	**(11,364)**	**(5,474)**	**(32,372)**
Transfers to Stage 1	**(7,340)**	**1,584**	**5,756**	–
Transfers to Stage 2	**(32,038)**	**32,480**	**(442)**	–
Transfers to Stage 3	–	**(2,225)**	**2,225**	–
Balance at December 31, 2019	**41,640**	**37,804**	**22,764**	**102,208**
Total other receivables:				
Balance at January 1, 2019	**2,226,920**	**57,225**	**441,433**	**2,725,578**
New assets originated or purchased	**10,170,599**	–	–	**10,170,599**
Assets derecognized or repaid	**(10,046,891)**	**(26,986)**	**(369,324)**	**(10,443,201)**
Transfers to Stage 1	**(16,670)**	**10,915**	**5,755**	–
Transfers to Stage 2	**(74,590)**	**74,731**	**(141)**	–
Transfers to Stage 3	**(12,685)**	**(3,595)**	**16,280**	–
Accounts written-off	–	–	**(5,083)**	**(5,083)**
	₱2,246,683	**₱112,290**	**₱88,920**	**₱2,447,893**

Consolidated	2018			
	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
Balance at January 1, 2018	₱2,811,827	₱–	₱–	₱2,811,827
Assets derecognized or repaid	(1,407,405)	–	–	(1,407,405)
Balance at December 31, 2018	1,404,422	–	–	1,404,422
Accrued interest receivable:				
Balance at January 1, 2018	378,077	20,953	415,566	814,596
New assets originated or purchased	362,573	14	32	362,619
Assets derecognized or repaid	(252,621)	(7,239)	(5,106)	(264,966)
Transfers to Stage 1	8,234	(7,923)	(311)	–
Transfers to Stage 2	(33,823)	34,520	(697)	–
Transfers to Stage 3	(5,023)	(2,722)	7,745	–
Accounts written-off	–	–	(2,770)	(2,770)
Balance at December 31, 2018	457,417	37,603	414,459	909,479
Accounts receivable:				
Balance at January 1, 2018	217,954	6,771	26,412	251,137
New assets originated or purchased	8,185,008	–	–	8,185,008

(Forward)

Consolidated	2018			
	Stage 1	Stage 2	Stage 3	Total
Assets derecognized or repaid	(₱8,090,581)	(₱3,060)	(₱3,257)	(₱8,096,898)
Transfers to Stage 1	–	–	(3,345)	(3,345)
Transfers to Stage 2	(3,905)	3,905	–	–
Transfers to Stage 3	(6,001)	(3,710)	9,711	–
Accounts written-off	–	–	(2,604)	(2,604)
Balance at December 31, 2018	302,475	3,906	26,917	333,298
Sales contract receivable:				
Balance at January 1, 2018	₱129,399	₱3,159	₱35,535	₱168,093
New assets originated or purchased	46,038	–	–	46,038
Assets derecognized or repaid	(25,973)	(1,627)	(10,143)	(37,743)
Transfers to Stage 1	4,110	(142)	(3,968)	–
Transfers to Stage 2	(16,853)	16,935	(82)	–
Transfers to Stage 3	(1,091)	(996)	2,087	–
Balance at December 31, 2018	135,630	17,329	23,429	176,388
Total other receivables:				
Balance at January 1, 2018	3,537,257	30,883	477,513	4,045,653
New assets originated or purchased	8,593,619	14	32	8,593,665
Assets derecognized or repaid	(9,776,580)	(11,926)	(18,506)	(9,807,012)
Transfers to Stage 1	12,344	(8,065)	(7,624)	(3,345)
Transfers to Stage 2	(54,581)	55,360	(779)	–
Transfers to Stage 3	(12,115)	(7,428)	19,543	–
Accounts written-off	–	–	(5,374)	(5,374)
	₱2,299,944	₱58,838	₱464,805	₱2,823,587

Parent Company	2018			
	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
Balance at January 1, 2018	₱2,811,827	₱–	₱–	₱2,811,827
Assets derecognized or repaid	(1,407,405)	–	–	(1,407,405)
Balance at December 31, 2018	1,404,422	–	–	1,404,422
Accrued interest receivable:				
Balance at January 1, 2018	353,420	20,272	407,802	781,494
New assets originated or purchased	355,542	–	–	355,542
Assets derecognized or repaid	(239,673)	(6,576)	(5,106)	(251,355)
Transfers to Stage 1	8,221	(7,917)	(304)	–
Transfers to Stage 2	(32,345)	33,042	(697)	–
Transfers to Stage 3	(3,217)	(2,701)	5,918	–
Accounts written-off	–	–	(2,770)	(2,770)
Balance at December 31, 2018	441,948	36,120	404,843	882,911
Accounts receivable:				
Balance at January 1, 2018	213,162	3,463	18,032	234,657
New assets originated or Purchased	8,177,247	–	–	8,177,247
Assets derecognized or repaid	(8,090,014)	(2,984)	(3,183)	(8,096,181)
Transfers to Stage 2	(3,776)	3,776	–	–
Transfers to Stage 3	(3,167)	(479)	3,646	–
Accounts written-off	–	–	(2,604)	(2,604)
Balance at December 31, 2018	293,452	3,776	15,891	313,119
Sales contract receivable:				
Balance at January 1, 2018	129,399	3,159	22,775	155,333
New assets originated or purchased	811	–	–	811
Assets derecognized or repaid	(25,933)	(1,627)	(3,458)	(31,018)
Transfers to Stage 1	765	(142)	(623)	–
Transfers to Stage 2	(16,853)	16,935	(82)	–
Transfers to Stage 3	(1,091)	(996)	2,087	–
Balance at December 31, 2018	87,098	17,329	20,699	125,126

(Forward)

Parent Company	2018			
	Stage 1	Stage 2	Stage 3	Total
Total other receivables:				
Balance at January 1, 2018	₱3,507,808	₱26,894	₱448,609	₱3,983,311
New assets originated or purchased	8,533,600	–	–	8,533,600
Assets derecognized or repaid	(9,763,025)	(11,187)	(11,747)	(9,785,959)
Transfers to Stage 1	8,986	(8,059)	(927)	–
Transfers to Stage 2	(52,974)	53,753	(779)	–
Transfers to Stage 3	(7,475)	(4,176)	11,651	–
Accounts written-off	–	–	(5,374)	(5,374)
	₱2,226,920	₱57,225	₱441,433	₱2,725,578

As of December 31, 2019 and 2018, the credit quality of other financial assets (RCOCI and refundable security deposits) are as follows:

Consolidated	**2019**			
	Stage 1	Stage 2	Stage 3	Total
High grade	**₱62,228**	**₱–**	**₱–**	**₱62,228**
Standard grade	**128**	**–**	**–**	**128**
	₱62,356	**₱–**	**₱–**	**₱62,356**

Parent Company	**2019**			
	Stage 1	Stage 2	Stage 3	Total
High grade	**₱62,228**	**₱–**	**₱–**	**₱62,228**
Standard grade	**128**	**–**	**–**	**128**
	₱62,356	**₱–**	**₱–**	**₱62,356**

Consolidated	2018			
	Stage 1	Stage 2	Stage 3	Total
High grade	₱33,022	₱–	₱–	₱33,022
Standard grade	5,434	–	–	5,434
	₱38,456	₱–	₱–	₱38,456

Parent Company	2018			
	Stage 1	Stage 2	Stage 3	Total
High grade	₱30,877	₱–	₱–	₱30,877
Standard grade	5,434	–	–	5,434
	₱36,311	₱–	₱–	₱36,311

Movements during 2019 and 2018 for other financial assets follows:

Consolidated	**2019**			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	**₱38,456**	**₱–**	**₱–**	**₱38,456**
New assets originated or purchased	**38,473**	**–**	**–**	**38,473**
Assets derecognized or repaid	**(14,573)**	**–**	**–**	**(14,573)**
Balance at December 31	**₱62,356**	**₱–**	**₱–**	**₱62,356**

Parent Company	**2019**			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	**₱36,311**	**₱–**	**₱–**	**₱36,311**
New assets originated or purchased	**35,473**	**–**	**–**	**35,473**
Assets derecognized or repaid	**(9,428)**	**–**	**–**	**(9,428)**
Balance at December 31	**₱62,356**	**₱–**	**₱–**	**₱62,356**

Consolidated	2018			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱39,814	₱–	₱–	₱39,814
New assets originated or purchased	11,604	–	–	11,604
Assets derecognized or repaid	(12,962)	–	–	(12,962)
Balance at December 31	₱38,456	₱–	₱–	₱38,456

Parent Company	2018			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱38,210	₱–	₱–	₱38,210
New assets originated or purchased	11,604	–	–	11,604
Assets derecognized or repaid	(13,503)	–	–	(13,503)
Balance at December 31	₱36,311	₱–	₱–	₱36,311

As of December 31, 2019 and 2018, restructured loans by the Group which are neither past due nor impaired are as follow:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Receivables from customers:				
Corporate	**₱–**	₱52,586	**₱–**	₱52,586
Consumer	**46,522**	46,910	**46,522**	46,007

a. Due from Banks, Interbank Receivables, Government Securities and Corporate Investments
The Group follows an internally developed risk rating system for local banks and external risk ratings [that is, Standard and Poor's (S&P)] for foreign banks, government securities and corporate investments.

A description of the rating systems for local banks follows:

High Grade (Tier 1)
Tier 1 - Banks categorized under this tier are capable of withstanding very difficult market conditions for 2-3 years without deteriorating to a substandard credit classification by virtue of their size, reputation and ranking in the industry.

Standard Grade (Tier 2 to Tier 3)
These are accounts that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the financial instrument, thus, increase credit risk to the Group.

Tier 2 - Banks categorized under this tier may deteriorate to substandard within 1-2 years under very difficult market conditions.

Tier 3 - Banks categorized under this tier may deteriorate to substandard within one year under very difficult market conditions. These are banks, which fall short relative to size, in view of perceived concern of uncertainty about their portfolio, earnings, or market condition. Banks with total net worth of ₱3.00 billion to less than ₱4.50 billion and net income of ₱200.00 million to less than ₱400.00 million are included in this category.

Substandard Grade (Tier 4)
Tier 4 - These are banks, which fall short relative to size, in view of perceived concern of uncertainty about their portfolio, earnings, or market condition. Banks with total net worth of ₱1.50 billion to less than ₱3.00 billion and net income of ₱70.00 million to less than ₱200.00 million are included in this category.

The following is the credit rating scale applicable for foreign banks, government securities, and corporate investment outlets (aligned with S&P ratings):

AAA - Obligor's capacity to meet its financial commitment is extremely strong.

AA - Obligor's capacity to meet its financial commitment is very strong. It differs from the highest-rated obligors at a minimal degree.

A - 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 rated in higher-rated categories.

BBB and below:

BBB - Obligation rated 'BBB' has adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

BB - Obligation is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

B - Obligation rated 'B' is more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

CCC - Obligation is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.

CC - Obligation is currently highly vulnerable to nonpayment.

C - Obligation is currently highly vulnerable to nonpayment, payment arrearages allowed by the terms of the documents, and subject of a bankruptcy petition or similar action which have not experienced a payment default.

Among others, the ‘C’ rating may be assigned to subordinated debt, preferred stock or other obligations on which cash payments have been suspended in accordance with the instrument’s terms or when preferred stock is the subject of a distressed exchange offer, whereby some or all of the issue is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par.

D - Obligation is in payment default. Payments on an obligation are not made on the due date even if the applicable grace period has not expired. The ‘D’ rating also will be used upon the filing of a bankruptcy petition or the taking of similar action if payments on an obligation are jeopardized. An obligation’s rating is lowered to ‘D’ upon completion of a distressed exchange offer, whereby some or all of the issue is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par.

As of December 31, 2019 and 2018, the credit quality of loans and advances to banks and investment securities, gross of allowance for ECL follows:

Consolidated	**2019**			
	Stage 1	Stage 2	Stage 3	Total
Due from BSP:				
High grade	**₱10,213,521**	**₱–**	**₱–**	**₱10,213,521**
Due from other banks:				
High grade	**135,673**	–	–	**135,673**
Standard grade	**216,345**	–	–	**216,345**
Unrated	**5,942**	–	–	**5,942**
	357,960	–	–	**357,960**
Interbank loans receivable:				
High grade	**717,736**	–	–	**717,736**
Total loans and advances to banks:				
High grade	**11,066,930**	–	–	**11,066,930**
Standard grade	**216,345**	–	–	**216,345**
Unrated	**5,942**	–	–	**5,942**
	₱11,289,217	**₱–**	**₱–**	**₱11,289,217**
Government securities:				
High grade	**₱1,667,827**	**₱–**	**₱–**	**₱1,667,827**
Private bonds:				
High grade	**4,027,892**	–	–	**4,027,892**
Standard grade	**2,293,524**	–	–	**2,293,524**
	6,321,416	–	–	**6,321,416**
Total debt securities at FVTOCI:				
High grade	**5,695,719**	–	–	**5,695,719**
Standard grade	**2,293,524**	–	–	**2,293,524**
	₱7,989,243	**₱–**	**₱–**	**₱7,989,243**
Government securities:				
High grade	**₱12,860,065**	**₱–**	**₱–**	**₱12,860,065**
Total investment securities at amortized cost:				
High grade	**₱12,860,065**	**₱–**	**₱–**	**₱12,860,065**

Parent Company	**2019**			
	Stage 1	Stage 2	Stage 3	Total
Due from BSP:				
High grade	**₱10,213,521**	**₱–**	**₱–**	**₱10,213,521**
Due from other banks:				
High grade	**135,673**	**–**	**–**	**135,673**
Standard grade	**216,345**	**–**	**–**	**216,345**
Unrated	**5,942**	**–**	**–**	**5,942**
	357,960	**–**	**–**	**357,960**
Interbank loans receivable:				
High grade	**717,736**	**–**	**–**	**717,736**
Total loans and advances to banks:				
High grade	**11,066,930**	**–**	**–**	**11,066,930**
Standard grade	**216,345**	**–**	**–**	**216,345**
Unrated	**5,942**	**–**	**–**	**5,942**
	₱11,289,217	**₱–**	**₱–**	**₱11,289,217**
Government securities:				
High grade	**₱1,667,827**	**₱–**	**₱–**	**₱1,667,827**
Private bonds:				
High grade	**4,027,892**	**–**	**–**	**4,027,892**
Standard grade	**2,293,524**	**–**	**–**	**2,293,524**
	6,321,416	**–**	**–**	**6,321,416**
Total debt securities at FVTOCI:				
High grade	**5,695,719**	**–**	**–**	**5,695,719**
Standard grade	**2,293,524**	**–**	**–**	**2,293,524**
	₱7,989,243	**₱–**	**₱–**	**₱7,989,243**
Government securities:				
High grade	**₱12,860,065**	**₱–**	**₱–**	**₱12,860,065**
Total investment securities at amortized cost:				
High grade	**₱12,860,065**	**₱–**	**₱–**	**₱12,860,065**

Consolidated	2018			
	Stage 1	Stage 2	Stage 3	Total
Due from BSP:				
High grade	₱15,224,382	₱–	₱–	₱15,224,382
Due from other banks:				
High grade	240,453	–	–	240,453
Standard grade	137,942	–	–	137,942
Unrated	1,328	–	–	1,328
	379,723	–	–	379,723
Interbank loans receivable:				
High grade	206,965	–	–	206,965
Total loans and advances to banks:				
High grade	15,671,800	–	–	15,671,800
Standard grade	137,942	–	–	137,942
Unrated	1,328	–	–	1,328
	₱15,811,070	₱–	₱–	₱15,811,070

(Forward)

Consolidated	2018			
	Stage 1	Stage 2	Stage 3	Total
Government securities:				
High grade	₱4,641,275	₱–	₱–	₱4,641,275
Private bonds:				
High grade	339,384	–	–	339,384
Standard grade	1,712,452	–	–	1,712,452
	2,051,836	–	–	2,051,836
Total debt securities at FVTOCI:				
High grade	4,980,659	–	–	4,980,659
Standard grade	1,712,452	–	–	1,712,452
	₱6,693,111	₱–	₱–	₱6,693,111
Government securities:				
High grade	₱13,349,084	₱–	₱–	₱13,349,084
Total investment securities at amortized cost:				
High grade	₱13,349,084	₱–	₱–	₱13,349,084

Parent Company	2018			
	Stage 1	Stage 2	Stage 3	Total
Due from BSP:				
High grade	₱15,168,302	₱–	₱–	₱15,168,302
Due from other banks:				
High grade	89,308	–	–	89,308
Standard grade	137,942	–	–	137,942
Unrated	1,328	–	–	1,328
	228,578	–	–	228,578
Interbank loans receivable:				
High grade	206,965	–	–	206,965
Total loans and advances to banks:				
High grade	15,464,575	–	–	15,464,575
Standard grade	137,942	–	–	137,942
Unrated	1,328	–	–	1,328
	₱15,603,845	₱–	₱–	₱15,603,845
Government securities:				
High grade	₱4,641,275	₱–	₱–	₱4,641,275
Private bonds:				
High grade	339,384	–	–	339,384
Standard grade	1,712,452	–	–	1,712,452
	2,051,836	–	–	2,051,836
Total debt securities at FVTOCI:				
High grade	4,980,659	–	–	4,980,659
Standard grade	1,712,452	–	–	1,712,452
	₱6,693,111	₱–	₱–	₱6,693,111
Government securities:				
High grade	₱13,349,084	₱–	₱–	₱13,349,084
Total investment securities at amortized cost:				
High grade	₱13,349,084	₱–	₱–	₱13,349,084

Specific impairment testing
Accounts that are subjected to specific impairment are those individually significant and with objective evidence of impairment. Indicators of impairment include the following conditions/ events: account is equivalent to the Parent Company's internal credit risk rating of 11 to 14, with past due interest and/or principal payments and adverse changes in industry conditions that affect the borrower.

Net recoverable amount is the total cash inflows to be collected over the entire term of the loan, which may be based on an agreed restructuring agreement, rehabilitation plan or expected proceeds from the foreclosing and sale of the collateral. Upon determining the forecast of expected net cash flows, the present value of the net expected cash flows from the asset is determined using the original EIR.

Collective impairment testing
Accounts that are not individually significant and have no objective evidence of impairment are grouped based on similar credit risk characteristics and are collectively assessed for impairment.

a. Collective Impairment - Corporate Accounts
For the purpose of collective impairment assessment, corporate accounts are grouped per product segment (i.e., Large Corporates or Middle Market Borrowers). Impairment loss is derived by multiplying the outstanding loan balance against a loss rate. The loss rate, which estimates the incurred loss from the credit exposure, is the product of the PD and the LGD. PD is estimated based on the three-year historical average default experience of the Parent Company, while LGD is estimated based on loss experience for the same reference period.

b. Collective Impairment - Consumer Accounts
Receivables from consumer loans are assessed for impairment collectively because these receivables are not individually significant. Accounts are grouped by type of product - personal loans, home loans and auto loans. The allowance for credit losses is determined based on the net flow rate methodology. This methodology relies on the historical data of net flow tables to establish a percentage ('net flow rate') of receivables that are current or in any state of delinquency (that is, 30, 60, 90, 120, 150 and 180 days past due) as of the statement of financial position date. The gross provision is then computed based on the outstanding balances of these receivables from consumer loans as of the statement of financial position date and the net flow rates determined for the current and each delinquency bucket. These rates are based on the Group's historical experience, which covers a minimum of three-year cycle.

Aging analysis of past due but not impaired loans per class of financial assets
As of December 31, 2019 and 2018, the aging analysis of past due but not impaired financial assets are shown below:

	2019					
	Consolidated					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than 1 Year	Total
Receivables from customers:						
Corporate loans	**₱–**	**₱615**	**₱–**	**₱–**	**₱–**	**₱615**
Consumer loans	**–**	**219,280**	**–**	**–**	**–**	**219,280**
Accrued interest receivable	**–**	**1,402**	**–**	**–**	**–**	**1,402**
Accounts Receivable	**159**	**1,418**	**2,037**	**1,160**	**–**	**4,774**
Sales contracts receivable	**–**	**–**	**20,944**	**–**	**–**	**20,944**
	₱159	**₱222,715**	**₱22,981**	**₱1,160**	**₱–**	**₱247,015**

	2018					
	Consolidated					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than 1 Year	Total
Receivables from customers:						
Corporate loans	₱–	₱93,272	₱7,022	₱40,664	₱183,054	₱324,012
Consumer loans	–	413,624	–	–	32,615	446,239
Accrued interest receivable	–	3,185	–	60	2,165	5,410
Accounts Receivable	315	1,043	968	1,065	515	3,906
Sales contracts receivable	–	17,329	–	–	–	17,329
	₱315	₱528,453	₱7,990	₱41,789	₱218,349	₱796,896

	2019					
	Parent Company					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than 1 Year	Total
Receivables from customers:						
Corporate loans	**₱–**	**₱615**	**₱–**	**₱–**	**₱–**	**₱615**
Consumer loans	–	**219,280**	–	–	–	**219,280**
Accrued interest receivable	–	**1,402**	–	–	–	**1,402**
Accounts Receivable	**159**	**1,418**	**2,037**	**1,160**	–	**4,774**
Sales contracts receivable	–	–	**20,944**	–	–	**20,944**
	₱159	**₱222,715**	**₱22,981**	**₱1,160**	**₱–**	**₱247,015**

	2018					
	Parent Company					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than 1 Year	Total
Receivables from customers:						
Corporate loans	₱–	₱93,272	₱7,022	₱40,664	₱183,053	₱324,011
Consumer loans	–	399,486	–	–	–	399,486
Accrued interest receivable	–	3,185	–	60	684	3,929
Accounts Receivable	315	913	968	1,065	515	3,776
Sales contracts receivable	–	17,329	–	–	–	17,329
	₱315	₱514,185	₱7,990	₱41,789	₱184,252	₱748,531

Total credit risk exposure

The tables below show the different credit risk exposures of the Group and of the Parent Company by risk weight applied in accordance with BSP Circular No. 538 as reported to the BSP:

	Consolidated						
	2019						
	Net	**Risk Weights[(b)]**					
	Exposures[(a)]	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**
On-balance sheet assets[(c)]	**₱101,535**	**₱27,508**	**₱25**	**₱6,764**	**₱–**	**₱65,646**	**₱1,592**
Credit risk weighted on-balance sheet assets (d = b x c)	**71,421**	**–**	**5**	**3,382**	**–**	**65,646**	**2,388**
Off-balance sheet assets[(e)]	**11,869**	**9,642**	**886**	**–**	**–**	**1,341**	**–**
Credit risk weighted off-balance sheet assets (f = b x e)	**1,518**	**–**	**177**	**–**	**–**	**1,341**	
Banking Book[(g)]	**12**	**–**	**–**	**–**	**–**	**12**	**–**

(Forward)

	Consolidated						
	2019						
	Net	Risk Weights[b]					
	Exposures[a]	0%	20%	50%	75%	100%	150%
Counter party risk-weighted assets in Banking Books (h = b x g)	**₱12**	**₱–**	**₱–**	**₱–**	**₱–**	**₱12**	**₱–**
Total Credit Risk Weighted Assets(d + f + h)	**₱72,951**	**₱–**	**₱182**	**₱3,382**	**₱–**	**₱66,999**	**₱2,388**

(a) *Net of specific provisions*

	Consolidated						
	2018						
	Net	Risk Weights[b]					
	Exposures[a]	0%	20%	50%	75%	100%	150%
On-balance sheet assets[c]	₱103,758	₱30,336	₱74	₱7,032	₱52	₱64,676	₱1,588
Credit risk weighted on-balance sheet assets (d = b x c)	70,628	–	15	3,516	39	64,676	2,382
Off-balance sheet assets[e]	8,649	6,784	1,348	–	–	517	–
Credit risk weighted off-balance sheet assets (f = b x e)	787	–	270	–	–	517	–
Banking Book[g]	1,434	–	–	–	–	1,434	–
Counter party risk-weighted assets in Banking Books (h = b x g)	1,434	–	–	–	–	1,434	–
Total Credit Risk Weighted Assets(d + f + h)	₱72,849	₱–	₱285	₱3,516	₱39	₱66,627	₱2,382

(a) *Net of specific provisions*

	Parent Company						
	2019						
	Net	Risk Weights[b]					
	Exposures[a]	0%	20%	50%	75%	100%	150%
On-balance sheet assets[c]	**₱101,535**	**₱27,508**	**₱25**	**₱6,764**	**₱–**	**₱65,646**	**₱1,592**
Credit risk weighted on-balance sheet assets (d = b x c)	**71,421**	**–**	**5**	**3,382**	**–**	**65,646**	**2,388**
Off-balance sheet assets[e]	**11,869**	**9,642**	**886**	**–**	**–**	**1,341**	**–**
Credit risk weighted off-balance sheet assets (f = b x e)	**1,518**	**–**	**177**	**–**	**–**	**1,341**	
Banking Book[g]	**12**	**–**	**–**	**–**	**–**	**12**	**–**
Counter party risk-weighted assets in Banking Books (h = b x g)	**12**	**–**	**–**	**–**	**–**	**12**	**–**
Total Credit Risk Weighted Assets(d + f + h)	**₱72,951**	**₱–**	**₱182**	**₱3,382**	**₱–**	**₱66,999**	**₱2,388**

(a) Net of specific provisions

	Parent Company						
	2018						
	Net	Risk Weights[(b)]					
	Exposures[(a)]	0%	20%	50%	75%	100%	150%
On-balance sheet assets[(c)]	₱101,481	₱30,255	₱68	₱7,032	₱–	₱62,672	₱1,454
Credit risk weighted on-balance sheet assets (d = b x c)	68,383	–	14	3,516	–	62,672	2,181
Off-balance sheet assets[(e)]	8,649	6,784	1,348	–	–	517	–
Credit risk weighted off-balance sheet assets (f = b x e)	787	–	270	–	–	517	–
Banking Book[(g)]	1,434	–	–	–	–	1,434	–
Counter party risk-weighted assets in Banking Books (h = b x g)	1,434	–	–	–	–	1,434	–
Total Credit Risk Weighted Assets[(d + f + h)]	₱70,604	₱–	₱284	₱3,516	₱–	₱64,623	₱2,181

(a) Net of specific provisions

Liquidity Risk and Funding Management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis.

This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding, if required. In addition, the Bank makes use of a monthly system generated Liquidity Gap Report in analyzing its liquidity position where the difference between the Group's maturing assets and liabilities is captured. A Maximum Cumulative Outflow limit is likewise established to control the liquidity gap for each currency. The ALCO meets weekly to discuss, among others, the liquidity state of the Bank.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flows. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a statutory deposit with the BSP equal to 14.00% and 20% of customer deposits in December 31, 2019 and 2018, respectively..

In managing intraday liquidity, the Bank has an internal buffer fund called "Secondary Reserve" for Deposit Liabilities, Deposit Substitutes, and Repurchase Agreements. The buffer fund serves to manage potential substantial liability outflows and the demand and supply of funds for new loans.

This will allow the Bank to readily support its new business strategies and direction and management of liquidity risk. The daily movement of Secondary Reserve serves as a primary indicator of liquidity condition of the Bank. In addition, the Bank monitors the liquidity characteristics of its portfolio of assets that will provide necessary liquidity support during periods of liquidity stress as required by BSP Circular No. 905.

Analysis of financial instruments by remaining contractual maturities

The tables below summarize the maturity profile of the Group's and the Parent Company's financial instruments as of December 31, 2019 and 2018, based on undiscounted contractual payments, except for financial assets at FVTPL. Repayments which are subject to notice are treated as if notices are to be given immediately. However, the Group and the Parent Company expect that many customers will not request repayment on the earliest date the Group and the Parent Company could be required to pay and the tables do not reflect the expected cash flows indicated by the Group's and the Parent Company's deposit retention history (amounts in millions):

	Consolidated					
	2019					
	On Demand	**Less than 3 Months**	**3-12 Months**	**1-2 Years**	**Beyond 2 Years***	**Total**
Financial assets						
Financial assets at FVTPL	**₱–**	**₱2,180**	**₱–**	**₱–**	**₱–**	**₱2,180**
Financial assets at FVTOCI	**–**	**205**	**542**	**484**	**9,877**	**11,108**
Investment securities at amortized cost:						
Government securities	**–**	**247**	**575**	**861**	**21,523**	**23,206**
Loans and receivables:						
Due from BSP	**10,214**	**–**	**–**	**–**	**–**	**10,214**
Due from other banks	**–**	**358**	**–**	**–**	**–**	**358**
Interbank loans receivable	**–**	**718**	**–**	**–**	**–**	**718**
Receivables from customers:						
Corporate	**1,622**	**20,605**	**7,483**	**4,350**	**23,516**	**57,576**
Consumer	**1,443**	**190**	**559**	**995**	**8,451**	**11,638**
	₱13,279	**₱24,503**	**₱9,159**	**₱6,690**	**₱63,367**	**₱116,998**
Financial liabilities						
Deposit liabilities:						
Demand	**₱27,205**	**₱–**	**₱–**	**₱–**	**₱–**	**₱27,205**
Savings	**9,180**	**–**	**–**	**–**	**–**	**9,180**
Time	**–**	**33,147**	**1,912**	**441**	**1,094**	**36,594**
LTNCD	**–**	**41**	**123**	**163**	**3,274**	**3,601**
Bills payable:						
Private firms and individuals	**–**	**9,788**	**10**	**–**	**–**	**9,798**
Banks and other financial institutions	**–**	**3,172**	**120**	**–**	**–**	**3,292**
Outstanding acceptances	**92**	**–**	**–**	**–**	**–**	**92**
Manager's checks	**443**	**–**	**–**	**–**	**–**	**443**
Accrued interest payable	**₱–**	**₱194**	**₱–**	**₱–**	**₱–**	**₱194**
Accrued other expenses	**–**	**383**	**–**	**–**	**–**	**383**
Other liabilities:						
Accounts payable	**224**	**–**	**–**	**–**	**–**	**224**
Refundable security deposits	**–**	**8**	**10**	**105**	**75**	**198**
Due to the Treasurer of the Philippines	**–**	**41**	**–**	**–**	**–**	**41**
	₱37,144	**₱46,774**	**₱2,175**	**₱709**	**₱4,443**	**₱91,245**

**Including non-performing loans and receivables*

	Consolidated					
	2018					
	On Demand	Less than 3 Months	3-12 Months	1-2 Years	Beyond 2 Years*	Total
Financial assets						
Financial assets at FVTPL	₱–	₱893	₱–	₱–	₱–	₱893
Financial assets at FVTOCI	–	92	202	331	7,629	8,254
Investment securities at amortized cost:						
Government securities	–	194	490	1,131	17,445	19,260
Loans and receivables:						
Due from BSP	15,224	–	–	–	–	15,224
Due from other banks	177	229	–	–	–	406
Interbank loans receivable	–	207	–	–	–	207
Receivables from customers:						
Corporate	1,361	19,556	7,923	2,078	21,629	52,547
Consumer	1,799	909	2,294	3,256	12,611	20,869

	Consolidated					
	2018					
	On Demand	Less than 3 Months	3-12 Months	1-2 Years	Beyond 2 Years*	Total
	₱18,561	₱22,080	₱10,909	₱6,796	₱59,314	₱117,660
Financial liabilities						
Deposit liabilities:						
Demand	₱20,257	₱–	₱–	₱–	₱–	₱20,257
Savings	8,347	–	–	–	–	8,347
Time	–	35,971	4,242	1,946	1,230	43,389
LTNCD	–	40	123	164	3,437	3,764
Bills payable:						
Private firms and individuals	–	11,750	37	–	–	11,787
Banks and other financial institutions	–	5,498	26	417	–	5,941
Outstanding acceptances	46	–	–	–	–	46
Manager's checks	97	–	–	–	–	97
Accrued interest payable	1	265	5	–	–	271
Accrued other expenses	21	314	–	–	–	335
Other liabilities:						
Accounts payable	248	–	–	–	–	248
Refundable security deposits	–	7	29	–	142	178
Due to the Treasurer of the Philippines	1	31	–	–	–	32
	₱29,018	₱53,876	₱4,462	₱2,527	₱4,809	₱94,692

**Including non-performing loans and receivables*

	Parent Company					
	2019					
	On Demand	Less than 3 Months	3-12 Months	1-2 Years	Beyond 2 Years*	Total
Financial assets						
Financial assets at FVTPL	₱–	₱2,180	₱–	₱–	₱–	₱2,180
Financial assets at FVTOCI	–	205	542	484	9,877	11,108
Investment securities at amortized cost:						
Government securities	–	247	575	861	21,523	23,206
Loans and receivables:						

(Forward)

Due from BSP	₱10,214	₱–	₱–	₱–	₱–	₱10,214
Due from other banks	–	358	–	–	–	358
Interbank loans receivable	–	718	–	–	–	718
Receivables from customers:						
Corporate	1,622	20,605	7,483	4,350	23,516	57,576
Consumer	1,443	190	559	995	8,451	11,638
	₱13,279	₱24,503	₱9,159	₱6,690	₱63,367	₱116,998
Financial liabilities						
Deposit liabilities:						
Demand	₱27,205	₱–	₱–	₱–	₱–	₱27,205
Savings	9,180	–	–	–	–	9,180
Time	–	33,078	1,912	441	1,094	36,525
LTNCD	–	41	123	163	3,274	3,601
Bills payable:						
Private firms and individuals	–	9,788	10	–	–	9,798
Banks and other financial institutions	–	3,172	120	–	–	3,292
Outstanding acceptances	92	–	–	–	–	92
Manager's checks	443	–	–	–	–	443
Accrued interest payable	–	194	–	–	–	194
Accrued other expenses	–	383	–	–	–	383

(Forward)

	Parent Company					
	2019					
	On Demand	**Less than 3 Months**	**3-12 Months**	**1-2 Years**	**Beyond 2 Years***	**Total**
Other liabilities:						
Accounts payable	**₱224**	**₱–**	**₱–**	**₱–**	**₱–**	**₱224**
Refundable security deposits	**–**	**8**	**10**	**105**	**75**	**198**
Due to the Treasurer of the Philippines	**–**	**41**	**–**	**–**	**–**	**41**
	₱37,144	**₱46,705**	**₱2,175**	**₱709**	**₱4,443**	**₱91,176**

*Including non-performing loans and receivables

	Parent Company					
	2018					
	On Demand	Less than 3 Months	3-12 Months	1-2 Years	Beyond 2 Years*	Total
Financial assets						
Financial assets at FVTPL	₱–	₱893	₱–	₱–	₱–	₱893
Financial assets at FVTOCI	–	92	202	331	7,629	8,254
Investment securities at amortized cost:						
Government securities	–	194	490	1,131	17,445	19,260
Loans and receivables:						
Due from BSP	15,168	–	–	–	–	15,168
Due from other banks	–	229	–	–	–	229
Interbank loans receivable	–	207	–	–	–	207
Receivables from customers:						
Corporate	1,361	19,556	7,923	2,078	21,629	52,547
Consumer	1,534	660	1,496	1,942	12,611	18,243
	₱18,063	₱21,831	₱10,111	₱5,482	₱59,314	₱114,801
Financial liabilities						
Deposit liabilities:						
Demand	₱20,263	₱–	₱–	₱–	₱–	₱20,263
Savings	7,791	–	–	–	–	7,791
Time	–	35,386	3,863	1,713	1,230	42,192
LTNCD	–	40	123	164	3,437	3,764
Bills payable:						
Private firms and individuals	–	11,750	37	–	–	11,787
Banks and other financial institutions	–	5,490	12	365	–	5,867
Outstanding acceptances	46	–	–	–	–	46
Manager's checks	97	–	–	–	–	97
Accrued interest payable	–	253	–	–	–	253
Accrued other expenses	–	314	–	–	–	314
Other liabilities:						
Accounts payable	232	–	–	–	–	232
Refundable security deposits	–	7	29	–	142	178
Due to the Treasurer of the Philippines	–	31	–	–	–	31
	₱28,429	₱53,271	₱4,064	₱2,242	₱4,809	₱92,815

*Including non-performing loans and receivables

The tables below show the contractual expiry of the Group's and the Parent Company's commitments and contingent liabilities as of December 31, 2019 and 2018 (amounts in millions):

	2019				
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**Beyond 1 Year**	**Total**
Unused Commercial LC:					
Standby LC	**₱124**	**₱375**	**₱770**	**₱72**	**₱1,341**
Sight LC outstanding	**7**	**515**	**473**	**–**	**995**
Usance LC outstanding	**35**	**44**	**2**	**–**	**81**
Outstanding shipping guarantees	**–**	**–**	**219**	**–**	**219**
	₱166	**₱934**	**₱1,464**	**₱72**	**₱2,636**

	2018				
	On Demand	Less than 3 Months	3 to 12 Months	Beyond 1 Year	Total
Unused Commercial LC:					
Standby LC	₱107	₱115	₱295	₱–	₱517
Sight LC outstanding	131	519	4	–	654
Usance LC outstanding	21	107	–	–	128
Outstanding shipping guarantees	75	6	454	–	535
	₱334	₱747	₱753	₱–	₱1,834

Liquidity Position and Leverage

Liquidity Coverage Ratio
Pursuant to BSP Circular No. 905 issued in 2016 which aims to promote short-term resilience of banks' liquidity risk profile to withstand significant liquidity shocks that may last over 30 calendar days., the Group required to hold and maintain an adequate level of unencumbered high-quality liquid assets (HQLA) that are sufficient to to meet its estimated total cash outflows over a 30-calendar day horizon of liquidity stress. The LCR is the ratio of HQLAs to total net cash outflows which should be no lower than 100% on a daily basis. HQLA represents the Group's stock of liquid assets that qualify for inclusion in the LCR which consists mainly of cash, regulatory reserves and unencumbered high-quality liquid securities. HQLAs therefore, serve as defense against potential stress events.

As of December 31, 2019, LCR of the Parent Company is shown in the table below (amounts, except ratios, are expressed in millions):

Total Stock of High-Quality Liquid Assets	₱21,165
Total Net Cash Outflows	13,470
LCR	157.12%

Net Stable Funding Ratio
Pursuant to BSP Circular No. 1007 issued in 2018, The Group is required to compute its Net Stable Funding Ratio (NSFR). The NSFR is aimed at strengthening the Group's long-term resilience by maintaining a stable funding in relation to its assets and off-balance sheet items. The NSFR is expressed as the ratio of available stable funding and the required stable funding and complements the LCR as it takes a longer view of the Group's liquidity risk profile.

As of December 31, 2019, NSFR of the Parent Company is shown in the table below (amounts, except ratios, are expressed in millions):

Available stable funding	₱70,749
Required stable funding	53,088
NSFR	133.27%

Both LCR and NSFR should be maintained no lower than 100.00% on a daily basis under normal situations.

Market Risk Management

Market risk is the risk of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes. The Bank's market risk originates from the Parent Company's holdings of foreign exchange instruments, debt securities, equity securities and derivatives.

Value-at-Risk (VaR)

VaR is a statistical estimate of potential loss given prevailing market price trends, correlations and volatilities. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, a given "confidence level" over a specified time horizon. VaR is used to alert senior management whenever the potential for losses in the Bank's portfolios exceeds the VaR limit. This allows management to react quickly and adjust its portfolio strategies in different market conditions in accordance with the Bank's risk philosophy and appetite.
In 2019, the Bank commenced using the Internal VaR Model which is a historical simulation model using 99% confidence level, and a 1-day defeasance period.

In 2018, the Bank uses the Bloomberg's Portfolio VaR (PORT) module for the VaR computation. Bloomberg's PORT run on a Parametric VaR model whose data set contains one year of historical prices and a daily update of its variance/covariance matrix. In accordance with the BSP standards, the Parent Company uses a 99.00% confidence level and a 10-day defeasance period. This means, that statistically, the Parent Company's losses on trading operations will exceed VaR on at least 1 out of 100 trading business days.

The Market Risk and Capital Oversight Division runs VaR on a daily basis, monitors the VaR against the BOD approved VaR limit and submits Daily VaR Reports to concerned division/group/segment heads.

To verify the validity of the VaR model used, the Treasury Operations Division performs quarterly back testing to examine how frequently actual daily losses exceeds the daily VaR. Backtesting results are reviewed by the head of Treasury Operations Division. Exceptions, if any, are reported to the ROC and the BOD.

A summary of the VaR position of USD fixed income exposures of the Parent Company to changes in market conditions is as follows:

	Interest Rate and Foreign Exchange	
	USD Bonds from January to December 2019 (in ₱ millions)	USD Bonds from January to December 2018 (in ₱ millions)
31 December	**8.64**	6.98
Average Daily	**12.15**	5.18
Highest	**27.62**	21.23
Lowest	**2.04**	0.60

A summary of the VaR position of USD fixed income exposures of the Parent Company to changes in market conditions is as follows:

	Interest Rate	
	Peso Bonds 2019 (in ₱ millions)	Peso Bonds 2018 (in ₱ millions)
31 December	**21.62**	9.21
Average Daily	**35.47**	7.67
Highest	**141.27**	37.35
Lowest	**1.49**	0.00

Stress testing
Since VaR is designed to describe risk in normal market conditions (that is, 99.00% of the time), it may not capture potential losses in the extreme that occur following movements outside the prevailing market trend. Stress testing is done to address extreme market conditions.

The Bank performs stress testing on its foreign currency trading position and on its outstanding investment portfolios. Stress testing is a technique used to determine the impact on earnings of above position/portfolios from conditions or scenarios deemed “extreme” but plausible. Stress testing is used to inform senior management as to where vulnerabilities in the Bank’s portfolio actually lie.

This helps the Bank to evaluate its tolerance for risks and understand the combinations of risks that can produce large losses.

Unlike VaR, which reflects price behavior in everyday markets, stress tests simulate portfolio performance during abnormal market periods. Accordingly, these provide information about risks falling outside those typically captured by the VaR framework. Hence, losses resulting from stress tests are larger than the losses predicted by the VaR model.

The Bank’s Market & Trust Risk Manager performs the stress testing of traded securities using uniform set of market stress shocks as prescribed by the BSP under their Uniform Stress Testing Program for Banks. The stress testing is conducted semi-annually and its results are reported to the ROC and BOD.

To identify possible episodes of stress in the domestic financial market, MLRMU employs the Citi Early Warning Signal Risk Index – Philippines that measures stress in economic and financial variables with a view of predicting weakness in local currencies. A reading above 0.5 means that stress is above average and a reading below 0.5 means that stress is below average. The risk index level is reported monthly to ALCO and quarterly to ROC.

Interest Rate Risk Management

Interest rate risk arises from the possibility that changes in the interest rates will affect future cash flows or the fair value of financial instruments. The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that the exposure to fluctuations in interest rates is kept within acceptable limits.

As of December 31, 2019 and 2018, 54.90% and 48.49%, respectively, of the Bank's total loan portfolio comprised floating rate loans which are repriced periodically by reference to the transfer pool rate that reflects the Bank's internal cost of funds. As a result of these factors, the Bank's exposure to interest rate fluctuations, and other market risks, is significantly reduced.

The Bank, in keeping with banking industry practice, 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 substantial portion of demand accounts which constituted 35.85% and 27.36%, respectively, of total deposits of the Bank as of December 31, 2019 and 2018, respectively, and pays a variable interest rate of 0.10% to 0.50% and fixed rate of 0.10%, respectively. Rates on savings accounts and time deposit accounts, which constituted 12.10% and 48.23%, respectively, of total deposits as of December 31, 2019 and 10.55% and 58.16%, respectively, of total deposits as of December 31, 2018, are set by different criteria. Savings account rates are set by reference to prevailing market rates, while rates on time deposits and special savings accounts are usually priced by reference to rates applicable to prevailing rates on Philippine Treasury Bills and other money market instruments or, in the case of foreign currency deposits, Singapore Interbank Offer Rate and other benchmark dollar deposit rates in the Asian and international money markets with similar maturities.

The following tables provide for the average EIR by period of maturity or repricing of the Group and the Parent Company as of December 31, 2019 and 2018:

	Consolidated					
	2019			2018		
	Less than 3 Months	**3 Months to 1 Year**	**Greater than 1 Year**	Less than 3 Months	3 Months to 1 Year	Greater than 1 Year
Peso-denominated assets						
Due from banks	**0.09%**	–	–	0.72%	–	–
Interbank loans	–	–	–	–	–	–
Loans and receivables	**12.43%**	**15.83%**	**20.48%**	24.68%	21.48%	16.01%
Peso-denominated liabilities						
Deposit liabilities	**0.09%**	**2.49%**	**3.50%**	0.58%	2.77%	4.23%
Bills payable	**3.43%**	**3.26%**	**4.50%**	5.42%	6.13%	5.24%
Foreign currency-denominated assets						
Due from banks	**0.19%**	–	–	1.78%	–	–
Interbank loans	**1.60%**	–	–	0.75%	–	–
Loans and receivables	**4.08%**	**3.89%**	**6.48%**	4.54%	3.42%	5.98%
Foreign currency-denominated liability						
Deposit liabilities	**0.22%**	**1.04%**	**2.20%**	0.91%	1.36%	2.39%

	Parent Company					
	2019			2018		
	Less than 3 Months	**3 Months to 1 Year**	**Greater than 1 Year**	Less than 3 Months	3 Months to 1 Year	Greater than 1 Year
Peso-denominated assets						
Due from banks	**0.09%**	**–**	**–**	0.15%	–	–
Interbank loans	**–**	**–**	**–**	–	–	–
Loans and receivables	**12.43%**	**15.83%**	**20.48%**	20.89%	18.26%	18.79%
Peso-denominated liabilities						
Deposit liabilities	**0.09%**	**2.49%**	**3.50%**	0.41%	3.08%	3.38%
Bills payable	**3.43%**	**3.26%**	**4.50%**	4.74%	4.65%	4.50%
Foreign currency-denominated Assets	**0.19%**	**–**	**–**	1.78%	–	–
Due from banks	**1.60%**	**–**	**–**	0.75%	–	–
Interbank loans	**4.08%**	**3.89%**	**6.48%**	4.54%	3.42%	5.98%
Foreign currency-denominated liability						
Deposit liabilities	**0.22%**	**1.04%**	**2.20%**	0.91%	1.36%	2.39%

The Bank also monitors its exposure to fluctuations in interest rates by measuring the impact of interest rate movements on its interest income. This is done by modeling the impact of various changes in interest rates to the Bank's interest-related income and expenses.

The method by which the Group measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of interest rate analysis. This analysis provides the Bank with a measure of the impact of changes in interest rates on the actual portfolio, that is, the risk exposure of future accounting income. The repricing gap is calculated by distributing the financial assets and financial liabilities into tenor buckets according to the time remaining to maturity or next repricing date and then obtaining the difference between the total of the repricing (interest rate sensitive) assets and 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 better positioned than one with a negative gap to invest in or hold higher yielding assets more quickly than it would need to refinance its interest-bearing liabilities. During a period of falling interest rates, a bank with a positive gap would tend to see its assets repricing at a faster rate than one with a negative gap, which may restrain the growth of its net income or result in a decline in net interest income.

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

	Consolidated					
	2019					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 to 12 Months**	**More than 1 Year but less than 2 Years**	**Beyond 2 Years**	**Total**
Assets						
Due from other banks	**₱358**	**₱–**	**₱–**	**₱–**	**₱–**	**₱358**
Interbank loans receivable	**718**	**–**	**–**	**–**	**–**	**718**
Financial assets at FVTPL	**–**	**1,668**	**–**	**–**	**–**	**1,668**

(Forward)

	Consolidated 2019					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 to 12 Months**	**More than 1 Year but less than 2 Years**	**Beyond 2 Years**	**Total**
Financial assets at FVTOCI	**₱–**	**₱–**	**₱251**	**₱–**	**₱7,738**	**₱7,989**
Investment securities at amortized cost	**–**	**–**	**250**	**–**	**12,600**	**12,850**
Loans and receivables	**2,433**	**8,811**	**21,398**	**544**	**28,071**	**61,257**
	3,509	**10,479**	**21,899**	**544**	**48,409**	**84,840**
Liabilities						
Deposit liabilities	**72,018**	**518**	**1,855**	**399**	**1,092**	**75,882**
Bills payable	**–**	**11,207**	**1,738**	**120**	**–**	**13,065**
	72,018	**11,725**	**3,593**	**519**	**1,092**	**88,947**
Asset-liability gap	**(₱68,509)**	**(₱1,246)**	**₱18,306**	**₱25**	**₱47,317**	**(₱4,107)**

	Consolidated 2019					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 to 12 Months**	**More than 1 Year but less than 2 Years**	**Beyond 2 Years**	**Total**
Assets						
Due from other banks	**₱358**	**₱–**	**₱–**	**₱–**	**₱–**	**₱358**
Interbank loans receivable	**718**	**–**	**–**	**–**	**–**	**718**
Financial assets at FVTPL	**–**	**1,668**	**–**	**–**	**–**	**1,668**
Financial assets at FVTOCI	**–**	**–**	**251**	**–**	**7,738**	**7,989**
Investment securities at amortized cost	**–**	**–**	**250**	**–**	**12,600**	**12,850**
Loans and receivables	**2,433**	**8,811**	**21,398**	**544**	**28,071**	**61,257**
	3,509	**10,479**	**21,899**	**544**	**48,409**	**84,840**
Liabilities						
Deposit liabilities	**72,018**	**518**	**1,855**	**399**	**1,092**	**75,882**
Bills payable	**–**	**11,207**	**1,738**	**120**	**–**	**13,065**
	72,018	**11,725**	**3,593**	**519**	**1,092**	**88,947**
Asset-liability gap	**(₱68,509)**	**(₱1,246)**	**₱18,306**	**₱25**	**₱47,317**	**(₱4,107)**

	Consolidated 2018					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 to 12 Months	More than 1 Year but less than 2 Years	Beyond 2 Years	Total
Assets						
Due from other banks	₱380	₱–	₱–	₱–	₱–	₱380
Interbank loans receivable	207	–	–	–	–	207
Financial assets at FVTPL	–	–	–	–	893	893
Financial assets at FVTOCI	–	–	–	245	6,448	6,693
Investment securities at amortized cost	–	–	–	251	13,091	13,342
Loans and receivables	9,517	11,981	7,610	1,599	29,372	60,079
	10,104	11,981	7,610	2,095	49,804	81,594
Liabilities						
Deposit liabilities	61,964	1,431	4,160	1,780	4,694	74,029
Bills payable	15,455	2,107	51	29	17	17,659
	77,419	3,538	4,211	1,809	4,711	91,688
Asset-liability gap	(₱67,315)	₱8,443	₱3,399	₱286	₱45,093	(₱10,094)

	Parent Company					
	2019					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 to 12 Months**	**More than 1 Year but less than 2 Years**	**Beyond 2 Years**	**Total**
Assets						
Due from other banks	**₱358**	**₱–**	**₱–**	**₱–**	**₱–**	**₱358**
Interbank loans receivable	**718**	**–**	**–**	**–**	**–**	**718**
Financial assets at FVTPL	**–**	**1,668**	**–**	**–**	**–**	**1,668**
Financial assets at FVTOCI	**–**	**–**	**251**	**–**	**7,738**	**7,989**
Investment securities at amortized cost	**–**	**–**	**250**	**–**	**12,600**	**12,850**
Loans and receivables	**2,436**	**8,811**	**21,398**	**544**	**28,071**	**61,260**
	3,512	**10,479**	**21,899**	**544**	**48,409**	**84,843**
Liabilities						
Deposit liabilities	**72,026**	**518**	**1,855**	**399**	**1,092**	**75,890**
Bills payable	**–**	**11,207**	**1,738**	**120**	**–**	**13,065**
	72,026	**11,725**	**3,593**	**519**	**1,092**	**88,955**
Asset-liability gap	**(₱68,514)**	**(₱1,246)**	**₱18,306**	**₱25**	**₱47,317**	**(₱4,112)**

	Parent Company					
	2018					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 to 12 Months	More than 1 Year but less than 2 Years	Beyond 2 Years	Total
Assets						
Due from other banks	₱229	₱–	₱–	₱–	₱–	₱229
Interbank loans receivable	207	–	–	–	–	207
Financial assets at FVTPL	–	–	–	–	893	893
Financial assets at FVTOCI	–	–	–	245	6,448	6,693
Investment securities at amortized cost	–	–	–	251	13,091	13,342
Loans and receivables	9,244	11,949	7,437	1,599	27,992	58,221
	9,680	11,949	7,437	2,095	48,424	79,585
Liabilities						
Deposit liabilities	61,878	974	3,761	1,655	4,067	72,335
Bills payable	15,447	2,107	37	–	–	17,591
	77,325	3,081	3,798	1,655	4,067	89,926
Asset-liability gap	(₱67,645)	₱8,868	₱3,639	₱440	₱44,357	(₱10,341)

The following tables demonstrate the sensitivity of the cumulative net position of risk-sensitive assets and risk-sensitive liabilities to a reasonable change in interest rates, with all other variables held constant (amounts in millions):

	2019			
	Changes in Interest Rates (in Basis Points)			
Changes in interest rates (in basis points)	**+50**	**-50**	**+100**	**-100**
Change in annualized net interest income	**₱51.65**	**(₱51.65)**	**₱103.30**	**(₱103.30)**

	2018			
	Changes in Interest Rates (in Basis Points)			
Changes in interest rates (in basis points)	+50	-50	+100	-100
Change in annualized net interest income	(₱6.72)	₱6.72	(₱13.44)	₱13.44

The table below shows the Group's and the Parent Company's different market risk-weighted assets, as reported to BSP, using the standardized approach in accordance with BSP Circular No. 538:

Type of Market Risk Exposure	**2019**	2018
Interest rate exposures	**₱767,101**	₱325,492
Foreign exchange exposures	**499,225**	58,634
	₱1,266,326	₱384,126

Foreign Currency Risk Management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign currency liabilities generally consist of foreign currency-deposits in the Parent Company's FCDU account made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with the Parent Company and foreign currency-denominated borrowings appearing in the regular books of the Parent Company.

Foreign currency deposits are generally used to fund the Parent Company's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency assets with the foreign currency liabilities held through FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held through FCDUs.

The Bank's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Bank believes that its profile of foreign currency exposure on its assets and liabilities is within limits for a financial institution engaged in the type of business in which the Bank is engaged in.

The ERMG uses VaR, Foreign Exchange Sensitivity Testing, and Foreign Exchange Stress Testing to measure risk inherent to the Bank's foreign currency net exposures. In assessing the foreign currency risk, the Bank employs a pre-defined key risk indicator under Market Risk Assessment Matrix to determine the level of risk (for example, Low Risk, Moderate Risk, High Risk) the results of which are reported to the ROC on a quarterly basis.

The table summarizes the Group's and the Parent Company's exposure to foreign exchange risk as of December 31, 2019 and 2018. Included in the table are the Group's and the Parent Company's assets and liabilities at carrying amounts, categorized by currency (amounts in '000s):

	2019			2018		
	USD	**Others***	**Total**	USD	Others*	Total
Assets						
Cash on hand	**₱4,594**	**₱165**	**₱4,759**	₱2,985	₱174	₱3,159
Due from other banks	**9,651**	**3,515**	**13,166**	6,175	1,973	8,148
Interbank loans receivable	**64,849**	**–**	**64,849**	79,404	–	79,404
Financial assets at amortized cost	**–**	**226,639**	**226,639**	–	239,646	239,646
Loans and receivables:						
Corporate loans	**252,332**	**–**	**252,332**	98,018	3,300	101,318
Accrued interest receivable	**480**	**3,275**	**3,755**	191	3,474	3,665
Other assets	**77**	**122**	**199**	80	130	210
	331,983	**233,716**	**565,699**	186,853	248,697	435,550
Liabilities						
Deposit liabilities	**–**	**30,054**	**30,054**	–	33,580	33,580
Outstanding acceptances	**91,855**	**–**	**91,855**	43,044	3,300	46,344
Other liabilities:						
Others	**3,124**	**7,200**	**10,324**	39	6,331	6,370
	94,979	**37,254**	**132,233**	43,083	43,211	86,294
Net exposure	**₱237,004**	**₱196,462**	**₱433,466**	₱143,770	₱205,486	₱349,256

**Includes Euro, Australian Dollar, Japanese Yen, Swiss Franc, Canadian Dollar, Singapore Dollar*

The tables below indicate the exposure of the Group (excluding the Parent Company's FCDU) to USD on its non-trading monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the base currency rate against the USD, with all other variables held constant, on the statement of income and statement of comprehensive income. A negative amount in the tables reflects a potential net reduction in income, while a positive amount reflects a potential net increase.

	2019			
	Changes in Foreign Exchange Rates			
Changes in foreign exchange rates	**+3.00%**	**-3.00%**	**+4.00%**	**-4.00%**
Change in annualized net income	**₱14,773**	**(₱14,773)**	**₱19,698**	**(₱19,698)**

	2018			
	Changes in Foreign Exchange Rates			
Changes in foreign exchange rates	+3.00%	-3.00%	+4.00%	-4.00%
Change in annualized net income	₱1,704	(₱1,704)	₱2,272	(₱2,272)

Operational Risk

The Bank uses the Basic Indicator Approach in computing Operational Risk in accordance with BSP Circular No. 538 as reported to the BSP (amounts in millions):

	Consolidated		**Parent Company**	
	2019	2018	**2019**	2018
Average Gross Income (Previous 3 Years)	**₱3,643**	₱3,659	**₱3,643**	₱3,349
Capital Charge (Average Gross Income times 18.75%[(a)])	**683**	686	**683**	628
Risk Weighted Asset (Capital Charge times 10)	**₱6,830**	₱6,861	**₱6,830**	₱6,279

(a) Equivalent to adjusted capital charge of 15% of 125% to be consistent with required minimum Capital Adequacy Ratio of 10%

6. Segment Information

The Group's operating businesses are organized and managed separately according to the nature of services provided and the different markets served with each segment representing a strategic business unit. The Group's business segments are as follow:

Branch Banking Group – handles the individual customers' deposits, and provides overdrafts and fund transfer facilities;

Corporate Banking Group – manages the relationship with the corporate and institutional clients of the Bank with loans and credit facilities as the primary product;

Treasury Segment – is responsible for the management of the Group's balance sheet and liquidity position. It also handles the Group's investments in securities, both local and abroad, as well as placements and acceptances with other banks;

Consumer Finance Segment – provides the retail client's credit requirements for the purchase of auto, home and personal loan requirements; and

Trust and Wealth Management Segment – is the segment that functions as the Trustee or Investment Manager for both individual and corporate accounts.

Segment's resources, both assets and liability are those operating resources that are employed by a segment in its operating activities and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Interest income is reported net of interest expense as management primarily relies on net interest revenue as a performance measure, not the gross interest income and expense.

No revenue from transactions with a single external customer or counterparty amounted to 10.00% or more of the Group's total revenue for 2019, 2018 and 2017.

The Group's revenue-producing assets are located in one geographical location, which is the Philippines, therefore, geographical segment information is no longer presented.

For management purposes, business segment information provided to the BOD is based on Regulatory Accounting Principles (RAP) submitted to the BSP in compliance with the reportorial requirements under the Financial Reporting Package (FRP) for banks, which differ from PFRS.

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments as of and for the years ended December 31, 2019, 2018 and 2017:

	Consolidated								
	2019								
	Branch Banking Group	**Corporate Banking Group**	**Treasury Segment**	**Consumer Finance Segment**	**Trust and Wealth Managemen t Segment**	**Unallocated**	**RAP**	**RAP-PFRS Adjustments/ Others**	**Total**
Revenue									
Revenue, net of interest expense									
Third party	**(₱1,624,818)**	**₱3,762,321**	**₱965,419**	**₱837,129**	**₱2,176**	**₱25,042**	**₱3,967,269**	**₱53,684**	**₱4,020,953**
Intersegment	**3,333,921**	**(2,516,256)**	**(607,589)**	**(489,178)**	**(3,891)**	**282,993**	–	–	–
	1,709,103	**1,246,065**	**357,830**	**347,951**	**-1,715**	**308,035**	**3,967,269**	**53,684**	**4,020,953**
Other operating income	10,372	38,825	31,650	(17)	21,095	**934,**,191	1,036,116	(5,135)	1,030,981
Total operating income	1,719,475	1,284,890	389,480	347,934	19,380	1,242,226	5,003,385	48,549	5,051,934
Compensation and fringe benefits	307,978	65,005	41,285	48,913	14,120	501,568	978,869	-	978,869
Taxes and licenses	214,776	174,428	61,845	38,821	1,216	119,119	610,205	13,917	624,122
Depreciation and amortization	93,386	2,325	3,523	3,963	761	273,323	377,281	68,698	445,979
Provision for (reversal of) credit and impairment losses	-	350,102	2,972	(16,398)	-	(144,136)	192,540	185,073	377,613
Occupancy and other equipment-related costs	183,698	25,419	932	14,526	1,969	43,570	270,114	(139,**894)**	130,220
Other operating expenses	316,238	50,046	97,302	30,939	4,223	408,858	907,606	-	907,606
Net operating income (loss) before income tax	603,399	617,565	181,621	227,170	(2,909)	39,924	1,666,770	(79,245)	1,587,525
Segment results									
Net interest income (loss)	**₱1,620,300**	**₱984,596**	**(₱78,725)**	**₱305,011**	**(₱1,715)**	**₱293,746**	**₱3,123,213**	**₱81,820**	**₱3,205,033**
Rent income	–	–	–	–	–	**736,341**	**736,341**	–	**736,341**
Trading and securities gain (loss) - net	–	–	**436,549**	–	–	–	**436,549**	**(28,136)**	**408,413**
Service charges, fees, and commissions	**88,803**	**261,469**	**7**	**42,940**	-	**14,288**	**407,507**	–	**407,507**
Profit (loss) from assets sold	–	–	–		–	**91,024**	**91,024**	**6,715**	**97,739**
Foreign exchange gain - net	**10,077**	**8,407**	**31,389**	–	–	–	**49,873**	–	**49,873**
Income from trust operations	–	–	–	–	**21,095**	–	**21,095**	–	**21,095**
Loss on assets exchange - net	–	–	–		–	–	–	**(11,850)**	**(11,850)**
Miscellaneous	**295**	**30,418**	**261**	**(17)**	–	**106,826**	**137,783**	–	**137,783**
Total operating income	**1,719,475**	**1,284,890**	**389,481**	**347,934**	**19,380**	**1,242,225**	**5,003,385**	**48,549**	**5,051,934**
Compensation and fringe benefits	**307,978**	**65,005**	**41,285**	**48,913**	**14,120**	**501,568**	**978,869**	–	**978,869**
Taxes and licenses	**214,776**	**174,428**	**61,845**	**38,821**	**1,216**	**119,119**	**610,205**	**13,917**	**624,122**
Depreciation and amortization	**93,386**	**2,325**	**3,523**	**3,963**	**761**	**273,323**	**377,281**	**68,698**	**445,979**
Provision for (reversal of) credit and impairment losses	-	**350,102**	**2,972**	**(16,398)**	-	**(144,136)**	**192,540**	**185,073**	**377,613**
Occupancy and other equipment-related costs	**183,698**	**25,419**	**932**	**14,526**	**1,969**	**43,570**	**270,114**	**(139,894)**	**130,220**
Other operating expenses	**316,238**	**50,046**	**97,303**	**30,939**	**4,223**	**408,857**	**907,606**	–	**907,606**
Total operating expenses	**1,116,076**	**667,325**	**207,860**	**120,764**	**22,289**	**1,202,301**	**3,336,615**	**127,794**	**3,464,409**

(Forward)

	Consolidated								
	2019								
	Branch Banking Group	**Corporate Banking Group**	**Treasury Segment**	**Consumer Finance Segment**	**Trust and Wealth Managemen t Segment**	**Unallocated**	**RAP**	**RAP-PFRS Adjustments/ Others**	**Total**
Segment profit (loss)	**₱603,399**	**₱617,565**	**₱181,621**	**₱227,170**	**(₱2,909)**	**₱39,924**	**₱1,666,770**	**(₱79,245)**	**₱1,587,525**
Provision for income tax	**–**	**(4,670)**	**(152,099)**	**–**	**–**	**(71,414)**	**(228,183)**	**25,792**	**(202,391)**
Share in net income of associate	**–**	**–**	**–**	**–**	**–**	**531**	**531**	**–**	**531**
Net income (loss) from continuing operations	**603,399**	**612,895**	**29,522**	**227,170**	**(2,909)**	**(30,959)**	**1,439,118**	**(53,453)**	**₱1,385,665**
Net loss from discontinued operations	**–**	**–**	**–**	**–**	**–**	**(218,148)**	**(218,148)**	**(10,260)**	**(228,408)**
	₱603,399	**₱612,895**	**29,522**	**227,170**	**(2,909)**	**(249,107)**	**1,220,970**	**(63,713)**	**1,157,257**
Segment assets									
Property and equipment	**₱303,941**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,137,033**	**₱1,440,974**	**(₱715,235)**	**₱725,739**
Investment properties	**–**	**–**	**–**	**–**	**–**	**3,499,815**	**3,499,815**	**(1,071,149)**	**2,428,666**
Other assets	**11,046,362**	**53,007,011**	**25,604,840**	**6,404,035**	**72,075**	**3,737,554**	**99,871,877**	**(285,778)**	**99,586,099**
Total segment assets	**₱11,350,303**	**₱53,007,011**	**₱25,604,840**	**₱6,404,035**	**₱72,075**	**₱8,374,402**	**₱104,812,666**	**(₱2,072,162)**	**₱102,740,504**
Total segment liabilities	**₱81,051,819**	**₱227,974**	**₱7,388,774**	**₱936**	**₱–**	**₱2,577,324**	**₱91,246,827**	**₱138,476**	**₱91,385,303**

	Consolidated								
	2018								
	Branch Banking Group	Corporate Banking Group	Treasury Segment	Consumer Finance Segment	Trust and Wealth Management Segment	Unallocated	RAP	RAP-PFRS Adjustments/ Others	Total
Revenue									
Revenue, net of interest expense									
Third party	(₱900,832)	₱2,706,849	₱241,819	₱1,065,185	₱1,832	(₱22,495)	₱3,092,358	₱143,701	₱3,236,059
Intersegment	2,238,227	(1,789,558)	(194,079)	(565,253)	(3,066)	313,729	–	–	–
	1,337,395	917,291	47,740	499,932	(1,234)	291,234	3,092,358	143,701	3,236,059
Other operating income	34,841	22,184	12,826	56	15,707	749,030	834,644	9,781	844,425
Total operating income	1,372,236	939,475	60,566	499,988	14,473	1,040,264	3,927,002	153,482	4,080,484
Compensation and fringe benefits	298,086	73,989	40,098	115,503	10,071	504,036	1,041,783	(1,181)	1,040,602
Taxes and licenses	216,090	131,051	87,973	61,116	1,005	45,702	542,937	(1)	542,936
Depreciation and amortization	100,512	3,296	1,530	7,265	640	319,030	432,273	(45,356)	386,917
Provision for (reversal of) credit and impairment losses	–	166,914	–	129,210	–	(3,040)	293,084	(83,170)	209,914
Occupancy and other equipment-related costs	173,828	22,645	886	14,877	1,763	29,920	243,919	2	243,921
Other operating expenses	295,773	51,795	57,671	61,354	2,981	358,069	827,643	1,247	828,890
Net operating income (loss) before income tax	₱287,947	₱489,785	(₱127,592)	₱110,663	(₱1,987)	(₱213,453)	₱545,363	₱281,941	₱827,304
Segment results									
Net interest income (loss)	₱1,255,550	₱710,911	₱24,665	₱449,388	(₱1,234)	₱287,073	₱2,726,353	₱143,456	₱2,869,809
Rent income	–	–	–	–	–	661,017	661,017	–	661,017
Service charges, fees, and commissions	81,845	206,380	3	50,544	–	4,161	342,933	(18)	342,915
Foreign exchange gain - net	13,125	9,521	27,307	–	–	–	49,953	–	49,953
Trading and securities gain - net	–	–	23,072	–	–	–	23,072	263	23,335
Gain on assets exchange - net	–	–	–	–	–	–	–	13,133	13,133
Income from trust operations	–	–	–	–	15,707	–	15,707	–	15,707
Loss from assets sold	–	–	–		–	(7,518)	(7,518)	(2,044)	(9,562)
Miscellaneous	21,716	12,663	(14,481)	56	–	95,531	115,485	(1,308)	114,177
Total operating income	1,372,236	939,475	60,566	499,988	14,473	1,040,264	3,927,002	153,482	4,080,484
Compensation and fringe benefits	298,086	73,989	40,098	115,503	10,071	504,036	1,041,783	(1,181)	1,040,602
Taxes and licenses	216,090	131,051	87,973	61,116	1,005	45,702	542,937	(1)	542,936
Depreciation and amortization	100,512	3,296	1,530	7,265	640	319,030	432,273	(45,356)	386,917
Provision for (reversal of) credit and impairment losses	–	166,914	–	129,210	–	(3,040)	293,084	(83,170)	209,914
Occupancy and other equipment-related costs	173,828	22,645	886	14,877	1,763	29,920	243,919	2	243,921
Other operating expenses	295,773	51,795	57,671	61,354	2,981	358,069	827,643	1,247	828,890
Total operating expenses	1,084,289	449,690	188,158	389,325	16,460	1,253,717	3,381,639	(128,459)	3,253,180
Segment profit (loss)	287,947	489,785	(127,592)	110,663	(1,987)	(213,453)	545,363	281,941	827,304
Provision for income tax	–	(7,671)	(139,846)	–	–	(82,991)	(230,508)	4,227	(226,281)
Share in net income of associate	–	–	–	–	–	250	250	–	250
Net income (loss) from continuing operations	287,947	482,114	(267,438)	110,663	(1,987)	(296,194)	315,105	286,168	601,273
Net loss from discontinued operations	–	–	–	27,670	–	–	27,670	(2,707)	24,963
	₱287,947	₱482,114	₱(267,438)	₱138,333	(₱1,987)	(₱296,194)	₱342,775	₱283,461	₱626,236
Segment assets									
Property and equipment	₱368,664	₱–	₱–	₱79,738	₱–	₱1,176,633	₱1,625,035	(₱603,686)	₱1,021,349
Investment properties	–	–	–	68,370	–	3,615,524	3,683,894	(1,075,119)	2,608,775
Unallocated assets	10,365,171	44,666,299	28,717,292	13,978,779	60,497	3,873,078	101,661,116	(1,541,918)	100,119,198
Total segment assets	₱10,733,835	₱44,666,299	₱28,717,292	₱14,126,887	₱60,497	₱8,665,235	₱106,970,045	(₱3,220,723)	₱103,749,322
Total segment liabilities	₱61,704,297	₱2,686,242	₱22,978,260	₱1,863,489	₱–	₱5,100,855	₱94,333,143	(₱909,735)	₱93,423,408

	Consolidated								
	2017								
	Branch Banking Group	Corporate Banking Group	Treasury Segment	Consumer Finance Segment	Trust and Wealth Management Segment	Unallocated	RAP	RAP-PFRS Adjustments/ Others	Total
Revenue									
Revenue, net of interest expense									
Third party	(₱543,621)	₱2,087,067	₱330,591	₱886,883	₱1,508	₱110,672	₱2,873,100	₱96,993	₱2,970,093
Intersegment	1,424,346	(1,084,348)	(154,667)	(335,374)	(2,144)	152,187	–	–	–
	880,725	1,002,719	175,924	551,509	(636)	262,859	2,873,100	96,993	2,970,093
Other operating income	38,826	14,638	35,042	(31)	15,511	663,685	767,671	5,994	773,665
Total operating income	919,551	1,017,357	210,966	551,478	14,875	926,544	3,640,771	102,987	3,743,758
Compensation and fringe benefits	290,771	80,755	50,773	117,586	10,028	508,209	1,058,122	(1,186)	1,056,936
Taxes and licenses	168,858	93,996	54,958	54,112	1,076	54,136	427,136	95	427,231
Depreciation and amortization	114,424	3,552	1,912	7,199	694	313,424	441,205	(45,656)	395,549
Provision for (reversal of) credit and impairment losses	(7,629)	164,017	–	190,624	–	(69,372)	277,640	11,271	288,911
Occupancy and other equipment-related costs	159,610	21,920	816	15,007	1,772	11,739	210,864	(52)	210,812
Other operating expenses	264,884	52,206	80,766	70,115	2,781	305,986	776,738	77	776,815
Net operating income (loss) before income tax	(₱71,367)	₱600,911	₱21,741	₱96,835	(₱1,476)	(₱197,578)	₱449,066	₱138,438	₱587,504
Segment results									
Net interest income (loss)	₱798,532	₱826,189	₱190,484	₱495,014	(₱636)	₱260,365	₱2,569,948	₱94,554	₱2,664,502
Rent income	–	–	–	–	–	563,245	563,245	(275)	562,970
Service charges, fees, and commissions	82,193	176,530	9	56,495	–	2,494	317,721	1,113	318,834
Foreign exchange gain - net	22,106	7,215	40,465	–	–	–	69,786	1	69,787
Trading and securities gain (loss) - net	–	–	(14,569)	–	–	–	(14,569)	1,326	(13,243)
Profit from assets sold	–	–	–	–	–	15,935	15,935	6,031	21,966
Income from trust operations	–	–	–	–	15,404	–	15,404	–	15,404
Gain on assets exchange	–	–	–	–	–	–	–	(162)	(162)
Miscellaneous	16,720	7,423	(5,423)	(31)	107	84,505	103,301	399	103,700
Total operating income	919,551	1,017,357	210,966	551,478	14,875	926,544	3,640,771	102,987	3,743,758
Compensation and fringe benefits	290,771	80,755	50,773	117,586	10,028	508,209	1,058,122	(1,186)	1,056,936
Taxes and licenses	168,858	93,996	54,958	54,112	1,076	54,136	427,136	95	427,231
Depreciation and amortization	114,424	3,552	1,912	7,199	694	313,424	441,205	(45,656)	395,549
Provision for (reversal of) credit and impairment losses	(7,629)	164,017	–	190,624	–	(69,372)	277,640	11,271	288,911
Occupancy and other equipment-related costs	159,610	21,920	816	15,007	1,772	11,739	210,864	(52)	210,812
Other operating expenses	264,884	52,206	80,766	70,115	2,781	305,986	776,738	77	776,815
Total operating expenses	990,918	416,446	189,225	454,643	16,351	1,124,122	3,191,705	(35,451)	3,156,254
Segment profit (loss)	(71,367)	600,911	21,741	96,835	(1,476)	(197,578)	449,066	138,438	587,504
Provision for income tax	–	(8,918)	(130,098)	–	–	(57,673)	(196,689)	(7,275)	(203,964)
Share in net income of associate	–	–	–	–	–	692	692	–	692
Net income (loss) from continuing operations	(71,367)	591,993	(108,357)	96,835	(1,476)	(254,559)	253,069	131,163	₱384,232
Net loss from discontinued operations	–	–	–	33,955	–	–	33,955	(21,728)	12,227
	(₱71,367)	₱591,993	(₱108,357)	₱130,790	(₱1,476)	(₱254,559)	₱287,024	₱109,435	₱396,459
Segment assets									
Property and equipment	₱445,005	₱–	₱–	₱62,725	₱–	₱1,220,945	₱1,728,675	(₱619,802)	₱1,108,873
Investment properties	–	–	–	72,857	–	3,175,210	3,248,067	(623,833)	2,624,234
Unallocated assets	11,505,907	39,065,373	25,621,908	13,816,110	70,712	4,089,296	94,169,306	(2,858,763)	91,310,543
Total segment assets	₱11,950,912	₱39,065,373	₱25,621,908	₱13,951,692	₱70,712	₱8,485,451	₱99,146,048	(₱4,102,398)	₱95,043,650
Total segment liabilities	₱60,927,417	₱4,108,878	₱16,782,805	₱1,870,225	₱–	₱2,461,322	₱86,150,647	(₱1,050,168)	₱85,100,479

Net operating income after tax reported to the BOD, which is based on RAP, amounted to ₱1.22 billion, ₱342.53 million and ₱286.345 million in 2019, 2018 and 2017, respectively. The 'RAP-PFRS adjustments/others' pertain to differences in the accounting treatment for investment properties and related transactions and other adjustments.

The Group's share in net income of an associate amounting to ₱0.53 million in 2019, ₱0.25 million in 2018 and ₱0.69 million in 2017 are included under 'RAP'.

7. Investments in Subsidiaries and an Associate

This account consists of investments in:

	% of Ownership			Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017	**2019**	2018	2017
Subsidiaries:									
Cost:									
PRBI	**–**	**99.99**	99.99	**₱–**	**₱–**	₱–	**₱–**	₱918,296	₱918,296
PISAI	**100.00**	**100.00**	100.00	**–**	**–**	–	**10,000**	10,000	10,000
				–	**–**	–	**10,000**	928,296	928,296
Accumulated share in net income									
Balance at January 1, as previously reported				**–**	**–**	–	**71,097**	**141,335**	114,117
Effect of change in accounting policy for investment properties and land (Note 2)				**–**	**–**	–	**–**	**(51,044)**	(34,479)
Balance at January 1, as restated				**–**	**–**	–	**71,097**	90,291	79,638
Effect of the adoption of PFRS 9 (Note 2)				**–**	**–**	–	**–**	**(42,175)**	–
Balance at January 1				**–**	**–**	–	**71,097**	48,116	79,638
Share in net income				**–**	**–**	–	**(58,116)**	**22,981**	10,649
Sale of subsidiary							**(16,777)**		
Balance at December 31				**–**	**–**	–	**(3,796)**	71,097	90,287
Accumulated share in OCI									
Balance at January 1				**–**	**–**	–	**2,582**	**446**	(1,941)
Share in change in remeasurement gains (losses) on defined benefit liability, net of tax				**–**	**–**	–	**(2,582)**	**2,136**	2,387
Balance at December 31				**–**	**–**	–	**–**	2,582	446
Accumulated dividends received				**–**	**–**	–			
Balance at January 1				**–**	**–**	–	**(25,067)**	**(25,067)**	(25,067)
Sale of subsidiary				**–**	**–**	–	**25,067**	**–**	–
Balance at December 31				**–**	**–**	–	**–**	(25,067)	(25,067)
				–	**–**	–	**6,204**	976,908	993,962
Associate - PBCom Finance									
Acquisition cost				**2,000**	**2,000**	2,000	**2,000**	2,000	2,000
Accumulated equity in net income									
Balance at January 1				**11,318**	**11,068**	10,376	**11,318**	**11,068**	10,376
Share in net income				**531**	**250**	692	**531**	**250**	692
Balance at December 31				**11,849**	11,318	11,068	**11,849**	11,318	11,068
				13,849	13,318	13,068	**13,849**	13,318	13,068
				₱13,849	₱13,318	₱13,068	**₱20,053**	₱990,226	₱1,007,030

The movements in the cost of investments in subsidiaries are as follows:

	PRBI		PISAI	
	2019	2018	**2019**	2018
Balance at January 1	**₱918,296**	₱918,296	**₱10,000**	₱10,000
Sale of subsidiary	**(918,296)**	–	**–**	–
Balance at December 31	**₱–**	₱918,296	**₱10,000**	₱10,000

<u>PRBI</u>

The investment cost amounting to ₱918.30 million includes the consideration for the acquisition in 2014 of ₱494.54 million, additional investment of ₱25.07 million in 2016 in the form of re-invested dividends, acquisition of non-controlling interests of ₱0.94 million in 2016 and reclassification in 2017 of investments in RBNI and RBKI aggregating to ₱397.74 million as a result of the merger of PRBI, RBNI and RBKI, with PRBI as the surviving entity in 2017.

<u>Sale of PRBI</u>

On July 25, 2019, the BSP approved the sale of 100 percent voting shares of PRBI to Producers Savings Bank Corporation (PROSBI) for ₱555.68 million. Based on the deed of sale, 10% of the purchase price or ₱55.56 million shall be withheld by PROSBI and shall be paid to the Parent Company upon presentation of the Certificate of Authorizing Registration issued by the Bureau of Internal Revenue while capital gains and any documentary stamp taxes arising from the sale of the shares shall be paid by the Parent Company.

The sale of PRBI was meant to consolidate the efforts and resources to the Parent Company which has set its strategy to focus on its core businesses and expand market to the ecosystem of its major shareholders. Loss on sale amounted to ₱171.17 million. The carrying amount of the investment in PRBI sold by the Parent Company excluded branch licenses amounting to ₱726.85 million. These branch licenses were granted to the Parent Company in 2014 as a result of its acquisition of RBNI (subsequently merged to PRBI) in 2017. In 2019, the branch licenses were reclassified from the investment account as a result of the Bank's divestment of PRBI. No new asset was recognized because the branch licenses have always been recognized as an asset of the Bank since its acquisition of RBNI (Note 15).

In prior years, the results of operation of PRBI that were discountinued are as follows:

	2018	2017
Interest income on:		
Loans and receivable	₱304,909	₱294,280
Deposits with other banks	501	3,087
	305,410	297,367
Interest and finance charges		
Deposit liabilities	57,109	60,174
Bills payable, borrowings and others	3,721	138
	60,830	60,312
	₱244,580	₱237,055
Other income		
Service charges, fees and commissions	40,167	44,009
Rent income	-	289
Gain (loss) on assets exchange	9,979	5,568
Profit from assets sold	22,325	8,564
Miscellaneous	12,540	17,366
	329,591	312,851
Operating Expenses		
Compensation and fringe benefits	112,782	106,016
Taxes and licenses	32,601	30,212
Occupancy and other equipment- related costs	16,596	13,539
Depreciation and amortization	17,437	24,304
Provision for impairment losses	57,822	49,684
Miscellaneous	65,942	64,486
	303,180	288,241
Results from Operating activities	26,411	24,610
Provision for income tax	1,448	12,383
Net income from discontinued operations	24,963	12,227

PISAI

The investment cost of ₱10.00 million represents the initial equity investment as approved by the BSP on May 2, 2014.

8. Interbank Loans Receivable and Securities Purchased under Resale Agreements (SPURA)

Interbank loans receivable of the Group and the Parent Company is comprised of USD-denominated loans of ₱717.74.million ($14.17 million) and ₱206.96 million ($3.94 million) as of December 31, 2019 and 2018, respectively, net of allowance for ECL (see Note 17).

As of December 31, 2019 and 2018, there is no outstanding SPURA.

Interest income on the Group's and the Parent Company's interbank loans receivable and SPURA follows:

	2019	2018	2017
SPURA	**₱22,974**	₱23,870	₱34,479
Interbank loans receivable	**17,272**	17,421	4,426
	₱40,246	₱41,291	₱38,905

Interbank loans receivable bears nominal annual interest rates ranging from 0.60% to 5.09% in 2019, 0.60% to 3.00% in 2018, and 0.60% to 3.31% in 2017 while SPURA bears nominal annual interest rates ranging from 4.00% to 4.75% in 2019, 2.21% to 3.00% in 2018, and 3.00% to 3.15% in 2017.

The Parent Company is not permitted to sell or repledge the related collateral on SPURA in the absence of default by the counterparty.

9. Financial Assets at Fair Value Through Profit or Loss (FVTPL)

Financial assets at FVTPL of the Group and the Parent Company consist of government securities amounting to ₱1.67 billion and ₱893.22 million as of December 31, 2019 and 2018, respectively.

As of December 31, 2019 and 2018, financial assets at FVTPL include net unrealized gain amounting to ₱1.50 million and net unrealized loss amounting to ₱1.86 million , respectively. Net fair value gain or loss on financial assets at FVTPL is included in 'Trading and securities gain (loss) - net' in the statements of income (see Note 26).

10. Financial Assets at Fair Value Through Other Comprehensive Income (FVTOCI)

As of December 31, 2019 and 2018, the Group's and the Parent Company's financial assets at FVTOCI consists of the following:

	2019	2018
Debt securities:		
Government	**₱5,696,443**	₱4,641,275
Private bonds	**2,292,800**	2,051,836
	7,989,243	6,693,111
Equity securities:		
Quoted equity securities	**74,210**	74,210
Unquoted equity securities	**30,909**	30,909
	105,119	105,119
	₱8,094,362	₱6,798,230

The Parent Company has designated the above equity investments as at FVTOCI as these are held for long-term strategic purpose rather than for trading.

In 2019 and 2018, no dividends were declared on these equity investments and no cumulative gain or loss was transferred within equity.

The movements in net unrealized gain on debt and equity securities recognized in OCI follow:

	2019	2018
Balance at January 1	**₱19,416**	₱64,104
Transition adjustment (Note 17)	**–**	346
	19,416	64,450
Items that may be reclassified to profit or loss in subsequent periods		
Unrealized gain as a result of reclassification from amortized cost to FVTOCI (Note 3)	**–**	56,901
Fair value changes during the year - debt securities	**5,290**	(67,319)
Gains taken to profit or loss upon sale of FVTOCI debt securities	**63,794**	(53,375)
Provision for (recoveries from) credit losses (Note 17)	**(568)**	5,730
Items that may not be reclassified to profit or loss in subsequent periods		
Fair value changes during the year - equity securities	**–**	13,029
Balance at December 31	**₱87,932**	₱19,416

Reclassification of Financial Assets
In September 2017, the BSP granted the Parent Company an expanded FCDU (EFCDU) license, which will allow the Parent Company to grow its USD-denominated loans without restrictions as to maturity and marketability. Under the regular FCDU license, commercial banks can only generate short-term readily marketable foreign currency loans, which hinders the Parent Company from growing its USD-denominated loans in the FCDU books. With the EFCDU license, the Parent Company revisited its strategy for managing debt securities under the FCDU books. Accordingly, in December 2017, the Parent Company's BOD approved the creation of a new business model with the objective of using available funding to buy and sell debt securities to be able to collect accrual income, profit from the sale, use the proceeds to support the operating liquidity requirements, and bridge the asset and liability growth of the Parent Company. Debt securities managed under this business model will be classified as financial assets at FVTOCI. The Parent Company then identified debt securities that should be managed under this business model.

On January 1, 2018, the Bank reclassified debt securities with aggregate face amount of ₱1,623.47 million from the hold-to-collect portfolio to the FVTOCI portfolio. The reclassification of these debt securities resulted in recognition of unrealized gain of ₱56.90 million.

11. Investment Securities at Amortized Cost

As of December 31, 2019 and 2018, the Group's and the Parent Company's investment securities at amortized cost consist of the following:

	2019	2018
Government securities	**₱12,860,065**	₱13,349,084
Less: Allowance for ECL (Note 17)	**(10,565)**	(7,485)
	₱12,849,500	₱13,341,599

As of December 31, 2019, investment securities at amortized cost are comprised of the Parent Company's investment in Peso-denominated securities amounting to ₱10.81 billion and investment in foreign currency-denominated securities amounting to ₱2.05 billion ($35.92 million and €3.99 million).

As of December 31, 2018, investment securities at amortized cost are comprised of the Parent Company's investment in Peso-denominated securities amounting to ₱11.15 billion and investment in foreign currency-denominated securities amounting to ₱2.19 billion ($37.17 million and €3.99 million).

Peso-denominated government bonds have effective interest rates ranging from 3.63% to 8.13%, 2.93% to 4.75%, and 2.13% to 6.21%, in 2019, 2018 and 2017, respectively. Foreign currency-denominated bonds have effective interest rates ranging from 2.63% to 10.63%, 2.54% to 3.03%, and 2.54% to 5.07% in 2019, 2018 and 2017, respectively.

12. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Receivables from customers:				
Corporate loans	**₱53,848,877**	₱45,262,520	**₱53,848,877**	₱45,262,520
Consumer loans:				
Home loans	**4,841,249**	5,759,599	**4,841,249**	5,759,599
Auto loans	**1,248,832**	5,765,873	**1,248,832**	5,765,873
Personal loans	**1,122,812**	3,088,540	**1,122,812**	1,227,718
	61,061,770	59,876,532	**61,061,770**	58,015,710
Unearned discounts and capitalized interest	**(89,109)**	(150,027)	**(89,109)**	(77,862)
	60,972,661	59,726,505	**60,972,661**	57,937,848
Unquoted debt securities	**1,068,193**	1,404,422	**1,068,193**	1,404,422
Accrued interest receivable	**569,493**	909,479	**569,493**	882,911
Accounts receivable	**705,245**	333,298	**707,998**	313,119
Sales contracts receivable	**102,208**	176,388	**102,208**	125,126
	63,417,800	62,550,092	**63,420,553**	60,663,426
Less allowance for ECL (Note 17)	**(2,160,760)**	(2,470,886)	**(2,160,760)**	(2,442,247)
	₱61,257,040	₱60,079,206	**₱61,259,793**	₱58,221,179

Sale of Dealer Generated Auto Loans Portfolio

On February 27, 2019, the BOD approved the sale of the Parent Company's dealer generated auto-loan portfolio to a local bank. On June 18, 2019, the Philippine Competition Commission approved the request of the Parent Company to to sell its auto-loan portfolio. The selling price amounted to ₱ 3.55 billion which is the sum of the face value of all current outstanding loan principal balance as well as the related accrued interest and unamortized incentives of dealer generated auto loans. On June 27, 2019, the local bank has fully paid the Parent Company. No gain or loss on sale was recognized by the Parent Company on this transaction.

The company has no other plans of disposing its remaining branch referred auto loans or other loans.

Unquoted Debt Securities

As of December 31, 2019 and 2018, unquoted debt securities of the Group and the Parent Company consist of the following:

	2019	2018
Investments in:		
Fixed-Rate Corporate Notes	**₱–**	₱82,272
Metro Rail Transit (MRT) bonds	**1,068,193**	1,322,150
	1,068,193	1,404,422
Less allowance for ECL (Note 17)	**(944)**	(994)
	₱1,067,249	₱1,403,428

The accretion of interest on unquoted debt securities amounted to ₱88.23 million, ₱94.84 million and ₱93.48 million in 2019, 2018 and 2017, respectively, which is included under 'Interest income - Loans and receivables' in the statements of income.

Accounts Receivable

In 2016, accounts receivable included the 20% final withholding tax (FWT) withheld by the Bureau of Treasury (BTr) from the face value of the Parent Company's investment in Poverty Eradication and Alleviation Certificates (PEACe) bonds upon their maturity amounting to P=425.67 million. On April 11, 2017, the BTr issued Retail Treasury Bonds amounting to P=518.97 million representing the full payment of the receivable from BTr amounting to P=425.67 million and interest earned from October 2011 to April 2017 amounting to P=93.30 million, which is included as interest income in the statements of income.

Interest Income

Interest income on loans and receivables consists of interest income on:

	Consolidated			**Parent Company**		
	2019	2018	2017	**2019**	2018	2017
Continuing operations:						
Receivables from customers:						
Corporate	**₱3,510,142**	₱2,466,544	₱1,834,314	**₱3,510,142**	₱2,466,544	₱1,834,314
Consumer	**795,194**	1,024,694	820,541	**795,194**	1,024,694	820,211
Unquoted debt securities	**154,002**	220,656	253,390	**154,002**	220,656	253,390
Others	**9,141**	11,465	13,395	**9,141**	11,465	13,395
	4,468,479	3,723,359	2,921,640	**4,468,479**	3,723,359	2,921,310
Discontinued operations:						
Receivables from customers:						
Consumer	–	301,661	293,663	–	–	–
Others	–	3,247	618	–	–	–
	₱4,468,479	₱4,028,267	₱3,215,921	**₱4,468,479**	₱3,723,359	₱2.921.310

Of the total receivables from customers of the Group as of December 31, 2019, 2018 and 2017, 54.90%, 48.49% and 51.27%, respectively, are subject to periodic interest repricing. The remaining peso-denominated receivables from customers earn annual fixed interest rates ranging from 1.50% to 42.00% in 2019, 3.00% to 59.88% in 2018, and 1.75% to 38.40% in 2017, while foreign currency-denominated receivables from customers earn annual fixed interest rates ranging from 3.50% to 9.82% in 2019 and 4.00% to 9.82% in 2018 and 3.50% to 9.82% in 2017.

Unquoted debt securities have EIRs ranging from 6.52 % to 11.90% in 2019 and 5.47 % to 11.90% in 2018 and 2017. Sales contracts receivable bears interest rates ranging from 7.00% to 14.00% in 2019, 5.55% to 14.50% in 2018, and 7.00% to 14.50% in 2017.

13. Property and Equipment

The composition of and movements in property and equipment of the Group and the Parent Company follow:

	Consolidated					
	2019					
	Land	Condominium Properties	Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost						
Balance at January 1	₱164,881	₱552,090	₱456,380	₱1,099,843	₱429,488	₱2,702,682
Additions during the year	–	11,545	29,435	44,799	1,354	87,133
Disposals during the year	–	–	–	(217,169)	(15,612)	(232,781)
Transfers during the year (Note 14 and 16)	–	(82,473)	(34,347)	12,310	28,732	(75,778)
Derecognition due to sale of subsidiary	(47,203)	-	(49,224)	(50,323)	(25,784)	(172,534)
Balance at December 31	117,678	481,162	402,244	889,460	418,178	2,308,722
Accumulated depreciation and amortization						
Balance at January 1	–	192,328	306,363	888,721	293,921	1,681,333
Acceleration of leasehold rights and improvements	–	–	–	–	47,929	47,929
Balance at January 1, as restated	–	192,328	306,363	888,721	341,850	1,729,262
Depreciation during the year	–	10,259	15,402	83,192	53,524	162,377
Disposals during the year	–	–	–	(204,346)	(7,904)	(212,250)
Transfers during the year (Note 14 and 16)	–	(28,979)	–	6,700	–	(22,279)
Derecognition due to sale of subsidiary	–	–	(19,286)	(37,418)	(17,423)	(74,127)
Balance at December 31	–	173,608	302,479	736,849	370,047	1,582,983
Net book value	₱117,678	₱307,554	₱99,765	₱152,611	₱48,131	₱725,739

	Consolidated					
	2018					
	Land	Condominium Properties	Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost						
Balance at January 1	₱164,881	₱552,014	₱434,780	₱1,040,993	₱413,700	₱2,606,368
Additions during the year	–	76	21,600	85,706	15,788	123,170
Disposals during the year	–	–	–	(35,739)	–	(35,739)
Transfers during the year (Note 14 and 16)	–	–	–	8,883	–	8,883
Balance at December 31	164,881	552,090	456,380	1,099,843	429,488	2,702,682
Accumulated depreciation and amortization						
Balance at January 1	–	182,832	285,791	791,170	237,702	1,497,495
Depreciation during the year	–	9,496	20,572	117,672	56,219	203,959
Disposals during the year	–	–	–	(21,990)	–	(21,990)
Transfers during the year (Note 14 and 16)	–	–	–	1,869	–	1,869
Balance at December 31	–	192,328	306,363	888,721	293,921	1,681,333
Net book value	₱164,881	₱359,762	₱150,017	₱211,122	₱135,567	₱1,021,349

	Parent Company 2019					
	Land	**Condominium Properties**	**Buildings and Improvements**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Total**
Cost						
Balance at January 1	**₱117,678**	**₱552,090**	**₱407,156**	**₱1,049,520**	**₱403,705**	**₱2,530,149**
Additions during the year	**–**	**11,545**	**29,435**	**44,799**	**1,354**	**87,133**
Disposals during the year	**–**	**–**	**–**	**(217,169)**	**(15,613)**	**(232,782)**
Transfers during the year (Note 16)	**–**	**(82,473)**	**(34,347)**	**12,310**	**28,732**	**(75,778)**
Balance at December 31	**117,678**	**481,162**	**402,244**	**889,460**	**418,178**	**2,308,722**
Accumulated depreciation and amortization						
Balance at January 1	**–**	**192,328**	**287,077**	**851,303**	**324,427**	**1,655,135**
Depreciation during the year	**–**	**10,259**	**15,402**	**83,192**	**53,524**	**162,377**
Disposals during the year	**–**	**–**	**–**	**(204,346)**	**(7,904)**	**(212,250)**
Transfers during the year (Note 16)	**–**	**(28,979)**	**–**	**6,700**	**–**	**(22,279)**
Balance at December 31	**–**	**173,608**	**302,479**	**736,849**	**370,047**	**1,582,983**
Net book value	**₱117,678**	**₱307,554**	**₱99,765**	**₱152,611**	**₱48,131**	**₱725,739**

	Parent Company 2018					
	Land	Condominium Properties	Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost						
Balance at January 1	₱117,678	₱552,014	₱385,353	₱995,171	₱393,306	₱2,443,522
Additions during the year	–	76	20,726	80,358	8,552	109,712
Disposals during the year	–	–	–	(34,892)	–	(34,892)
Transfers during the year (Note 16)	–	–	–	8,883	–	8,883
Balance at December 31	117,678	552,090	406,079	1,049,520	401,858	2,527,225
Accumulated depreciation and amortization						
Balance at January 1	–	182,832	269,869	761,701	221,689	1,436,091
Depreciation during the year	–	9,496	16,130	109,390	52,961	187,977
Disposals during the year	–	–	–	(21,655)	–	(21,655)
Transfers during the year (Note 16)	–	–	–	1,869	–	1,869
Balance at December 31	–	192,328	285,999	851,305	274,650	1,604,282
Net book value	₱117,678	₱359,762	₱120,080	₱198,215	₱127,208	₱922,943

In May 2019, the 4th floor of Parent Company's PBCOM tower building was converted from Bank premises to Condominium units for lease.

The Group recognized gain (loss) on disposal of furniture, fixtures, and equipment, which is included under 'Profit (loss) from assets sold' in the statements of income, amounting to ₱0.27 million, ₱1.07 million, and (₱9.94 million) in 2019, 2018 and 2017, respectively. The Parent Company recognized gain (loss) on disposal of furniture, fixtures, and equipment amounting to ₱0.27 million, ₱1.06 million, and (₱13.13 million) in 2019, 2018 and 2017, respectively.

Depreciation and Amortization

Details of this account are as follows:

	Consolidated			**Parent Company**		
	2019	2018	2017	**2019**	2018	2017
Continuing operations:						
Property and equipment	**₱162,377**	₱187,977	₱210,661	**₱162,377**	₱187,977	₱210,661
Investment properties (Note 14)	**80,902**	81,133	89,062	**80,902**	81,133	88,845
Software costs (Note 15)	**68,666**	73,429	65,933	**68,666**	73,429	65,933
Right of Use	**113,343**	–	–	**113,343**	–	–
Chattel mortgage (Note 16)	**20,691**	44,378	29,893	**20,691**	44,378	29,893
	₱445,979	₱386,917	₱395,549	**₱445,979**	₱386,917	₱395,332

(Forward)

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Discontined operations:						
Property and equipment	**₱–**	₱15,982	₱18,283	**₱–**	₱–	₱–
Investment properties	**–**	879	4,609	**–**	–	–
Software costs	**–**	558	1,412			
Chattel mortgage	**–**	17	–	**–**	–	–
	₱445,979	₱404,353	₱419,853	**₱445,979**	₱386,917	₱395,332

As of December 31, 2019 and 2018, the cost of fully depreciated furniture, fixtures and equipment still in use by the Group amounted to ₱343.97 million and ₱636.24 million , respectively.

As of December 31, 2019 and 2018, the cost of fully depreciated furniture, fixtures and equipment still in use by the Parent Company amounted to ₱343.97 million and ₱560.67 million, respectively.

14. Investment Properties

The composition of and movements in this account follow:

	Consolidated				
	2019				
	Foreclosed Properties				
	Land	**Building and Improvements**	**Total**	**Office Units for Lease**	**Condominium Units for Lease**
Cost					
Balance at January 1	**₱567,878**	**₱564,289**	**₱1,132,167**	**₱39,274**	**₱2,561,602**
Additions during the year	**141,441**	**68,562**	**210,003**	**–**	**–**
Transfers during the year (Note 13)	**–**	**–**	**–**	**–**	**82,473**
Disposals during the year	**(157,227)**	**(205,267)**	**(362,494)**	**–**	**–**
Derecognition due to sale of subsidiary	**(154,744)**	**(28,191)**	**(182,935)**		
Balance at December 31	**397,348**	**399,393**	**796,741**	**39,274**	**2,644,075**
Accumulated depreciation and amortization					
Balance at January 1	**–**	**145,296**	**145,296**	**35,650**	**728,876**
Depreciation during the year	**–**	**31,273**	**31,273**	**350**	**49,279**
Transfer during the year (Note 13)	**–**	**–**	**–**	**–**	**28,979**
Disposals during the year	**–**	**(27,529)**	**(27,529)**	**–**	**–**
Derecognition due to sale of subsidiary		**(9,785)**	**(9,785)**		
Balance at December 31	**–**	**139,255**	**139,255**	**36,000**	**807,134**
Accumulated impairment losses					
Balance at January 1	**110,745**	**103,701**	**214,446**	**–**	**–**
Provisions during the year	**–**	**(3,613)**	**(3,613)**	**–**	**–**
Disposals during the year	**(65,166)**	**(63,372)**	**(128,538)**	**–**	**–**
Derecognition due to sale of subsidiary	**(12,778)**	**(482)**	**(13,260)**		
Balance at December 31	**32,801**	**36,234**	**69,035**	**–**	**–**
Net book value	**₱364,547**	**₱223,904**	**₱588,451**	**₱3,274**	**₱1,836,941**

	Consolidated				
	2018				
	Foreclosed Properties			Office Units	
	Land	Building and Improvements	Total	for Lease	Condominium Units for Lease
Cost					
Balance at January 1	₱564,625	₱500,553	₱1,065,178	₱39,274	₱2,561,179
Additions during the year	44,357	68,660	113,017	–	423
Disposals during the year	(41,104)	(4,924)	(46,028)	–	–
Balance at December 31	567,878	564,289	1,132,167	39,274	2,561,602
Accumulated depreciation and amortization					
Balance at January 1	–	115,519	115,519	35,275	677,483
Depreciation during the year	–	30,244	30,244	375	51,393
Disposals during the year	–	(467)	(467)	–	–
Balance at December 31	–	145,296	145,296	35,650	728,876
Accumulated impairment losses					
Balance at January 1	112,574	100,546	213,120	–	–
Provisions during the year	203	3,613	3,816	–	–
Disposals during the year	(2,032)	(458)	(2,490)	–	–
Balance at December 31	110,745	103,701	214,446	–	–
Net book value	₱457,133	₱315,292	₱772,425	₱3,624	₱1,832,726

	Parent Company 2019				
	Foreclosed Properties				
	Land	**Building and Improvements**	**Total**	**Office Units for Lease**	**Condominium Units for Lease**
Cost					
Balance at January 1	**₱413,134**	**₱536,098**	**₱949,232**	**₱39,274**	**₱2,561,602**
Additions during the year	**141,441**	**68,562**	**210,003**	**–**	**–**
Transfer during the year (Note 13)	**–**	**–**	**–**	**–**	**82,473**
Disposals during the year	**(157,227)**	**(205,267)**	**(362,494)**	**–**	**–**
Balance at December 31	**397,348**	**399,393**	**796,741**	**39,274**	**2,644,075**
Accumulated depreciation and amortization					
Balance at January 1	**–**	**135,511**	**135,511**	**35,650**	**728,876**
Depreciation during the year	**–**	**31,273**	**31,273**	**350**	**49,279**
Transfer during the year (Note 13)	**–**	**–**	**–**	**–**	**28,979**
Disposals during the year	**–**	**(27,529)**	**(27,529)**	**–**	**–**
Balance at December 31	**–**	**139,255**	**139,255**	**36,000**	**807,134**
Accumulated impairment losses					
Balance at January 1	**97,967**	**103,219**	**201,186**	**–**	**–**
Provisions during the year	**–**	**(3,613)**	**(3,613)**	**–**	**–**
Disposals during the year	**(65,166)**	**(63,372)**	**(128,538)**	**–**	**–**
Balance at December 31	**32,801**	**36,234**	**69,035**	**–**	**–**
Net book value	**₱364,547**	**₱223,904**	**₱588,451**	**₱3,274**	**₱1,836,941**

	Parent Company 2018				
	Foreclosed Properties				
	Land	Building and Improvements	Total	Office Units for Lease	Condominium Units for Lease
Cost					
Balance at January 1	₱375,055	₱480,464	₱855,519	₱39,274	₱2,561,179
Additions during the year	40,194	61,069	101,263	–	423
Disposals during the year	(2,115)	(5,435)	(7,550)	–	–
Balance at December 31	413,134	536,098	949,232	39,274	2,561,602
Accumulated depreciation and amortization					
Balance at January 1	–	106,535	106,535	35,275	677,483
Depreciation during the year	–	29,365	29,365	375	51,393
Disposals during the year	–	(389)	(389)	–	–
Balance at December 31	–	135,511	135,511	35,650	728,876
Accumulated impairment losses					
Balance at January 1	101,095	100,064	201,159	–	–
Provisions during the year	–	3,613	3,613	–	–
Disposals during the year	(3,128)	(458)	(3,586)	–	–
Balance at December 31	97,967	103,219	201,186	–	–
Net book value	₱315,167	₱297,368	₱612,535	₱3,624	₱1,832,726

Condominium units for lease represents the contributed cost of developing the Parent Company's Ayala Avenue property, originally consisting of land and fully depreciated building, into a 52-storey building (the PBCom Tower) under a joint development agreement with Filinvest Asia Corporation (Filinvest Asia).

The agreement provided for equal sharing of the cost of the project and, correspondingly, of the net usable area of the building, which was converted into a condominium property. Under the agreement, the Parent Company's share in such cost included its land along Ayala Avenue, which was given an appraised value of ₱900.00 million in 1995. The related appraisal increment was closed to surplus, net of applicable deferred tax liability, upon completion of the project in 2000.

In November 2007, by virtue of condominiumization, various condominium certificates of title under the name of the Parent Company were derived from transfer certificate of title (TCT) No. 134599 where the declaration of restrictions and scope of coverage were annotated on October 23, 2007.

In May 2019, the 4th floor of Parent Company's PBCOM tower building was converted from Bank premises to Condominium units for lease.

As of December 31, 2019 and 2018, about 87.14% and 84.47%, respectively of the usable area that the Parent Company acquired from the PBCom Tower project is held for lease, with the balance used for the Parent Company's operations. Accordingly, the cost allocable to the areas available for lease is carried as investment properties, while the remaining balance is carried as condominium properties and included in 'Property and equipment' (see Note 13).

As of December 31, 2019 and 2018, the aggregate fair value of investment properties amounted to ₱9.23 billion and ₱7.78 billion, respectively, for the Group, and ₱9.23 billion and ₱7.56 billion, respectively, for the Parent Company, which has been determined based on valuations made by professionally qualified appraisers accredited by the BSP and SEC.

The Parent Company recognized rental income (included under 'Rent income' in the statements of income) amounting to ₱691.92 million, ₱607.92 million, and ₱545.50 million in 2019, 2018 and 2017, respectively, on condominium properties leased out under operating leases. In 2019, 2018 and 2017, the Parent Company also recognized rental income from office units for lease amounting to ₱4.42 million, ₱5.71 million and ₱3.26 million, respectively.

The Group and Parent recorded gain (loss) from foreclosure of loan collaterals amounting to (₱11.85 million), ₱13.13 million and (₱0.16 million) in 2019, 2018, and 2017, respectively. This is presented as 'Gain (loss) on assets exchange - net' in the statements of income.

The Group and Parent recorded gain (loss) on disposal of certain foreclosed properties amounting to ₱107.95 million, ₱19.87 million and ₱47.17 million in 2019, 2018, and 2017, respectively. This is included under 'Profit (loss) from assets sold' in the statements of income.

Direct operating expenses (included under 'Compensation and fringe benefits', 'Occupancy and other equipment-related costs', 'Taxes and licenses' and 'Miscellaneous') arising from investment properties that generated rental income amounted to ₱92.06 million, ₱95.97 million and ₱89.55 million in 2019, 2018, and 2017, respectively.

Direct operating expenses (included under 'Compensation and fringe benefits', 'Occupancy and other equipment-related costs', 'Taxes and licenses' and 'Miscellaneous') arising from investment properties that did not generate rental income amounted to ₱80.60 million, ₱47.65 million and ₱51.26 million in 2019, 2018, and 2017, respectively.

15. Goodwill and Intangible Assets

Goodwill

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

As of December 31, 2018, PRBI as the surviving entity from the three-way merger (see Note 7) is the identified CGU for purposes of impairment testing of the goodwill from the acquisitions of RBNI, BDI and RBKI aggregating to ₱182.23 million.

Management assessed that no impairment losses shall be recognized in 2018 and 2017.

In 2019, the Group derecognized goodwill as a result of the sale of PRBI (see Note 7).

.

Key assumptions used in the VIU calculation
The recoverable amount of the CGU has been determined based on a VIU calculation using cash flow projections from the 5-year strategic plan for PRBI, as approved by its BOD and the Parent Company. The significant assumptions used in computing for the recoverable amount of the CGU follow:

Significant Assumptions	2018
Growth rates:	
Loans	11.30% - 13.90%
Deposits	6.30% - 8.60%
Discount rate	12.48%
Terminal value growth rate	5.78%

Growth rates were based on experiences and strategies developed by PRBI. The discount rate used for the computation of the present value of the projected cash flows is the cost of equity and was determined by reference to comparable entities. The terminal value growth rate has been determined to reflect the long-term view on the CGU's business.

Sensitivity to changes in assumptions
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.

Intangible Assets
This account consists of:

	Consolidated		**Parent Company**	
	2019	2018	**2019**	2018
Branch licenses	**₱364,700**	₱365,300	**₱364,700**	₱102,100
Software costs	**308,389**	338,475	**308,389**	337,883
	₱673,089	₱703,775	**₱673,089**	₱439,983

Branch licenses
Branch licenses of the Group arose from the acquisitions of Consumer Savings Bank (CSB) and PRBI. As of December 31, 2019 and 2018, details of branch licenses follow:

	2019	2018
Branch licenses from the acquisition of:		
PRBI	₱262,600	₱263,200
CSB	102,100	102,100
	₱364,700	₱365,300

The branch license incentives given to the Parent Company for its acquisition of RBNI (which was eventually merged with PRBI) was measured at fair value on September 1, 2014, the acquisition date, consistent with the requirements of PFRS 3, *Business Combination*. PFRS 3 requires that the identifiable assets and liabilities arising from a business combination be measured at fair value. The fair value of the branch licenses was based on the provisions of the Manual of Regulations for Banks (MORB) that was in effect at that time, which sets a licensing fee and processing fee per branch of ₱20.00 million and ₱200.00 thousand, respectively.

On July 25, 2019, the BSP approved the sale of 100 percent voting shares of PRBI to PROSBI (see Note 7). Accordingly, the branch licenses granted to the Parent Company's acquisition of RBNI were reclassified from the investment account to intangible assets in the Parent Company's separate financial statements. No new asset was recognized because the branch licenses have always been recognized as an asset of the Bank since its acquisition of RBNI.

As of December 31, 2019 and 2018, the individual branches were identified as the CGU for purposes of impairment testing on the branch licenses for CSB. For the impairment testing on the branch licenses arising from the acquisition of RBNI, the Parent Company's branch banking group was identified as the CGU as the branch banking group would benefit from the synergies of the additional branches in obtaining fresh funds from depositors for deployment..

In 2019, 2018 and 2017, the Parent Company's impairment assessment indicates no impairment

Key assumptions used in the VIU calculations
As of December 31, 2019 and 2018, the recoverable amounts of the CGUs have been determined based on VIU calculations that use cash flow projections based on financial budgets approved by management covering a 5-year period. The significant assumptions used in computing for the recoverable amount for PRBI and CSB branches in 2019 and CSB branches in 2018 as follows:

Significant Assumptions	**2019**	2018
Deposit growth rates	**7.40%**	6.30% - 8.60%
Discount rate	**12.04%**	13.89%
Terminal value growth rate	**5.59%**	5.78%

Deposit growth rates were based on experiences and strategies developed by the Parent Company. The discount rate used for the computation of the present value of the projected cash flows is the cost of equity and was determined by reference to comparable entities. The terminal value growth rate has been determined to reflect the long-term view on the CGU's business.

Sensitivity to changes in assumptions
Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the CGU to exceed its recoverable amount.

Software
The movements of software costs follow:

	Consolidated		**Parent Company**	
	2019	2018	**2019**	2018
Balance at January 1	**₱338,475**	₱378,879	**₱337,883**	₱378,333
Additions during the year	**39,172**	33,583	**39,172**	32,979
	377,647	412,462	**377,055**	411,312
Amortization during the year (Note 13)	**(68,666)**	(73,987)	**(68,666)**	(73,429)
Derecognition due to sale of subsidiary	**(592)**	–	–	–
Balance at December 31	**₱308,389**	₱338,475	**₱308,389**	₱337,883

16. **Other Assets**

Other assets consist of:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Tax credits	**₱391,906**	₱354,735	**₱390,708**	₱353,537
Right of use assets (net)	**248,471**	–	**248,471**	–
Nostro floats	**206,414**	206,414	**206,414**	206,414
Receivable from BIR	**181,684**	181,684	**181,684**	₱181,684
Prepaid expenses	**134,654**	111,194	**134,488**	102,346
Chattel mortgage	**22,645**	40,285	**22,645**	40,226
RCOCI	**128**	5,434	**128**	5,434
Retirement asset (Note 27)	**–**	81,394	**–**	74,350
Miscellaneous	**193,080**	187,141	**193,055**	180,371
	1,378,982	1,168,281	**1,377,593**	1,144,362
Less allowance for impairment losses (Note 17)	**(336,449)**	(336,079)	**(336,449)**	(336,079)
	₱1,042,533	₱832,202	**₱1,041,144**	₱808,283

Receivable from BIR
This account includes creditable withholding tax and various tax credits that are pending SC decision. As of December 31, 2019 and 2018, the balance of allowance for impairment losses on receivable from BIR amounted to ₱125.53 million.

Nostro Floats
As of December 31, 2019 and 2018, Nostro floats are fully provided with allowance for impairment losses.

Right of use Assets
The movements in right of use assets of the Group and the Parent Company follow:

	2019
	Consolidated and Parent Company
Cost	
Balance at January 1	**₱183,605**
Additions during the year	**178,209**
Disposals during the year	**(22,151)**
Balance at December 31	**339,663**
Accumulated depreciation and amortization	
Balance at January 1	–
Depreciation during the year	**113,343**
Disposals during the year	**(22,151)**
Balance at December 31	**91,192**
Net book value	**₱248,471**

Chattel Mortgage
The movements in chattel mortgage of the Group and the Parent Company follow:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Cost				
Balance at January 1	**₱45,649**	₱86,168	**₱45,571**	₱86,168
Additions during the year	**112,024**	180,562	**112,024**	180,484
Disposals during the year	**(123,885)**	(212,198)	**(123,807)**	(212,198)
Transfers during the year (Note 13)	**(7,180)**	(8,883)	**(7,180)**	(8,883)
Balance at December 31	**26,608**	45,649	**26,608**	45,571
Accumulated depreciation and amortization				
Balance at January 1	**5,364**	12,553	**5,345**	12,553
Depreciation during the year	**20,691**	44,395	**20,691**	44,378
Disposals during the year	**(21,531)**	(49,715)	**(21,512)**	(49,717)
Transfers during the year (Note 13)	**(561)**	(1,869)	**(561)**	(1,869)
Balance at December 31	**3,963**	5,364	**3,963**	5,345
Net book value	**₱22,645**	₱40,285	**₱22,645**	₱40,226

In 2019, 2018 and 2017, gain (loss) recognized by the Group and the Parent Company from the disposal of certain chattel mortgage amounted to (₱10.48 million), (₱8.17 million) and (₱6.70 million) , respectively. This is included under 'Profit (loss) from assets sold' in the statements of income.

Miscellaneous
As of December 31, 2019 and 2018, the Group's and the Parent Company's miscellaneous other assets consist of the following:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Documentary stamp taxes (DST)	**₱62,228**	₱63,129	**₱62,228**	₱63,129
Refundable security deposits	**34,771**	33,022	**34,771**	30,877
Advance rentals	**13,535**	12,677	**13,535**	12,677
Stationery and supplies	**6,783**	9,732	**6,783**	6,864
Others	**75,763**	68,581	**75,738**	66,824
	₱193,080	₱187,141	**₱193,055**	₱180,371

"Others" of the Group and the Parent Company include trust fee receivables, shortages, derivatives, interoffice floats and other investments.

Allowance for Credit and Impairment Losses

As of December 31, 2019 and 2018, the analyses of changes in the allowance for ECL follow:

Consolidated - 2019

Interbank loans receivable

	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL, January 1, 2019	₱1	₱–	₱–	₱1
Newly originated assets that remained in Stage 1 as at December 31, 2019	–	–	–	–
Effect of collections and other movements (excluding write-offs)	(1)	–	–	(1)
Allowance for ECL, December 31, 2019	₱–	₱–	₱–	₱–

Investment securities at FVTOCI

	Stage 1	Stage 2	Stage 3	Total
ECL, January 1, 2019	₱6,076	₱–	₱–	₱6,076
Newly originated assets that remained in Stage 1 as at December 31, 2019	5,210	–	–	5,210
Effect of collections and other movements (excluding write-offs)	(5,779)	–	–	(5,779)
Impact on ECL of exposures that did not transfer between stages	1	–	–	1
ECL, December 31, 2019	₱5,508	₱–	₱–	₱5,508

Investment securities at amortized cost

	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL, January 1, 2019	₱7,485	₱–	₱–	₱7,485
Impact on ECL of exposures that did not transfer between stages	3,080	–	–	3,080
Allowance for ECL, December 31, 2019	₱10,565	₱–	₱–	₱10,565

Receivables from customers

	Stage 1	Stage 2	Stage 3	Total
Corporate loans:				
Allowance for ECL, January 1, 2019	₱458,416	₱106,378	₱588,113	₱1,152,907
Newly originated assets that remained in Stage 1 as at December 31, 2019	436,629	–	–	436,629
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	–	–	–
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(319,723)	(57,474)	(85,586)	(462,783)
Transfers to ROPA	–	–	(2,331)	(2,331)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(37)	37	–	–
Transfers to Stage 3	(162)	(3,471)	3,633	–
Impact on ECL of exposures transferred between stages	–	(37)	432,913	432,876
Impact on ECL of exposures that did not transfer between stages	447	24,540	55,173	80,160
Accounts written-off	–	–	(408,009)	(408,009)
Foreign exchange adjustments	(975)	(12)	(426)	(1,413)
Allowance for ECL, December 31, 2019	574,595	69,961	583,480	1,228,036
Consumer loans:				
Auto loans				
Allowance for ECL, January 1, 2019	63,052	41,861	250,737	355,650
Newly originated assets that remained in Stage 1 as at December 31, 2019	1,254	–	–	1,254
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	–	–	–

(Forward)

	Stage 1	Stage 2	Stage 3	Total
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(₱55,146)	(₱6,447)	(₱3,720)	(₱65,313)
Transfers to ROPA	–	–	(27,941)	(27,941)
Transfers to Stage 1	9,699	(8,124)	(1,575)	–
Transfers to Stage 2	(5,872)	6,359	(487)	–
Transfers to Stage 3	(4,542)	(25,008)	29,550	–
Impact on ECL of exposures transferred between stages	–	7,292	26,317	33,609
Impact on ECL of exposures that did not transfer between stages	2,846	–	21,302	24,148
Allowance for ECL, December 31, 2019	11,291	15,933	294,183	321,407
Home loans:				
Allowance for ECL, January 1, 2019	36,208	23,202	52,882	112,292
Newly originated assets that remained in Stage 1 as at December 31, 2019	2,938	–	–	2,938
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	–	–	–
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(22,224)	(2,035)	(13,457)	(37,716)
Transfers to ROPA	–	–	(23,631)	(23,631)
Transfers to Stage 1	4,598	(4,598)	–	–
Transfers to Stage 2	(1,804)	1,804	–	–
Transfers to Stage 3	(1,253)	(15,018)	16,271	–
Impact on ECL of exposures transferred between stages	–	9,725	26,133	35,858
Impact on ECL of exposures that did not transfer between stages	6,797	893	11,439	19,129
Allowance for ECL, December 31, 2019	25,260	13,973	69,637	108,870
Personal loans:				
Allowance for ECL, January 1, 2019	64,118	25,635	333,762	423,515
Newly originated assets that remained in Stage 1 as at December 31, 2019	14,628	–	–	14,628
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	–	–	–
Derecognition of allowance due to sale to sale of subsidiary	(43,440)	(14,333)	32,445	(25,328)
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(10,567)	(736)	(5,918)	(17,221)
Transfers to Stage 1	1,409	(1,003)	(406)	–
Transfers to Stage 2	(1,065)	1,128	(63)	–
Transfers to Stage 3	(4,259)	(9,236)	13,495	–
Impact on ECL of exposures transferred between stages	–	5,345	33,817	39,162
Impact on ECL of exposures that did not transfer between stages	7,042	3,136	921	11,099
Accounts written-off	–	–	–	–
Allowance for ECL, December 31, 2019	27,866	9,936	408,053	445,855
Total receivables from customers:				
Allowance for ECL, January 1, 2019	621,794	197,076	1,225,494	2,044,364
Newly originated assets that remained in Stage 1 as at December 31, 2019	455,449	–	–	455,449
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	–	–	–
Derecognition of allowance due to sale to sale of subsidiary	(43,440)	(14,333)	32,445	(25,328)
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(407,660)	(66,692)	(108,681)	(583,033)

(Forward)

	Stage 1	Stage 2	Stage 3	Total
Transfers to ROPA	₱–	₱–	(₱53,903)	(₱53,903)
Transfers to Stage 1	15,706	(13,725)	(1,981)	–
Transfers to Stage 2	(8,778)	9,328	(550)	–
Transfers to Stage 3	(10,216)	(52,733)	62,949	–
Impact on ECL of exposures transferred between stages	–	22,325	519,180	541,505
Impact on ECL of exposures that did not transfer between stages	17,132	28,569	88,835	134,536
Accounts written-off	–	–	(408,009)	(408,009)
Foreign exchange adjustments	(975)	(12)	(426)	(1,413)
Allowance for ECL, December 31, 2019	₱639,012	₱109,803	₱1,355,353	₱2,104,168

Other receivables

	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
Allowance for ECL, January 1, 2019	₱994	₱–	₱–	₱994
Impact on ECL of exposures that did not transfer between stages	(50)	–	–	(50)
Allowance for ECL, December 31, 2019	944	–	–	944
Accrued interest receivable:				
Allowance for ECL, January 1, 2019	5,469	2,092	374,281	381,842
Newly originated assets that remained in Stage 1 as at December 31, 2019	93	–	–	93
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	1,064	–	–	1,064
Derecognition of allowance due to sale to sale of subsidiary	(2,417)	(526)	19,306	16,363
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(₱3,225)	(₱550)	(₱364,916)	(₱368,691)

(Forward)

	Stage 1	Stage 2	Stage 3	Total
Transfer to ROPA	₱–	₱–	(₱615)	(₱615)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(340)	340	–	–
Transfers to Stage 3	(860)	(447)	1307	–
Impact on ECL of exposures transferred between stages	–	194	1,848	2,042
Impact on ECL of exposures that did not transfer between stages	38	1,029	1,321	2,388
Accounts written-off	–	–	(257)	(257)
Foreign exchange adjustments	–	–	–	–
Allowance for ECL, December 31, 2019	(178)	2,132	32,275	34,229
Accounts receivable:				
Allowance for ECL, January 1, 2019	721	75	29,187	29,983
Derecognition of allowance due to sale to sale of subsidiary	(721)	(75)	(15,420)	(16,216)
Impact on ECL of exposures that did not transfer between stages	–	–	2,206	2,206
Accounts written-off	–	–	(4,800)	(4,800)
Allowance for ECL, December 31, 2019	–	–	11,173	11,173
Sales contracts receivable				
Allowance for ECL, January 1, 2019	3,768	2,553	7,382	13,703
Newly originated assets that remained in Stage 1 as at December 31, 2019	1,070	–	–	1,070
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	–	–	–
Derecognition of allowance due to sale to sale of subsidiary	(754)	–	(2,704)	(3,458)

(Forward)

	Stage 1	Stage 2	Stage 3	Total
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(₱223)	(₱51)	(₱1,095)	(₱1,369)
Transfers to Stage 1	2,263	(2,137)	(126)	–
Transfers to Stage 2	(687)	754	(67)	–
Transfers to Stage 3	(1,441)	(363)	1,804	–
Impact on ECL of exposures transferred between stages	(1,785)	436	1,413	64
Impact on ECL of exposures that did not transfer between stages	252	–	(16)	236
Allowance for ECL, December 31, 2019	2,463	1,192	6,591	10,246
Total other receivables				
Allowance for ECL, January 1, 2019	10,952	4,720	410,850	426,522
Newly originated assets that remained in Stage 1 as at December 31, 2019	1,163	–	–	1,163
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	1,064	–	–	1,064
Derecognition of allowance due to sale to sale of subsidiary	(3,892)	(601)	1,182	(3,311)
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(3,448)	(601)	(366,011)	(370,060)
Transfer to ROPA	–	–	(615)	(615)
Transfers to Stage 1	2,263	(2,137)	(126)	–
Transfers to Stage 2	(1,027)	1,094	(67)	–
Transfers to Stage 3	(2,301)	(810)	3,111	–
Impact on ECL of exposures transferred between stages	(1,785)	630	3,261	2,106
Impact on ECL of exposures that did not transfer between stages	240	1,029	3,511	4,780
Accounts written-off	–	–	(5,057)	(5,057)
Foreign exchange adjustments	–	–	–	–
Allowance for ECL, December 31, 2019	₱3,229	₱3,324	₱50,039	₱56,592

Parent Company - 2019

Interbank loans receivable

	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL, January 1, 2019	₱1	₱–	₱–	₱1
Newly originated assets that remained in Stage 1 as at December 31, 2019	–	–	–	–
Effect of collections and other movements (excluding write-offs)	(1)	–	–	(1)
Allowance for ECL, December 31, 2019	₱–	₱–	₱–	₱–

Investment securities at FVTOCI

	Stage 1	Stage 2	Stage 3	Total
ECL, January 1, 2019	₱6,076	₱–	₱–	₱6,076
Newly originated assets that remained in Stage 1 as at December 31, 2019	5,210	–	–	5,210
Effect of collections and other movements (excluding write-offs)	(5,779)	–	–	(5,779)
Impact on ECL of exposures that did not transfer between stages	1	–	–	1
ECL, December 31, 2019	₱5,508	₱–	₱–	₱5,508

Investment securities at amortized cost

	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL, January 1, 2019	₱7,485	₱–	₱–	₱7,485
Impact on ECL of exposures that did not transfer between stages	3,080	–	–	3,080
Allowance for ECL, December 31, 2019	₱10,565	₱–	₱–	₱10,565

Receivables from customers

	Stage 1	Stage 2	Stage 3	Total
Corporate loans:				
Allowance for ECL, January 1, 2019	₱458,416	₱106,378	₱588,113	₱1,152,907
Newly originated assets that remained in Stage 1 as at December 31, 2019	436,629	–	–	436,629
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	–	–	–
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(319,723)	(57,474)	(85,586)	(462,783)
Transfers to ROPA	–	–	(2,331)	(2,331)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(37)	37	–	–
Transfers to Stage 3	(162)	(3,471)	3,633	–
Impact on ECL of exposures transferred between stages	–	(37)	432,913	432,876
Impact on ECL of exposures that did not transfer between stages	447	24,540	55,173	80,160
Accounts written-off	–	–	(408,009)	(408,009)
Foreign exchange adjustments	(975)	(12)	(426)	(1,413)
Allowance for ECL, December 31, 2019	574,595	69,961	583,480	1,228,036
Consumer loans:				
Auto loans				
Allowance for ECL, January 1, 2019	63,052	41,861	250,737	355,650
Newly originated assets that remained in Stage 1 as at December 31, 2019	1,254	–	–	1,254
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	–	–	–
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(55,146)	(6,447)	(3,720)	(65,313)
Transfers to ROPA	–	–	(27,941)	(27,941)
Transfers to Stage 1	9,699	(8,124)	(1,575)	–
Transfers to Stage 2	(5,872)	6,359	(487)	–
Transfers to Stage 3	(4,542)	(25,008)	29,550	–
Impact on ECL of exposures transferred between stages	–	7,292	26,317	33,609
Impact on ECL of exposures that did not transfer between stages	2,846	–	21,302	24,148
Allowance for ECL, December 31, 2019	11,291	15,933	294,183	321,407
Home loans:				
Allowance for ECL, January 1, 2019	36,208	23,202	52,882	112,292
Newly originated assets that remained in Stage 1 as at December 31, 2019	2,938	–	–	2,938
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	–	–	–
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(22,224)	(2,035)	(13,457)	(37,716)

(Forward)

	Stage 1	Stage 2	Stage 3	Total
Transfers to ROPA	₱–	₱–	(₱23,631)	(₱23,631)
Transfers to Stage 1	4,598	(4,598)	–	–
Transfers to Stage 2	(1,804)	1,804	–	–
Transfers to Stage 3	(1,253)	(15,018)	16,271	–
Impact on ECL of exposures transferred between stages	–	9,725	26,133	35,858
Impact on ECL of exposures that did not transfer between stages	6,797	893	11,439	19,129
Allowance for ECL, December 31, 2019	25,260	13,973	69,637	108,870
Personal loans:				
Allowance for ECL, January 1, 2019	20,678	11,302	366,207	398,187
Newly originated assets that remained in Stage 1 as at December 31, 2019	14,628	–	–	14,628
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	–	–	–
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(10,567)	(736)	(5,918)	(17,221)
Transfers to Stage 1	1,409	(1,003)	(406)	–
Transfers to Stage 2	(1,065)	1,128	(63)	–
Transfers to Stage 3	(4,259)	(9,236)	13,495	–
Impact on ECL of exposures transferred between stages	–	5,345	33,817	39,162
Impact on ECL of exposures that did not transfer between stages	7,042	3,136	921	11,099
Accounts written-off	–	–	–	–
Allowance for ECL, December 31, 2019	27,866	9,936	408,053	445,855
Total receivables from customers:				
Allowance for ECL, January 1, 2019	578,354	182,743	1,257,939	2,019,036
Newly originated assets that remained in Stage 1 as at December 31, 2019	455,449	–	–	455,449
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	–	–	–
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(407,660)	(66,692)	(108,681)	(583,033)
Transfers to ROPA	–	–	(53,903)	(53,903)
Transfers to Stage 1	15,706	(13,725)	(1,981)	–
Transfers to Stage 2	(8,778)	9,328	(550)	–
Transfers to Stage 3	(10,216)	(52,733)	62,949	–
Impact on ECL of exposures transferred between stages	–	22,325	519,180	541,505
Impact on ECL of exposures that did not transfer between stages	17,132	28,569	88,835	134,536
Accounts written-off	–	–	(408,009)	(408,009)
Foreign exchange adjustments	(975)	(12)	(426)	(1,413)
Allowance for ECL, December 31, 2019	₱639,012	₱109,803	₱1,355,353	₱2,104,168

Other receivables

	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
Allowance for ECL, January 1, 2019	₱994	₱–	₱–	₱994
Impact on ECL of exposures that did not transfer between stages	(50)	–	–	(50)
Allowance for ECL, December 31, 2019	944	–	–	944
Accrued interest receivable:				
Allowance for ECL, January 1, 2019	3,052	1,566	393,587	398,205
Newly originated assets that remained in Stage 1 as at December 31, 2019	93	–	–	93
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	1,064	–	–	1,064
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(3,225)	(550)	(364,916)	(368,691)
Transfer to ROPA	–	–	(615)	(615)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(340)	340	–	–
Transfers to Stage 3	(860)	(447)	1307	–
Impact on ECL of exposures transferred between stages	–	194	1,848	2,042
Impact on ECL of exposures that did not transfer between stages	36	1,030	1,322	2,388
Accounts written-off	–	–	(257)	(257)
Foreign exchange adjustments	–	–	–	–
Allowance for ECL, December 31, 2019	(180)	2,133	32,276	34,229
Accounts receivable:				
Allowance for ECL, January 1, 2019	–	–	13,767	13,767
Impact on ECL of exposures that did not transfer between stages	–	–	2,206	2,206
Accounts written-off	–	–	(4,800)	(4,800)
Allowance for ECL, December 31, 2019	–	–	11,173	11,173
Sales contracts receivable				
Allowance for ECL, January 1, 2019	3,014	2,553	4,678	10,245
Newly originated assets that remained in Stage 1 as at December 31, 2019	1,070	–	–	1,070
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	–	–	–
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(223)	(51)	(1,095)	(1,369)
Transfers to Stage 1	2,263	(2,137)	(126)	–
Transfers to Stage 2	(687)	754	(67)	–
Transfers to Stage 3	(1,441)	(363)	1,804	–

(Forward)

Impact on ECL of exposures transferred between stages	(₱1,785)	₱436	₱1,413	₱64
Impact on ECL of exposures that did not transfer between stages	252	–	(16)	236
Allowance for ECL, December 31, 2019	2,463	1,192	6,591	10,246
Total other receivables				
Allowance for ECL, January 1, 2019	7,060	4,119	412,032	423,211
Newly originated assets that remained in Stage 1 as at December 31, 2019	1,163	–	–	1,163
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	1,064	–	–	1,064

(Forward)

	Stage 1	Stage 2	Stage 3	Total
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(₱3,448)	(₱601)	(₱366,011)	(₱370,060)
Transfer to ROPA	–	–	(615)	(615)
Transfers to Stage 1	2,263	(2,137)	(126)	–
Transfers to Stage 2	(1,027)	1,094	(67)	–
Transfers to Stage 3	(2,301)	(810)	3,111	–
Impact on ECL of exposures transferred between stages	(1,785)	630	3,261	2,106
Impact on ECL of exposures that did not transfer between stages	238	1,030	3,512	4,780
Accounts written-off	–	–	(5,057)	(5,057)
Foreign exchange adjustments	–	–	–	–
Allowance for ECL, December 31, 2019	₱3,227	₱3,325	₱50,040	₱56,592

Consolidated - 2018

Interbank loans receivable

	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL, January 1, 2018	₱12	₱–	₱–	₱12
Newly originated assets that remained in Stage 1 as at December 31, 2018	1	–	–	1
Effect of collections and other movements (excluding write-offs)	(12)	–	–	(12)
Allowance for ECL, December 31, 2018	₱1	₱–	₱–	₱1

Investment securities at FVTOCI

	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL, January 1, 2018	₱346	₱–	₱–	₱346
Newly originated assets that remained in Stage 1 as at December 31, 2018	5,783	–	–	5,783
Effect of collections and other movements (excluding write-offs)	(304)	–	–	(304)
Impact on ECL of exposures that did not transfer between stages	251	–	–	251
Allowance for ECL, December 31, 2018	₱6,076	₱–	₱–	₱6,076

Investment securities at amortized cost

	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL, January 1, 2018	₱9,005	₱–	₱–	₱9,005
Impact on ECL of exposures that did not transfer between stages	(1,520)	–	–	(1,520)
Allowance for ECL, December 31, 2018	₱7,485	₱–	₱–	₱7,485

Receivables from customers

	Stage 1	Stage 2	Stage 3	Total
Corporate loans:				
Allowance for ECL, January 1, 2018	₱337,725	₱79,407	₱1,108,429	₱1,525,561
Newly originated assets that remained in Stage 1 as at December 31, 2018	350,222	–	–	350,222
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	55,027	–	55,027
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(219,891)	(33,704)	(52,726)	(306,321)
Transfers to ROPA	–	–	(3,596)	(3,596)
Transfers to Stage 1	39,593	(39,593)	–	–
Transfers to Stage 2	(16,853)	148,969	(132,116)	–
Transfers to Stage 3	(236)	(348)	584	–
Impact on ECL of exposures transferred between stages	(31,943)	(102,463)	23,155	(111,251)
Impact on ECL of exposures that did not transfer between stages	(201)	(1,802)	102,901	100,898
Accounts written-off	–	–	(461,739)	(461,739)
Foreign exchange adjustments	–	885	3,221	4,106
Allowance for ECL, December 31, 2018	458,416	106,378	588,113	1,152,907
Consumer loans:				
Auto loans:				
Allowance for ECL, January 1, 2018	71,090	44,007	251,276	366,373
Newly originated assets that remained in Stage 1 as at December 31, 2018	17,555	–	–	17,555
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	9,390	9,990	19,380
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(5,975)	(12,408)	(4,007)	(22,390)
Transfers to ROPA	–	–	(23,963)	(23,963)
Transfers to Stage 1	17,291	(14,903)	(2,388)	–
Transfers to Stage 2	(6,046)	6,722	(676)	–
Transfers to Stage 3	(3,684)	(11,633)	15,317	–
Impact on ECL of exposures transferred between stages	(15,487)	22,215	23,159	29,887
Impact on ECL of exposures that did not transfer between stages	(11,692)	(1,529)	(17,971)	(31,192)
Allowance for ECL, December 31, 2018	63,052	41,861	250,737	355,650
Home loans:				
Allowance for ECL, January 1, 2018	28,706	11,268	10,277	50,251
Newly originated assets that remained in Stage 1 as at December 31, 2018	11,719	–	–	11,719
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	8,456	12,475	20,931
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(4,571)	(865)	(661)	(6,097)
Transfers to ROPA	–	–	(4,499)	(4,499)
Transfers to Stage 1	4,064	(1,980)	(2,084)	–
Transfers to Stage 2	(1,350)	1,350	–	–
Transfers to Stage 3	(1,351)	(7,101)	8,452	–
Impact on ECL of exposures transferred between stages	(3,708)	12,195	29,177	37,664
Impact on ECL of exposures that did not transfer between stages	2,699	(121)	(255)	2,323
Allowance for ECL , December 31, 2018	36,208	23,202	52,882	112,292

(Forward)

	Stage 1	Stage 2	Stage 3	Total
Personal loans:				
Allowance for ECL, January 1, 2018	₱65,661	₱20,159	₱346,826	₱432,646
Newly originated assets that remained in Stage 1 as at December 31, 2018	45,951	–	–	45,951
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	12,734	16,000	28,734
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(29,726)	(4,523)	(18,167)	(52,416)
Transfers to ROPA	–	–	(38)	(38)
Transfers to Stage 1	5,331	(1,472)	(3,859)	–
Transfers to Stage 2	(1,952)	2,256	(304)	–
Transfers to Stage 3	(6,087)	(13,103)	19,190	–
Impact on ECL of exposures transferred between stages	(4,966)	9,920	86,196	91,150
Impact on ECL of exposures that did not transfer between stages	(10,094)	(336)	(17,521)	(27,951)
Accounts written-off	–	–	(94,561)	(94,561)
Allowance for ECL, December 31, 2018	64,118	25,635	333,762	423,515
Total receivables from customers:				
Allowance for ECL, January 1, 2018	503,182	154,841	1,716,808	2,374,831
Newly originated assets that remained in Stage 1 as at December 31, 2018	425,447	–	–	425,447
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	85,607	38,465	124,072
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(260,163)	(51,500)	(75,561)	(387,224)
Transfers to ROPA	–	–	(32,096)	(32,096)
Transfers to Stage 1	66,279	(57,948)	(8,331)	–
Transfers to Stage 2	(26,201)	159,297	(133,096)	–
Transfers to Stage 3	(11,358)	(32,185)	43,543	–
Impact on ECL of exposures transferred between stages	(56,104)	(58,133)	161,687	47,450
Impact on ECL of exposures that did not transfer between stages	(19,288)	(3,788)	67,154	44,078
Accounts written-off	–	–	(556,300)	(556,300)
Foreign exchange adjustments	–	885	3,221	4,106
Allowance for ECL, December 31, 2018	₱621,794	₱197,076	₱1,225,494	₱2,044,364

Other receivables

	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
Allowance for ECL, January 1, 2018	₱1,205	₱–	₱–	₱1,205
Impact on ECL of exposures that did not transfer between stages	(211)	–	–	(211)
Allowance for ECL, December 31, 2018	994	–	–	994
Accrued interest receivable:				
Allowance for ECL, January 1, 2018	3,288	2,663	374,936	380,887
Newly originated assets that remained in Stage 1 as at December 31, 2018	4,044	–	–	4,044
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	1,126	1,202	2,328
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(985)	(733)	(1,434)	(3,152)
Transfers to Stage 1	841	(669)	(172)	–
Transfers to Stage 2	(355)	765	(410)	–
Transfers to Stage 3	(271)	(1,112)	1,383	–

(Forward)

	Stage 1	Stage 2	Stage 3	Total
Impact on ECL of exposures transferred between stages	(₱928)	₱275	₱3,264	₱2,611
Impact on ECL of exposures that did not transfer between stages	(186)	(223)	(1,722)	(2,131)
Accounts written-off	–	–	(2,766)	(2,766)
Foreign exchange adjustments	21	–	–	21
Allowance for ECL, December 31, 2018	5,469	2,092	374,281	381,842
Accounts receivable:				
Allowance for ECL, January 1, 2018	2,639	3,153	24,875	30,667
Newly originated assets that remained in Stage 1 as at December 31, 2018	721	–	–	721
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	75	166	241
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(50)	(8)	(26)	(84)
Transfers to Stage 3	(2,571)	(3,145)	5,716	–
Impact on ECL of exposures transferred between stages	–	–	183	183
Impact on ECL of exposures that did not transfer between stages	(18)	–	877	859
Accounts written-off	–	–	(2,604)	(2,604)
Allowance for ECL, December 31, 2018	721	75	29,187	29,983
Sales contracts receivable:				
Allowance for ECL, January 1, 2018	6,285	784	11,252	18,321
Newly originated assets that remained in Stage 1 as at December 31, 2018	720	–	–	720
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	–	43	43
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(481)	–	(193)	(674)
Transfers to Stage 1	(157)	15	142	–
Transfers to Stage 2	560	(579)	19	–
Transfers to Stage 3	46	(387)	341	–
Impact on ECL of exposures transferred between stages	(1,135)	2,690	140	1,695
Impact on ECL of exposures that did not transfer between stages	(2,070)	30	745	(1,295)
Accounts written-off	–	–	(5,107)	(5,107)
Allowance for ECL, December 31, 2018	3,768	2,553	7,382	13,703
Total other receivables:				
Allowance for ECL, January 1, 2018	13,417	6,600	411,063	431,080
Newly originated assets that remained in Stage 1 as at December 31, 2018	5,485	–	–	5,485
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	1,201	1,411	2,612
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(1,516)	(741)	(1,653)	(3,910)
Transfers to Stage 1	684	(654)	(30)	–
Transfers to Stage 2	205	186	(391)	–
Transfers to Stage 3	(2,796)	(4,644)	7,440	–
Impact on ECL of exposures transferred between stages	(2,063)	2,965	3,587	4,489
Impact on ECL of exposures that did not transfer between stages	(2,485)	(193)	(100)	(2,778)
Accounts written-off	–	–	(10,477)	(10,477)
Foreign exchange adjustments	21	–	–	21
Allowance for ECL, December 31, 2018	₱10,952	₱4,720	₱410,850	₱426,522

Parent Company

Interbank loans receivable

	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL, January 1, 2018	₱12	₱–	₱–	₱12
Newly originated assets that remained in Stage 1 as at December 31, 2018	1	–	–	1
Effect of collections and other movements (excluding write-offs)	(12)	–	–	(12)
Allowance for ECL, December 31, 2018	₱1	₱–	₱–	₱1

Investment securities at FVTOCI

	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL, January 1, 2018	₱346	₱–	₱–	₱346
Newly originated assets that remained in Stage 1 as at December 31, 2018	5,783	–	–	5,783
Effect of collections and other movements (excluding write-offs)	(304)	–	–	(304)
Impact on ECL of exposures that did not transfer between stages	251	–	–	251
Allowance for ECL, December 31, 2018	₱6,076	₱–	₱–	₱6,076

Investment securities at amortized cost

	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL, January 1, 2018	₱9,005	₱–	₱–	₱9,005
Impact on ECL of exposures that did not transfer between stages	(1,520)	–	–	(1,520)
Allowance for ECL, December 31, 2018	₱7,485	₱–	₱–	₱7,485

Receivables from customers

	Stage 1	Stage 2	Stage 3	Total
Corporate loans:				
Allowance for ECL, January 1, 2018	₱337,725	₱79,407	₱1,108,429	₱1,525,561
Newly originated assets that remained in Stage 1 as at December 31, 2018	350,222	–	–	350,222
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	55,027	–	55,027
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(219,891)	(33,704)	(52,726)	(306,321)
Transfers to ROPA	–	–	(3,596)	(3,596)
Transfers to Stage 1	39,593	(39,593)	–	–
Transfers to Stage 2	(16,853)	148,969	(132,116)	–
Transfers to Stage 3	(236)	(348)	584	–
Impact on ECL of exposures transferred between stages	(31,943)	(102,463)	23,155	(111,251)
Impact on ECL of exposures that did not transfer between stages	(201)	(1,802)	102,901	100,898
Accounts written-off	–	–	(461,739)	(461,739)
Foreign exchange adjustments	–	885	3,221	4,106
Allowance for ECL, December 31, 2018	458,416	106,378	588,113	1,152,907
Consumer loans:				
Auto loans				
Allowance for ECL, January 1, 2018	71,090	44,007	251,276	366,373
Newly originated assets that remained in Stage 1 as at December 31, 2018	17,555	–	–	17,555

(Forward)

	Stage 1	Stage 2	Stage 3	Total
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	₱–	₱9,390	₱9,990	₱19,380
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(5,975)	(12,408)	(4,007)	(22,390)
Transfers to ROPA	–	–	(23,963)	(23,963)
Transfers to Stage 1	17,291	(14,903)	(2,388)	–
Transfers to Stage 2	(6,046)	6,722	(676)	–
Transfers to Stage 3	(3,684)	(11,633)	15,317	–
Impact on ECL of exposures transferred between stages	(15,487)	22,215	23,159	29,887
Impact on ECL of exposures that did not transfer between stages	(11,692)	(1,529)	(17,971)	(31,192)
Allowance for ECL, December 31, 2018	63,052	41,861	250,737	355,650
Home loans:				
Allowance for ECL, January 1, 2018	28,706	11,268	10,277	50,251
Newly originated assets that remained in Stage 1 as at December 31, 2018	11,719	–	–	11,719
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	8,456	12,475	20,931
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(4,571)	(865)	(661)	(6,097)
Transfers to ROPA	–	–	(4,499)	(4,499)
Transfers to Stage 1	4,064	(1,980)	(2,084)	–
Transfers to Stage 2	(1,350)	1,350	–	–
Transfers to Stage 3	(1,351)	(7,101)	8,452	–
Impact on ECL of exposures transferred between stages	(3,708)	12,195	29,177	37,664
Impact on ECL of exposures that did not transfer between stages	2,699	(121)	(255)	2,323
Allowance for ECL, December 31, 2018	36,208	23,202	52,882	112,292
Personal loans:				
Allowance for ECL, January 1, 2018	20,301	11,581	338,785	370,667
Newly originated assets that remained in Stage 1 as at December 31, 2018	14,762	–	–	14,762
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	5,809	5,664	11,473
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(6,368)	(989)	1,003	(6,354)
Transfers to Stage 1	4,217	(1,260)	(2,957)	–
Transfers to Stage 2	(999)	1,303	(304)	–
Transfers to Stage 3	(2,534)	(8,619)	11,153	–
Impact on ECL of exposures transferred between stages	(4,024)	3,721	19,961	19,658
Impact on ECL of exposures that did not transfer between stages	(4,677)	(244)	(1,944)	(6,865)
Accounts written-off	–	–	(5,154)	(5,154)
Allowance for ECL, December 31, 2018	20,678	11,302	366,207	398,187
Total receivables from customers:				
Allowance for ECL, January 1, 2018	457,822	146,263	1,708,767	2,312,852
Newly originated assets that remained in Stage 1 as at December 31, 2018	394,258	–	–	394,258
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	78,682	28,129	106,811
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(236,805)	(47,966)	(56,391)	(341,162)
Transfers to ROPA	–	–	(32,058)	(32,058)
Transfers to Stage 1	65,165	(57,736)	(7,429)	–

(Forward)

	Stage 1	Stage 2	Stage 3	Total
Transfers to Stage 2	(₱25,248)	₱158,344	(₱133,096)	₱–
Transfers to Stage 3	(7,805)	(27,701)	35,506	–
Impact on ECL of exposures transferred between stages	(55,162)	(64,332)	95,452	(24,042)
Impact on ECL of exposures that did not transfer between stages	(13,871)	(3,696)	82,731	65,164
Accounts written-off	–	–	(466,893)	(466,893)
Foreign exchange adjustments	–	885	3,221	4,106
Allowance for ECL, December 31, 2018	₱578,354	₱182,743	₱1,257,939	₱2,019,036

Other receivables

	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
Allowance for ECL, January 1, 2018	₱1,205	₱–	₱–	₱1,205
Impact on ECL of exposures that did not transfer between stages	(211)	–	–	(211)
Allowance for ECL, December 31, 2018	994	–	–	994
Accrued interest receivable:				
Allowance for ECL, January 1, 2018	2,500	2,348	396,337	401,185
Newly originated assets that remained in Stage 1 as at December 31, 2018	1,778	–	–	1,778
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	777	702	1,479
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(651)	(634)	(1,434)	(2,719)
Transfers to Stage 1	834	(662)	(172)	–
Transfers to Stage 2	(330)	740	(410)	–
Transfers to Stage 3	(132)	(909)	1,041	–
Impact on ECL of exposures transferred between stages	(922)	124	2,033	1,235
Impact on ECL of exposures that did not transfer between stages	(46)	(218)	(1,744)	(2,008)
Accounts written-off	–	–	(2,766)	(2,766)
Foreign exchange adjustments	21	–	–	21
Allowance for ECL, December 31, 2018	3,052	1,566	393,587	398,205
Accounts receivable:				
Allowance for ECL, January 1, 2018	–	–	15,171	15,171
Impact on ECL of exposures that did not transfer between stages	–	–	1,200	1,200
Accounts written-off	–	–	(2,604)	(2,604)
Allowance for ECL, December 31, 2018	–	–	13,767	13,767
Sales contracts receivable				
Allowance for ECL, January 1, 2018	4,465	315	5,146	9,926
Newly originated assets that remained in Stage 1 as at December 31, 2018	41	–	–	41
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	–	43	43
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(349)	–	(193)	(542)
Transfers to Stage 1	(157)	15	142	–
Transfers to Stage 2	560	(579)	19	–
Transfers to Stage 3	46	82	(128)	–
Impact on ECL of exposures transferred between stages	(1,135)	2,690	140	1,695

(Forward)

	Stage 1	Stage 2	Stage 3	Total
Impact on ECL of exposures that did not transfer between stages	(₱457)	₱30	(₱491)	(₱918)
Allowance for ECL, December 31, 2018	3,014	2,553	4,678	10,245
Total other receivables				
Allowance for ECL, January 1, 2018	8,170	2,663	416,654	427,487
Newly originated assets that remained in Stage 1 as at December 31, 2018	1,819	–	–	1,819
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	777	745	1,522
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(1,000)	(634)	(1,627)	(3,261)
Transfers to Stage 1	677	(647)	(30)	–
Transfers to Stage 2	230	161	(391)	–
Transfers to Stage 3	(86)	(827)	913	–
Impact on ECL of exposures transferred between stages	(2,057)	2,814	2,173	2,930
Impact on ECL of exposures that did not transfer between stages	(714)	(188)	(1,035)	(1,937)
Accounts written-off	–	–	(5,370)	(5,370)
Foreign exchange adjustments	21	–	–	21
Allowance for ECL, December 31, 2018	₱7,060	₱4,119	₱412,032	₱423,211

As of December 31, 2019 and 2018, changes in the allowance for credit and impairment losses of the Group and the Parent Company follow:

	Consolidated		**Parent Company**	
	2019	2018	**2019**	2018
Balances at January 1				
Loans and receivables	**₱2,470,886**	2,805,911	**₱2,442,247**	2,740,339
Investment securities at FVTOCI	**6,076**	346	**6,076**	346
Investment securities at amortized cost	**7,485**	9,005	**7,485**	9,005
Interbank loans receivable	**1**	12	**1**	12
Investment properties (Note 14)	**214,446**	213,120	**201,186**	201,159
Other assets (Note 16)	**336,079**	335,981	**336,079**	335,981
	3,034,973	3,364,375	**2,993,074**	3,286,842
Provision for credit and impairment losses	**377,613**	267,736*	**377,613**	209,914
Revaluation of FCDU loans and other assets	**(2,407)**	4,225	**(2,407)**	4,225
Accounts written-off and others	**(811,178)**	(598,873)	**(769,279)**	(504,321)
Reversal of allowance on disposals of investment properties (Note 14)	**(16,648)**	(2,490)	**(16,648)**	(3,586)
	(452,620)	(329,402)	**(410,721)**	(293,768)
Balance at December 31:				
Loans and receivables (Note 12)	**₱2,160,760**	₱2,470,886	**₱2,160,760**	₱2,442,247
Investment securities at FVTOCI	**5,545**	6,076	**5,545**	6,076
Investment securities at amortized cost	**10,565**	7,485	**10,565**	7,485
Interbank loans receivable	**–**	1	**–**	1
Investment properties (Note 14)	**69,035**	214,446	**69,035**	201,186
Other assets (Note 16)	**336,449**	336,079	**336,449**	336,079
	₱2,582,354	₱3,034,973	**₱2,582,354**	₱2,993,074

**Includes provision for credit losses from PRBI*

Below is the breakdown of provisions for (reversals of) credit and impairment losses:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Continuing operations:						
Financial assets and other credit-related exposures:						
Loans and receivables	**₱378,688**	₱202,102	₱350,201	**₱378,688**	₱202,102	₱350,201
Investment securities at FVTOCI	**(570)**	5,730	–	**(570)**	5,730	–
Investment securities at amortized cost	**3,109**	(1,520)	–	**3,109**	(1,520)	–
Interbank loans receivable	**(1)**	(11)	–	**(1)**	(11)	–
	381,226	206,301	350,201	**381,226**	206,301	350,201
Non-financial assets:						
Investment properties	**(3,613)**	3,613	100	**(3,613)**	3,613	100
Other assets (Note 16)	–	–	(61,390)	–	–	(61,390)
	(3,613)	3,613	(61,290)	**(3,613)**	3,613	(61,290)
	₱377,613	₱209,914	₱288,911	**₱377,613**	₱209,914	₱288,911
Discontinued operation:						
Financial assets and other credit-related exposures:						
Loans and receivables	–	57,619	49,684	–	–	–
Non-financial assets:						
Investment properties	–	203	–	–	–	–
	₱377,613	₱267,736	₱338,595	**₱377,613**	₱209,914	₱288,911

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Continuing operations:						
Financial assets and other credit-related exposures:						
Loans and receivables	**₱378,688**	₱202,102	₱350,201	**₱378,688**	₱202,102	₱350,201
Investment securities at FVTOCI	**(570)**	5,730	–	**(570)**	5,730	–
Investment securities at amortized cost	**3,109**	(1,520)	–	**3,109**	(1,520)	–
Interbank loans receivable	**(1)**	(11)	–	**(1)**	(11)	–
	381,226	206,301	350,201	**381,226**	206,301	350,201
Non-financial assets:						
Investment properties	**(3,613)**	3,613	100	**(3,613)**	3,613	100
Other assets (Note 16)	–	–	(61,390)	–	–	(61,390)
	(3,613)	3,613	(61,290)	**(3,613)**	3,613	(61,290)
	₱377,613	₱209,914	₱288,911	**₱377,613**	₱209,914	₱288,911
Discontinued operation:						
Financial assets and other credit-related exposures:						
Loans and receivables	–	57,619	49,684	–	–	–
Non-financial assets:						
Investment properties	–	203	–	–	–	–
	₱377,613	₱267,736	₱338,595	**₱377,613**	₱209,914	₱288,911

18. Deposit Liabilities

On February 15, 2018, the Monetary Board of the BSP issued BSP Circular No. 997, decreasing the statutory and liquidity reserve requirement by 1% from 20% to 19% effective March 2, 2018. On May 4, 2018, the Monetary Board of the BSP issued BSP Circular No. 1004, further decreasing the statutory and liquidity reserve requirement by 1% from 19% to 18% effective June 1, 2018. LTNCDs are subject to 7% reserve requirement.

On May 29, 2019, BSP issued Circular No. 1041 decreasing the reserve requirement ratios against deposits and deposit substitutes to 17% in May, 16.5% in June and 16% in July while LTNCDs is subject to 4% reserve requirement. On October 22, 2019, Circular No. 1059 further decrese the reserve requirements to 15% and on following month, BSP issued Circular No. 1063 furhter decreasing the reserve requirements to 14% effective December 6, 2019.

As of December 31, 2019 and 2018, Due from BSP amounting to ₱8.43 billion and ₱10.46 billion, respectively, were set aside as reserves for deposit liabilities. As of December 31, 2019 and 2018, the Group is in compliance with the above regulations.

On July 26, 2018, the Monetary Board of the BSP, in its Resolution No. 1220, approved the Parent Company's issuance of the Long-Term Negotiable Certificates of Deposits (LTNCD) of up to ₱5.00 billion in one or more tranches over the course of one year, with minimum tenor of 5 years and 1 day to a maximum of 7 years. The purpose of the issuance is specifically for long-term funding.

On October 8, 2018, the Parent Company issued ₱2.90 billion worth of LTNCDs with a tenor of 5 years and 6 months. The LTNCDs will mature on April 8, 2024 and have fixed interest rate of 5.625% per annum, payable quarterly in arrears on October 8, January 8, April 8 and July 8 of each year, commencing on January 8, 2019. The LTNCDs are listed in the trading platform of the Philippine Dealing & Exchange Corp. for secondary market trading.

Interest expense on deposit liabilities consists of:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Continuing operations:						
Demand	**₱59,077**	₱61,035	₱47,023	**₱59,077**	₱61,035	₱47,023
Savings	**8,742**	8,939	8,656	**8,742**	8,939	7,841
Time	**1,266,283**	1,052,469	718,732	**1,266,283**	1,052,469	718,710
LTNCD	**167,485**	39,376	–	**167,485**	39,376	–
	₱1,501,587	₱1,161,819	₱774,411	**₱1,501,587**	₱1,161,819	₱773,574
Discontined operation:						
Savings	–	2,586	2,746	–	–	–
Time	–	54,523	57,428	–	–	–
	₱1,501,587	₱1,218,928	₱834,585	**₱1,501,587**	₱1,161,819	₱773,574

Peso-denominated deposit liabilities earn annual fixed interest rates ranging from 0.10% to 6.85% in 2019, 0.03% to 7.25% in 2018 and 0.10% to 3.50% in 2017, while foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.01% to 4.75%, 0.03% to 3.00%, and 0.13% to 3.00% in 2019, 2018 and 2017, respectively.

19. Bills Payable

This account consists of the Group's and the Parent Company's borrowings from:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Private firms and individuals	**₱9,740,875**	₱11,746,691	**₱9,740,875**	₱11,746,691
Banks and other financial institutions	**3,323,949**	5,912,392	**3,323,949**	5,844,593
	₱13,064,824	₱17,659,083	**₱13,064,824**	₱17,591,284

As of December 31, 2019 and 2018, ₱10.63 billion and ₱10.72 billion of the bills payable, respectively are collateralized by investment in government securities. Details of the securities pledged are as follows:

	2019			2018		
	Face value	**Carrying amount**	**Fair value**	Face value	Carrying amount	Fair value
FVTPL	**₱1,260,000**	**₱1,377,621**	**₱1,377,621**	₱350,000	₱332,022	₱332,022
FVTOCI	**1,000,000**	**1,093,350**	**1,093,350**	2,983,442	3,168,094	3,168,094
Investment securities at amortized cost	**7,187,818**	**8,728,602**	**8,104,030**	7,304,331	8,892,862	6,883,670
	₱9,447,818	**₱11,199,573**	**₱10,575,001**	₱ 10,637,773	₱12,392,978	₱10,383,786

Interest expense on bills payable and other borrowings consists of:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Continuing operations:						
Borrowed funds	**₱542,989**	₱467,504	₱222,078	**₱542,989**	₱467,504	₱222,078
Lease liability	**18,711**	–	–	**18,711**	–	–
Net interest cost on retirement liability (Note 27)	–	1,181	2,951	–	1,181	2,951
	₱561,700	₱468,685	₱225,029	**₱561,700**	₱468,685	₱225,029
Discontined operation:						
Borrowed funds	–	3,944	1,540	–	–	–
Net interest cost (income) on retirement liability (Note 27)	–	(223)	(1,402)	–	–	–
	₱561,700	₱472,406	₱225,167	**₱561,700**	₱468,685	₱225,029

The net interest income on retirement liability for 2019 amounted to ₱5.65 million is presented as part of miscellaneous income.

The Group has no dollar interbank borrowings as of December 31, 2019 and 2018.

The Parent Company did not avail of peso and dollar rediscounting facilities in 2019 and 2018.

Borrowings from private firms and individuals represent deposit substitutes with maturities of 1 to 216 days and bear annual interest rates ranging from 2.00% to 6.88%, 0.10% to 7.25%, and 0.50% to 3.50%in 2019, 2018 and 2017, respectively.

As of December 31, 2019 and 2018, Due from BSP amounting to ₱1.34 billion and ₱2.02 billion, respectively, were set aside as reserves for deposit substitutes.

20. Accrued Interest, Taxes and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Financial liabilities				
Accrued interest payable	**₱193,645**	₱270,932	**₱193,645**	₱252,680
Accrued other expenses	**383,360**	334,836	**383,209**	314,139
	577,005	605,768	**576,854**	566,819

(Forward)

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Non-financial liabilities				
Retirement liability (Note 27)	**₱37,155**	₱–	**₱37,155**	₱–
Accrued taxes and licenses	**98,268**	79,241	**98,268**	75,878
	135,423	79,241	**135,423**	75,878
	₱712,428	₱685,009	**₱712,277**	₱642,697

21. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Financial liabilities				
Accounts payable	**₱223,831**	₱248,010	**₱223,829**	₱232,393
Refundable security deposits	**198,434**	177,590	**198,434**	177,590
Due to the Treasurer of the Philippines	**40,679**	32,151	**40,679**	31,461
	462,944	457,751	**462,942**	441,444
Non-financial liabilities				
Deferred credits	**247,439**	218,106	**247,439**	218,047
Lease liability (Notes 28 and 33)	**270,554**	–	**270,553**	–
Withholding taxes payable	**30,454**	50,831	**30,454**	49,828
Miscellaneous	**155,932**	110,110	**154,678**	107,286
	704,379	379,047	**703,124**	375,161
	₱1,167,323	₱836,798	**₱1,166,066**	₱816,605

Miscellaneous liabilities of the Group and the Parent Company include marginal deposits, cash letters of credit, and deposit liabilities classified as dormant.

Shown below is the movement of lease liability of the Group and Parent for the year ended 2019:

	Consolidated and Parent Company
January 1, 2019	**₱192,803**
Additions	**178,209**
Lease Payments	**(119,169)**
Interest Expense	**18,711**
December 31, 2019	**₱270,554**

22. Maturity Analysis of Assets and Liabilities

The tables below show an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled:

	Consolidated					
	2019			2018		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial assets - at gross						
Cash and other cash items	**₱2,698,681**	**₱–**	**₱2,698,681**	₱1,389,869	₱–	₱1,389,869
Due from BSP	**10,213,521**	**–**	**10,213,521**	15,224,382	–	15,224,382
Due from other banks	**357,960**	**–**	**357,960**	379,723	–	379,723
Interbank loans receivable (Note 8)	**717,736**	**–**	**717,736**	206,965	–	206,965
Financial assets at FVTPL (Note 9)	**1,667,827**	**–**	**1,667,827**	893,216	–	893,216
Financial assets at FVTOCI (Note 10)	**₱251,419**	**₱7,842,943**	**₱8,094,362**	₱6,693,111	₱105,119	₱6,798,230
Investment securities at amortized cost (Note 11)	**250,168**	**12,599,332**	**12,849,500**	209,119	13,139,965	13,349,084
Loans and receivables (Note 12):						
Receivables from customers	**33,229,147**	**27,832,623**	**61,061,770**	28,678,923	31,197,609	59,876,532
Unquoted debt securities	**–**	**1,068,193**	**1,068,193**	–	1,404,422	1,404,422
Accrued interest receivable	**145,836**	**423,657**	**569,493**	553,693	355,786	909,479
Accounts receivable	**705,244**	**–**	**705,244**	333,298	–	333,298
Sales contracts receivable	**72,048**	**30,160**	**102,208**	49,194	127,194	176,388
Other assets (Note 16):						
Refundable security deposits	**–**	**34,771**	**34,771**	–	33,022	33,022
RCOCI	**128**	**–**	**128**	5,434	–	5,434
	50,309,715	**49,831,679**	**100,141,394**	54,616,927	46,363,117	100,980,044
Non-financial assets - at gross						
Investments in subsidiaries and an associate (Note 7)	**–**	**13,848**	**13,848**	–	13,318	13,318
Property and equipment (Note 13)	**–**	**2,308,724**	**2,308,724**	–	2,702,682	2,702,682
Investment properties (Note 14):						
Condominium units for Lease	**–**	**2,644,074**	**2,644,074**	–	2,561,602	2,561,602
Foreclosed properties	**–**	**796,741**	**796,741**	–	1,132,167	1,132,167
Office units for lease	**–**	**39,274**	**39,274**	–	39,274	39,274
Goodwill (Note 15)	**–**	**–**	**–**	–	182,227	182,227
Intangible assets (Note 15)	**–**	**673,089**	**673,089**	–	703,775	703,775
Deferred tax assets (Note 30)	**–**	**–**	**–**	–	74,487	74,487
Right of use assets	**97,425**	**151,046**	**248,471**			
Other assets (Note 16)	**240,559**	**855,056**	**1,095,615**	245,548	889,641	1,135,189
	337,984	**7,481,852**	**7,819,836**	245,548	8,299,173	8,544,721
	₱50,647,699	**₱57,313,531**	**₱107,961,230**	₱54,862,475	₱54,662,290	₱109,524,765
Less:						
Unearned interest and discounts (Note 12)			**(89,109)**			(150,027)
Accumulated depreciation and amortization (Notes 13, 14 and 16)			**(2,565,373)**			(2,596,519)
Allowance for credit and impairment losses (Notes 12, 16 and 17)			**(2,566,244)**			(3,028,897)
Total			**₱102,740,504**			₱103,749,322

(Forward)

	Consolidated					
	2019			2018		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial liabilities						
Deposit liabilities:						
Demand	**₱27,204,604**	**₱–**	**₱27,204,604**	₱20,257,138	₱–	₱20,257,138
Savings	**9,180,273**	**–**	**9,180,273**	7,810,642	–	7,810,642
Time	**34,903,828**	**1,690,404**	**36,594,232**	39,906,072	3,152,149	43,058,221
LTNCD	**–**	**2,902,730**	**2,902,730**	–	2,902,730	2,902,730
Bills payable (Note 19)	**12,945,293**	**119,531**	**13,064,824**	17,612,860	46,223	17,659,083
Outstanding acceptances	**91,855**	**–**	**91,855**	46,344	–	46,344
Manager's checks	**442,811**	**–**	**442,811**	97,447	–	97,447
Accrued interest payable (Note 20)	**193,645**	**–**	**193,645**	270,932	–	270,932
Accrued other expenses (Note 20)	**383,360**	**–**	**383,360**	334,836	–	334,836
Other liabilities (Note 21):		**–**			–	–
Accounts payable	**223,831**	**–**	**223,831**	248,010	–	248,010
Refundable security deposits	**18,431**	**180,003**	**198,434**	35,675	141,915	177,590
Due to the Treasurer of the Philippines	**40,679**	**–**	**40,679**	32,151	–	32,151
	85,628,610	**4,892,668**	**90,521,278**	86,652,107	6,243,017	92,895,124
Non-financial liabilities						
Deferred tax liabilities (Note 30)	**₱–**	**₱782**	**₱782**	₱–	₱66,261	₱66,261
Retirement liability (Notes 20 and 27)	**–**	**37,155**	**37,155**	–	–	–
Accrued taxes and licenses (Note 20)	**98,268**	**–**	**98,268**	79,241	–	79,241
Income tax payable	**23,441**	**–**	**23,441**	3,735	–	3,735
Other liabilities (Note 21):						
Deferred credits	**74,225**	**173,214**	**247,439**	101,463	116,643	218,106
Lease liability	**96,745**	**173,809**	**270,554**			
Withholding taxes payable	**30,454**	**–**	**30,454**	50,831	–	50,831
Miscellaneous	**103,756**	**52,176**	**155,932**	56,615	53,495	110,110
	426,889	**437,136**	**864,025**	291,885	236,399	528,284
	₱86,055,499	**₱5,329,804**	**₱91,385,303**	₱86,943,992	₱6,479,416	₱93,423,408

	Parent Company					
	2019			2018		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial assets - at gross						
Cash and other cash items	**₱2,698,681**	**₱–**	**₱2,698,681**	₱1,357,609	₱–	₱1,357,609
Due from BSP	**10,213,521**	**–**	**10,213,521**	15,168,302	–	15,168,302
Due from other banks	**357,960**	**–**	**357,960**	228,578	–	228,578
Interbank loans receivable (Note 8)	**717,736**	**–**	**717,736**	206,965	–	206,965
Financial assets at FVTPL (Note 9)	**1,667,827**	**–**	**1,667,827**	893,216	–	893,216
Financial assets at FVTOCI (Note 10)	**251,419**	**7,842,943**	**8,094,362**	6,693,111	105,119	6,798,230
Investment securities at amortized cost (Note 11)	**250,168**	**12,599,332**	**12,849,500**	209,119	13,139,965	13,349,084
Loans and receivables (Note 12):						
Receivables from customers	**33,229,147**	**27,832,623**	**61,061,770**	28,630,047	29,385,663	58,015,710
Unquoted debt securities	**–**	**1,068,193**	**1,068,193**	–	1,404,422	1,404,422
Accrued interest receivable	**145,836**	**423,657**	**569,493**	527,125	355,786	882,911
Accounts receivable	**707,998**	**–**	**707,998**	313,119		313,119
Sales contracts receivable	**72,048**	**30,160**	**102,208**	46,583	78,543	125,126
Other assets (Note 16):						
Refundable security deposits	**–**	**34,771**	**34,771**	–	30,877	30,877
RCOCI	**128**	**–**	**128**	5,434	–	5,434
	50,312,469	**49,831,679**	**100,144,148**	54,279,208	44,500,375	98,779,583

(Forward)

	Parent Company					
	2019			2018		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Non-financial assets - at gross						
Investments in subsidiaries and an associate (Note 7)	₱–	₱20,052	₱20,052	₱–	₱990,226	₱990,226
Property and equipment (Note 13)	–	2,308,724	2,308,724	–	2,527,225	2,527,225
Investment properties (Note 14):						
Condominium units for lease	–	2,644,074	2,644,074	–	2,561,602	2,561,602
Foreclosed assets	–	796,741	796,741	–	949,232	949,232
Office units for lease	–	39,274	39,274	–	39,274	39,274
Goodwill	–	–	–	–	–	–
Intangible assets (Note 15)	–	673,089	673,089	–	439,983	439,983
Deferred tax assets (Note 30)	–	–	–	–	40,808	40,808
Right of use assets	97,425	151,046	248,471			
Other assets (Note 16)	239,169	855,056	1,094,225	234,066	879,330	1,113,396
	336,594	7,488,056	7,824,650	234,066	8,427,680	8,661,746
	₱50,649,063	₱57,319,735	₱107,968,798	₱54,513,274	₱52,928,055	107,441,329
Less:						
Unearned interest and discounts (Note 12)			(89,109)			(77,862)
(Forward)						
Accumulated depreciation and amortization (Notes 13, 14 and 16)			(₱2,565,373)			(₱2,509,664)
Allowance for credit and impairment losses (Notes 12, 14, 16 and 17)			(2,566,244)			(2,986,998)
Total			₱102,748,072			₱101,866,805
Financial liabilities						
Deposit liabilities:						
Demand	₱27,213,579	₱–	₱27,213,579	₱20,262,969	₱–	₱20,262,969
Savings	9,180,273	–	9,180,273	7,262,325	–	7,262,325
Time	34,903,828	1,690,404	36,594,232	38,964,759	2,942,544	41,907,303
LTNCD	–	2,902,730	2,902,730	–	2,902,730	2,902,730
Bills payable (Note 19)	12,945,293	119,531	13,064,824	17,591,284	–	17,591,284
Outstanding acceptances	91,855	–	91,855	46,344	–	46,344
Manager's checks	442,811	–	442,811	97,447	–	97,447
Accrued interest payable (Note 20)	193,645	–	193,645	252,680	–	252,680
Accrued other expenses (Note 20)	383,209	–	383,209	314,139	–	314,139
Other liabilities (Note 21):		–				
Accounts payable	223,829	–	223,829	₱232,393	–	232,393
Refundable security deposits	18,431	180,002	198,433	35,675	141,915	177,590
Due to the Treasurer of the Philippines	40,679	–	40,679	31,461	–	31,461
	85,637,432	4,892,667	90,530,099	85,091,476	5,987,189	91,078,665
Non-financial liabilities						
Deferred tax liabilities (Note 30)		782	782			
Retirement liability (Notes 20 and 27)	–	37,155	37,155	–	–	–
Accrued taxes and licenses (Note 20)	98,268	–	98,268	75,878	–	75,878
Income tax payable	23,441	–	23,441	1,791	–	1,791
Other liabilities (Note 21):					–	–
Deferred credits	74,225	173,214	247,439	101,463	116,584	218,047
Lease liability	96,754	173,799	270,553			
Withholding taxes payable	30,454	–	30,454	49,828	–	49,828
Miscellaneous	102,502	52,178	154,680	54,313	52,973	107,286
	425,644	437,128	862,772	283,273	169,557	452,830
	₱86,063,076	₱5,329,795	₱91,392,871	₱85,374,749	₱6,156,746	₱91,531,495

23. **Equity**

Common Stock
Details and movements of common stock follow:

	Shares		Amount	
	2019	2018	**2019**	2018
Common - ₱25 par value				
Authorized	**760,000**	760,000		
Issued and outstanding				
Balance at January 1	**480,645**	480,645	**₱12,016,129**	₱12,016,129
Issuance during the year (Note 1)	**–**	–	**–**	–
Balance at December 31	**480,645**	480,645	**₱12,016,129**	₱12,016,129

The Parent Company became listed in the PSE on May 12, 1988. After its listing in the PSE, there was no succeeding offer/selling to the public of the Parent Company's shares.

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

Date of SEC Approval	Type/Class	Authorized Shares	Par Value
November 23, 1988	Common Class A	7,000,000	100
	Common Class B	3,000,000	100
June 3, 1993	Common Class A	14,000,000	100
	Common Class B	6,000,000	100
September 11, 1997	Common	65,000,000	100
April 6, 2001	Common	145,000,000	100
March 31, 2006	Common	145,000,000	100
	Preferred	120,000,000	25
March 11, 2013	Common	760,000,000	25

As reported by the Parent Company's transfer agent, AB Stock Transfers Corporation, the total number of shareholders is 357 and 405 as of December 31, 2019 and 2018, respectively.

Surplus Reserves
As of December 31, 2019 and 2018, surplus reserves consist of reserve for trust business, and self-insurance amounting to ₱105.96 million and ₱105.89 million, respectively.

In compliance with BSP regulations and RA No. 337, *The General Banking Act*, 10.00% of the Parent Company's profit from trust business is appropriated to surplus reserves. This annual appropriation is required until the surplus reserves for trust business equals 20.00% of the Parent Company's authorized capital stock. Surplus reserve for self-insurance represents the amount set aside to cover for losses due to fire, defalcation by and other unlawful acts of the Parent Company's personnel or third parties.

Deficit
The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 differs to a certain extent from the computation following BSP Guidelines.

In the consolidated financial statements, accumulated net earnings of the subsidiaries and an associate amounting to ₱8.05 million and ₱82.41 million as of December 31, 2019 and 2018, respectively, that were closed out to 'Deficit' 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.

Capital Management

The primary objectives of the Parent Company's capital management are to ensure that the Parent Company complies with regulatory capital requirements and that the Parent Company maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Parent Company 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 Parent Company 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 from the previous years.

The Parent Company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Parent Company's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("Bank for International Settlements rules/ratios") and adopted by the BSP as discussed below. The Parent Company has complied in full with all its regulatory capital requirements.

BSP approvals

On December 14, 2012, the BSP, in its Resolution No. 2088, approved the request of the Parent Company to include the ₱1.92 billion appraisal increment resulting from the revaluation of PBCom Tower as part of unimpaired and qualifying capital in computing for net worth and capital adequacy ratio. Effective January 1, 2018, the Group and the Parent Company changed their method of accounting for Investment Properties and Land from the fair value model and revaluation model, respectively, to the cost model, and restated the comparative information in its audited financial statements. As approved by the BSP, however, the Parent Company continues to include the above revaluation increment for purposes of regulatory unimpaired and qualifying capital in its computation of net worth and capital adequacy ratio. As of December 31, 2019 and 2018, the revaluation increment pertaining to PBCom Tower amounted to ₱1.63 billion.

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 Group's "qualifying capital" (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting policies which may differ from PFRS in some respects.

The BSP, under BSP Circular No. 538 dated August 4, 2006, issued the prescribed guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to Basel II recommendations. The new BSP guidelines took effect on July 1, 2007.

Below is a summary of risk weights and selected exposure types:

Risk Weight	Exposure/Asset Type*
0.00%	Cash on hand; claims collateralized by securities issued by the national government, BSP; loans covered by the Trade and Investment Development Corporation of the Philippines; real estate mortgages covered by the Home Guarantee Corporation
20.00%	Cash and other cash items, claims guaranteed by Philippine incorporated banks/quasi-banks with the highest credit quality; claims guaranteed by foreign incorporated banks with the highest credit quality; loans to exporters to the extent guaranteed by Small Business Guarantee and Finance Corporation
50.00%	Housing loans fully secured by first mortgage on residential property; Local Government Unit (LGU) bonds which are covered by Deed of Assignment of Internal Revenue allotment of the LGU and guaranteed by the LGU Guarantee Corporation
75.00%	Direct loans of defined Small Medium Enterprise and microfinance loans portfolio; non-performing housing loans fully secured by first mortgage
100.00%	All other assets (for example, real estate assets) excluding those deducted from capital (for example, deferred income tax)
150.00%	All non-performing loans (except non-performing housing loans fully secured by first mortgage) and all non-performing debt securities

*Not all inclusive

On January 15, 2013, the BSP issued Circular No. 781 on Basel III Implementing Guidelines on Minimum Capital Requirements, which provided 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 went into effect on January 1, 2014.

The Circular defines in greater detail, the quality capital a bank must maintain to cover its risks. These include:

- Tier One capital - comprises the Group's and the Parent Company's core capital resources that are immediately available to sustain the financial stability of the group. Components of tier one capital include:
  - Core-Equity Tier One or CET-1 includes paid-in shares of common stock, retained earnings and accumulated OCI. CET-1 must be the predominant form of Tier One Capital. CET-1 absorbs all deductions to capital mandated by regulation. These deductions include capital invested in affiliates, net deferred tax assets, intangible assets and goodwill items.
  - Alternative Tier One or AT-1 includes other equity type claims on a bank's statement of financial position that are sufficiently subordinate to the claims of depositors and senior creditors and whose cash flow distributions are not committed and cancellable at the option of the bank.
- Tier Two capital - includes auxiliary items, such as the general loan loss provision and appraisal increment reserves on investment property, that supplement Tier One Capital in sustaining the financial stability of the bank.

Banks must maintain CET-1 capital equivalent to 6.00%, Total Tier One capital equivalent to 7.5% and Total capital equivalent to 10% of regulatory risk weighted assets at all times.

At the end of 2019 and 2018, the Group and the Parent Company reported ratios in excess of the regulatory requirements.

Presented below are the composition of qualifying capital and the related disclosures as reported to the BSP (amounts in millions):

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
CET-1 Capital	**₱11,853**	₱10,454	**₱11,853**	₱10,537
Less: Regulatory Adjustments to CET-1	**(762)**	(960)	**(762)**	(1,441)
	11,091	9,494	**11,091**	9,096
Additional Tier 1 Capital	**–**	–	**–**	–
Less: Regulatory Adjustments to AT-1	**–**	–	**–**	–
	–	–	**–**	–
Total Tier 1 Capital	**11,091**	9,494	**11,091**	9,096
Tier 2 Capital	**2,256**	2,165	**2,256**	2,106
Less: Regulatory Adjustments to Tier 2 Capital	**–**	–	**–**	–
Total Tier 2 Capital	**2,256**	2,165	**2,256**	2,106
Total Qualifying Capital	**₱13,347**	₱11,659	**₱13,347**	₱11,202

The Group's and the Parent Company's RBCAR as reported to the BSP as of December 31, 2019 and 2018 are shown in the table below (amounts in millions):

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
CET-1 Capital:				
Paid-up common stock	**₱12,016**	₱12,016	**₱12,016**	₱12,016
Additional paid-in capital	**2,262**	2,262	**2,262**	2,262
Deficit	**(2,527)**	(3,754)	**(2,527)**	(3,671)
Net unrealized gains or losses on AFS-FVTOCI	**92**	(6)	**92**	(6)
Cumulative foreign currency translation	**(13)**	(2)	**(13)**	(2)
OCI	**23**	(62)	**23**	(62)
Minority interest in subsidiary banks	**–**	–	**–**	–
	11,853	10,454	**11,853**	10,537
Less: Regulatory Adjustments to CET-1				
Outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates	**–**	1	**–**	1
Goodwill	**667**	256	**667**	102
Other intangible assets	**74**	678	**74**	313
Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings	**–**	–	**–**	1,000
Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies	**6**	12	**6**	12
Significant minority investments	**14**	13	**14**	13
	761	960	**761**	1,441
Tier 1 Capital				
Additional Tier 1 Capital	**–**	–	**–**	–
Less: Regulatory Adjustments to AT-1	**–**	–	**–**	–
	–	–	**–**	–
Total Tier 1 Capital	**11,092**	9,494	**11,092**	9,096
Appraisal increment reserve	**1,625**	1,625	**1,625**	1,611
General loan loss provision	**630**	540	**630**	495
	2,255	2,165	**2,255**	2,106
Less: Regulatory Adjustments to Tier 2 Capital	**–**	–	**–**	–
Total Tier 2 Capital	**2,255**	2,165	**2,255**	2,106
Total Qualifying Capital	**₱13,347**	₱11,659	**₱13,347**	₱11,202

(Forward)

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Credit risk-weighted assets	**₱72,951**	₱72,848	**₱72,951**	₱70,603
Market risk-weighted assets	**1,266**	384	**1,266**	384
Operational risk-weighted assets	**6,830**	6,861	**6,830**	6,279
Total Risk Weighted Assets	**₱81,047**	₱80,093	**₱81,047**	₱77,266
CET 1 Capital Ratio	**13.69%**	11.85%	**13.69%**	11.77%
Tier 1 Capital Ratio	**13.69%**	11.85%	**13.69%**	11.77%
Total Capital Ratio	**16.47%**	14.56%	**16.47%**	14.50%

Leverage ratio

BSP also requires the Basel III Leverage Ratio (BLR), which is designed to act as a supplementary measure to the risk-based capital requirements. BLR 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.

Exposure measure is the sum of on-balance sheet exposures, derivative exposures, and off-balance sheet items. Items that are deducted completely from capital (regulatory deductions) do not contribute to leverage, hence, deducted from the exposure measure. BLR is computed as the capital measure (Tier 1 capital) divided by the total exposure measure and should not be less than 5.00%.

As of December 31, 2019, BLR of the Parent Company, as reported to the BSP, is shown in the table below (amounts, except ratios, are expressed in millions):

Tier 1 capital	₱11,092
Total exposure measure	106,379
BLR	10.43%

Internal Capital Adequacy Assessment Process (ICAAP)

The ICAAP methodology of the Parent Company was based on the minimum regulatory capital requirement under BSP Circular No. 639 which involved, first, an assessment of whether the risks covered by the Framework are fully captured; and second, an assessment of other risks the Parent Company is exposed to which are not fully captured and covered under the Framework, and an assessment of whether and how much capital to allocate against these other risks.

The ICAAP included the articulation of the Parent Company's Risk Appetite and the corresponding limit on each material risk which was deliberated upon by the ICAAP Steering Committee, ROC and endorsed to the BOD for approval.

Salient points of the 2020 ICAAP Document:

- The Parent Company's total Qualifying Capital for December 31, 2019 fully covers the capital requirements for risks under BSP Circular Nos. 538 and 639 (Pillar 1 and Pillar 2 Risks).
- The Parent Company's resulting operating environment and risk requirements from 2020 to 2022 will be guided by the Capital Development and Sustainability Plan to ensure appropriate capital coverages not only to meet the regulatory and internal capital adequacy requirements but also to ensure execution of the 3-year strategic growth within the BOD's desired appetite for capital adequacy. Realization of the capital plan will enable the Parent Company to have sufficient RBCAR, and even projecting significant excess of capital in 2020 to 2022.

24. Commitments and Contingent Liabilities

In the normal course of operations, the Group has various outstanding commitments and contingent liabilities such as guarantees, forward exchange contracts, and commitments to extend credit, which are not presented in the accompanying financial statements. The Group does not anticipate any material losses as a result of these transactions.

The Group has certain loan-related suits and claims that remain unsettled. It is not practicable to estimate the potential financial statement impact of these contingencies. However, in the opinion of management, the suits and claims, if decided adversely, will not involve sums that would have a material effect on the financial statements.

The Group is a defendant in legal actions arising from its normal business activities. Management believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the consolidated and parent company financial statements.

The adoption of the ECL model of PFRS 9 did not have a material impact on the Group's loan commitments and financial guarantee contracts as of January 1, 2018 and for the years ended December 31, 2019 and 2018.

Derivative Financial Instruments
As of December 31, 2019, the Parent Company has outstanding buy US dollar currency forwards with aggregate notional amount of US$7 million, terms of 184 days, and weighted average forward rate of ₱51.78.

As of December 31, 2018, the Parent Company has outstanding buy US dollar currency forwards with aggregate notional amount of US$3.872 million, terms of 6 days, and weighted average forward rate of ₱52.58.

In 2019, 2018 and 2017, total gain (loss) on currency forwards included under 'Trading and securities gain (loss) - others' in the statements of income amounted to ₱8.76 million, ₱0.27 million, and (₱3.23 million), respectively (see Note 26).

25. Trust Operations

Securities and other properties (other than deposits) held by the Parent Company for its customers in its fiduciary or agency capacity are not included in the statements of financial position since these are not assets of the Parent Company. Total assets held by the Parent Company's trust department amounted to ₱7.14 billion and ₱5.43 billion as of December 31, 2019 and 2018, respectively (see Note 24).

As of December 31, 2019 and 2018, government securities (included under 'Investment securities at amortized cost') owned by the Parent Company with total face value of ₱72.30 million and ₱60.00 million, respectively, are deposited with the BSP in compliance with the requirements of RA No. 337 relative to the Parent Company's trust functions.

Income from the Group's and the Parent Company's trust operations shown under 'Income from trust operations' in the statements of income amounted to ₱21.10 million, ₱15.71 million, and ₱15.40 million in 2019, 2018 and 2017, respectively.

26. **Income on Investment Securities**

Interest income on investment securities follows:

	2019	2018	2017
Investment securities at amortized cost	**₱497,929**	₱540,129	₱536,988
Financial assets at FVTPL	**159,297**	15,810	153,670
Financial assets at FVTOCI	**90,388**	168,879	–
	₱747,614	₱724,818	₱690,658

In 2019 and 2018, the Parent Company's peso-denominated investment securities earned annual interest rates ranging from 3.19% to 8.13%, while in 2017, 2.13% to 8.00%, respectively, while dollar-denominated investment securities earned annual interest rates ranging from 2.63% to 10.63%, 2.95% to 10.63%, and 1.87% to 10.63%, , respectively.

The Group's and the Parent Company's trading and securities gain (loss) - net follows:

	2019	2018	2017
Financial assets at FVTPL	**₱90,476**	(₱9,454)	(₱10,014)
Financial assets at FVTOCI	**309,176**	32,522	–
Derivatives (Note 24)	**8,761**	268	(3,229)
	₱408,413	₱23,336	(₱13,243)

27. **Employee Benefits**

The existing regulatory framework, RA No. 7641, *The Retirement Pay Law*, requires companies with at least ten employees to pay retirement benefits to qualified private sector employees in the absence of any retirement plan in the entity, provided however, that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

Defined Benefit Plans

Parent Company

The Parent Company has a funded, noncontributory defined benefit retirement plan covering substantially all of its officers and regular employees. The Parent Company's annual contribution to the retirement plan consists of a payment covering the current service cost and unfunded actuarial accrued liability. The retirement plan provides a retirement benefit based on applicable percentage of salary (100% - 150%) depending on the number of years of service (minimum of five years), a fraction of a month being considered as one whole month. The Parent Company's retirement plan is in the form of a trust administered by the Parent Company's Trust and Wealth Management Group (TWMG) under the supervision of the Retirement Board.

PRBI

PRBI has three funded, noncontributory defined benefit retirement plans that were created in 1990, 2009 and 2012. The 1990 and 2009 retirement plans cover employees who have rendered full-time service for at least ten years and provide benefits that are based only on years of service and final compensation. The 2012 plan covers substantially all of PRBI's officers and regular employees and provides benefits that are based on employee age, years of service and final compensation. PRBI's retirement plans provide retirement benefits equal to 100% of the final regular monthly salary for every year of service.

In 2017, as part of the three-way merger, the retirement plans of RBNI and RBKI were transferred to the PRBI. In April 2018, however, RBNI and RBKI employees were given two options by PRBI to either: (1) cash-in their retirement benefits based on years of service; or (2) continue length of service under their existing retirement plans.

On May 31, 2018, all RBNI and RBKI employees opted to cash-in their retirement benefits and enrolled under PRBI's 2012 plan. In July 2018, the BOD of PRBI approved the release of their retirement benefits. Consequently, on August 3, 2018, all RBNI and RBKI employees signed an Affidavit of Waiver and Quitclaim releasing and discharging any claims and/or liabilities from their previous employers (that is, RBNI and RBKI) that arose out of their employment of the said banks. The retirement plan of RBNI was subsequently terminated and the Bank recognized a gain on settlement of ₱4.69 million.

PRBI's retirement plans are administered by the Parent Company's TWMG under the supervision of PRBI's Retirement and Provident Fund Committee.

The latest actuarial valuation studies of the defined benefit retirement plans of the Group were made as of December 31, 2019.

The following table shows the actuarial valuation results for the Group and the Parent Company as of December 31, 2019 and 2018:

	2019		2018	
	Fair Value of Plan Assets	**Present Value of Obligation**	Fair Value of Plan Assets	Present Value of Obligation
Parent Company	**₱475,809**	**₱512,964**	₱456,075	₱381,725
PRBI	**–**	**–**	14,852	7,808
	₱475,809	**₱512,964**	₱470,927	₱389,533

The amounts relating to the defined benefit retirement plans are presented in the statements of financial position as follows:

	Consolidated		**Parent Company**	
	2019	2018	**2019**	2018
Retirement asset* (Note 16)	**₱–**	₱81,394	**₱–**	₱74,350
Retirement liability** (Note 20)	**(37,155)**	–	**(37,155)**	–
Net retirement asset (liability)	**(₱37,155)**	₱81,394	**(₱37,155)**	₱74,350

** Included in 'Other assets'*
*** Included in 'Accrued interest, taxes and other expenses'*

Changes in the present value of the defined benefit obligations as of December 31, 2019 and 2018 are as follows:

	Consolidated		**Parent Company**	
	2019	2018	**2019**	2018
Balance at January 1	**₱389,533**	₱500,094	**₱381,725**	₱478,028
Sale of subsidiary (Note 7)	**(7,808)**	–	**–**	–
Current service cost	**42,968**	62,245	**42,968**	59,832
Interest cost	**29,011**	28,323	**29,011**	27,726
Remeasurement gains:				

(Forward)

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Actuarial gains arising from deviations of experience from assumptions	**₱6,512**	(₱52,272)	**₱6,512**	(₱51,818)
Actuarial gains arising from changes in financial assumptions	**107,597**	(81,386)	**107,597**	(77,910)
Benefits paid	**(54,849)**	(55,816)	**(54,849)**	(54,133)
Settlements	**–**	(11,655)	**–**	–
Balance at December 31	**₱512,964**	₱389,533	**₱512,964**	₱381,725

Changes in the fair value of the plan assets as of December 31, 2019 and 2018 are as follows:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Balance at January 1	**₱470,927**	₱478,925	**₱470,927**	₱457,674
Sale of subsidiary (Note 7)	**(14,852)**		**(14,852)**	
Contributions	**37,317**	63,320	**37,317**	61,013
Interest income	**34,662**	27,365	**34,662**	26,545
Return on plan assets (excluding interest income)	**2,604**	(35,903)	**2,604**	(35,024)
Benefits paid	**(54,849)**	(55,816)	**(54,849)**	(54,133)
Settlements	**–**	(6,964)	**–**	–
Balance at December 31	**₱475,809**	₱470,927	**₱475,809**	₱456,075

The fair values of plan assets by class as of December 31, 2019 and 2018 are as follows:

	Consolidated		Parent Company	
	2019	2017	**2019**	2017
Cash and cash equivalents	**₱54,193**	₱121,495	**₱54,193**	₱118,096
Debt instruments:				
Agricultural	**67,611**	100,713	**67,611**	100,713
Real estate	**40,879**	56,015	**40,879**	55,139
Philippine government	**96,080**	47,115	**96,080**	46,732
Industrial	**64,796**	44,357	**64,796**	44,357
Holding firms	**20,127**	8,234	**20,127**	7,730
Financial intermediaries	**29,268**	1,921	**29,268**	1,921
Power, electricity and water distribution	**11,058**	–	**11,058**	–
Equity instruments:				
Real estate	**31,658**	12,015	**31,658**	10,716
Holding firms	**18,164**	40,401	**18,164**	37,164
Transport, storage and communication	**9,368**	8,345	**9,368**	8,345
Financial intermediaries	**10,470**	8,773	**10,470**	8,773
Wholesale and retail trade	**14,703**	6,467	**14,703**	6,467
Power, electricity and water distribution	**2,675**	5,151	**2,675**	5,151
Manufacturing	**559**	997	**559**	–
Others	**526**	6,475	**526**	4,850
Other assets and liabilities	**3,674**	2,453	**3,674**	(79)
	₱475,809	₱470,927	**₱475,809**	₱456,075

The Group's plan assets are carried at fair value. All equity and debt instruments have quoted prices in an active market. The fair values of other assets and liabilities, which include amounts due from other banks, accrued interest and other receivables and trust fee payables, approximate their carrying amount due to the short-term nature of these accounts.

The plan assets are diversified investments and are not exposed to concentration risk.

The Group expects to contribute ₱62.87 million to the defined retirement benefit plans in 2020.

The cost of defined benefit retirement plans, as well as the present value of the benefit obligations, are determined using actuarial valuations, which involve making various assumptions. The principal assumptions used are shown below:

	Parent Company		**PRBI**	
	2019	2018	**2019**	2018
Discount rate:				
At January 1	**7.60%**	5.80%	–	4.80% - 5.60%
At December 31	**5.30%**	7.60%	–	5.60% - 7.80%
Salary increase rate	**7.00%**	7.00%	–	5.00%
Average remaining working life	**13**	13	–	15

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption as of December 31, 2019 and 2018, assuming all other assumptions were held constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

	Increase (Decrease) in Defined Benefit Obligation			
	Consolidated		**Parent Company**	
	2019	2018	**2019**	2018
Increase in discount rate of 0.50%	**(₱10,150)**	(₱18,878)	**(₱10,150)**	(₱17,947)
Decrease in discount rate of 0.50%	**66,595**	20,540	**66,595**	19,412
Increase in salary increase rate of 0.50%	**64,370**	19,347	**64,370**	18,244
Decrease in salary increase rate of 0.50%	**(11,890)**	(17,962)	**(11,890)**	(17,037)

The amounts of defined benefit cost included in the statements of other comprehensive income as 'Remeasurement of retirement liability', gross of tax, follow:

	Consolidated			**Parent Company**		
	2019	2018	2017	**2019**	2018	2017
Actuarial gain (loss) on benefit obligation	**(₱114,109)**	₱133,658	₱33,875	**(₱114,109)**	₱129,728	₱30,339
Return on plan assets (excluding interest income)	**2,604**	(35,903)	712	**2,604**	(35,024)	1,085
Remeasurement gains in OCI	**(₱111,505)**	₱97,755	₱34,587	**(₱111,505)**	₱94,704	₱31,424

The amounts of retirement cost included in the statements of income follow:

	Consolidated			**Parent Company**		
	2019	2018	2017	**2019**	2018	2017
Current service cost*	**₱42,968**	₱62,245	₱68,081	**₱42,968**	₱59,832	₱64,837
Net interest expense (Note 19)	**(5,651)**	958	1,549	**(5,651)**	1,181	2,951
Retirement cost	**₱37,317**	₱63,203	₱69,630	**₱37,317**	₱61,013	₱67,788

**Included under 'Compensation and fringe benefits' in the statements of income*

Shown below is the maturity profile of the undiscounted benefit payments of the Group and the Parent Company as of December 31, 2019 and 2018:

	Consolidated	
Plan Year	**2019**	2018
Less than five years	**₱183,708**	₱176,247
More than five to ten years	**310,649**	290,082
Ten years and above	**3,387,844**	3,406,106
	₱3,882,201	₱3,872,435

	Parent Company	
Plan Year	**2019**	2018
Less than five years	**₱183,708**	₱174,592
More than five to ten years	**310,649**	284,555
Ten years and above	**3,387,844**	3,186,478
	₱3,882,201	₱3,645,625

Collective Bargaining Agreement (CBA)
All of the Parent Company's rank and file employees are covered by a CBA, the most recent negotiation having been signed on September 21, 2018, with an effectivity date until December 31, 2020. There had been neither dispute nor occurrence of employees' strike for the past years.

Defined Contribution Plans
Parent Company
The Parent Company employs a provident fund scheme where the Parent Company and its covered employees shall contribute 11% and 5% of the employees' basic monthly salary, respectively. Contributions are maintained under the Provident Fund account administered by the Parent Company's TWMG under the supervision of the Retirement/Provident Fund Board. As approved by the Parent Company's BOD on November 27, 2013, new officers hired after December 31, 2013, except those whose terms of employment have been negotiated prior to December 1, 2013, are no longer eligible for inclusion in the Parent Company's provident fund. The Parent Company's BOD, in its meeting held on January 27, 2016, approved a change in vesting for the retirement fund from 5 to 10 years effective for all new hires who sign up starting February 1, 2016.

Contributions paid and accrued by the Parent Company for both the Staff Provident Fund and the Retirement Fund recognized under 'Compensation and fringe benefits' in the statements of income amounted to ₱67.27 million, ₱95.95 million, and ₱103.88 million in 2019, 2018 and 2017, respectively.

PRBI
In addition to its defined benefit plans, PRBI employs three contributory funds where PRBI and its covered employees shall both contribute 5% of the employees' regular monthly salary.

Contributions paid and accrued by PRBI to the funds recognized in the statements of income under 'Compensation and fringe benefits' amounted to ₱1.20 million in 2018 and 2017.

28. **Long-term Leases**

Group as a Lessee

As of December 31, 2019 and 2018, 81.72% and 80.90% of the Parent Company's branch sites are under lease arrangements. The lease contracts are for periods ranging from one to four years and some are renewable at the Group's option under certain terms and conditions. Various lease contracts include escalation clauses, which bear an annual rent increase of 5.00% to10.00%. As of December 31, 2019 and 2018, the Group has no contingent rent payable.

As of December 31, 2019, the carrying amount of lease liabilities (included in 'Other Liabilities' in Note 21) is ₱270.55 million.

With the adoption of PFRS 16, as of December 31, 2019, the Group and the Parent Company recognized interest expense on lease liabilities (included in 'Interest and Finance Charges' in the Statement of Income) amounting to ₱18.71 million and rent expense from short-term leases and leases of low-value assets amounting to ₱55.90 million and.

Prior to PFRS 16 adoption, rent expense (included in 'Occupancy and equipment-related costs' in the statements of income) in 2018 and 2017 amounted to ₱191.02 million and ₱172.24 billion, respectively.

Shown below is the maturity of the undiscounted lease payments as of December 31, 2019 as required by PFRS 16:

	Consolidated and Parent Company
1 year or less	**46,867**
more than 1 year to 2 years	**45,224**
more than 2 years to 3 years	**41,523**
more than 3 years to 4 years	**33,163**
more than 5 years	**12,269**

Future minimum rentals payable under noncancellable operating leases are as follows:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Within one year	**₱140,168**	₱145,730	**₱140,168**	₱138,051
Beyond one year but not more than five years	**254,574**	272,830	**254,574**	256,686
Beyond five years	**1,276**	3,663	**1,276**	3,423
	₱396,018	₱422,223	**₱396,018**	₱398,160

Group as a Lessor

The Parent Company has also entered into commercial property leases on its investment properties. These noncancellable leases have remaining noncancellable lease terms of between one to five years. The Parent Company recognized rent income, included under 'Rent income' in the statements of income, amounting to ₱736.34 million, ₱661.20 million, and ₱556.25 million, in 2019, 2018 and 2017, respectively.

The Group's and the Parent Company's future minimum rentals receivable under noncancellable operating leases follow:

	2019	2018
Within one year	**₱777,329**	₱642,135
Beyond one year but not more than five years	**3,585,023**	1,530,297
Beyond five years	**1,035,475**	58,702
	₱5,397,827	₱2,231,134

29. **Miscellaneous Expenses**

This account consists of:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Continuing operations:						
Information technology	**₱83,892**	₱84,157	₱73,194	**₱83,892**	₱84,157	₱73,194
Fines, penalties and other charges	**80,604**	35,086	31,099	**80,604**	35,087	31,099
Transaction dues	**43,673**	37,043	35,129	**43,673**	37,043	35,129
Litigation and assets acquired - related expenses	**32,043**	22,184	29,731	**32,043**	22,184	25,021
Stationery and supplies	**13,506**	21,482	12,718	**13,506**	16,550	12,697
Travel	**5,485**	16,674	10,328	**5,485**	9,666	5,330
Fuel and lubricants	**11,991**	11,198	11,644	**11,991**	13,273	14,080
Brokerage fees	**37,760**	315	12,521	**37,760**	10,201	19,790
Advertising	**13,763**	9,238	5,744	**13,763**	7,393	5,744
Freight	**8,714**	5,384	7,589	**8,714**	7,224	7,589
Others	**100,963**	95,301	102,304	**100,962**	95,269	102,280
	₱432,394	₱338,062	₱332,001	**₱432,393**	₱338,047	₱331,953
Discontinued operation:						
Information technology	–	8,175	8,044	–	–	–
Fines, penalties and other charges	–	563	608	–	–	–
Transaction dues	–	260	152	–	–	–
Litigation and assets acquired - related expenses	–	1,553	–	–	–	–
Stationery and supplies	–	–	3,571	–	–	–
Travel	–	2,848	2,274	–	–	–
Fuel and lubricants	–	4,923	4,710	–	–	–
Brokerage fees	–	9,886	7,269	–	–	–
Advertising	–	38	1,426	–	–	–
Freight	–	1,882	15	–	–	–
Others	–	9,057	9,869	–	–	–
	₱432,394	₱377,247	₱369,939	**₱432,393**	₱338,047	₱331,953

Others include account maintenance charges, contractual services, and Philippine Dealing Exchange Corp. transaction fees.

30. Income and Other Taxes

Under Philippine tax laws, the RBU of the Parent Company and its subsidiaries are subject to percentage and other taxes (presented as 'Taxes and licenses' in the statements of income), as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and DST. Income taxes include corporate income tax, as discussed below, and final taxes paid, which represents final withholding tax on gross interest income from government securities and other deposit substitutes and income from FCDU transactions. These income taxes, as well as the deferred tax benefits and provisions, are presented as 'Provision for income tax' in the statements of income.

RA No. 9397, *An Act Amending National Internal Revenue Code*, provides that the RCIT rate shall be 30.00% and the interest expense allowed as a deductible expense shall be reduced by 33.00% of interest income subjected to final tax.

An MCIT of 2.00% of modified gross income is computed and compared with the RCIT. Any excess of MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, NOLCO is allowed as a deduction from taxable income in the next three years from the period of incurrence.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10.00% gross income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units is subject to a 15.00% and 7.50% final tax in 2018 and 2017, respectively. RA No. 9294, *An Act Restoring the Tax Exemption of Offshore Banking Units (OBUs) and FCDUs*, provides that the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Provision for income tax consists of:

	Consolidated			**Parent Company**		
	2019	2018	2017	**2019**	2018	2017
Continuing operations:						
Current:						
Final	**₱159,002**	₱150,912	₱139,090	**₱159,002**	₱150,912	₱139,090
RCIT	**70,626**	75,875	531	**70,626**	75,875	531
MCIT	**–**	(3,769)	56,758	**–**	(3,769)	56,758
	229,628	223,018	196,379	**229,628**	223,018	196,379
Deferred	**(27,237)**	3,263	7,585	**(27,237)**	3,263	7,669
	₱202,391	₱226,281	₱203,964	**₱202,391**	₱226,281	₱204,048
Discontinued operations:						
Current:						
Final	–	20	499	–	–	–
RCIT	–	(8,928)	18,459	–	–	–
	–	(8,908)	18,958	–	–	–
Deferred	–	10,356	(6,575)	–	–	–
	–	1,448	12,383	–	–	–
	₱202,391	₱227,729	₱216,347	**₱202,391**	₱226,281	₱204,048

Components of deferred tax assets and liabilities follow:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Deferred tax assets:				
Allowance for ECL and impairment losses	**₱485,023**	₱551,257	**₱485,023**	₱472,457
Accrued expenses	–	1,677	–	–
Unearned discounts and capitalized interest	–	295	–	–
Unamortized past service cost	–	773	–	–
Excess of MCIT over RCIT	**5,021**	–	**5,021**	–
	₱490,044	₱554,002	**₱490,044**	₱472,457
Deferred tax liabilities:				
Revaluation increment credited to surplus free	**₱399,979**	₱399,979	**₱399,979**	₱399,979
Branch licenses acquired from business combinations	**78,780**	78,870	**78,780**	–
Excess of fair value over carrying value of the net assets acquired from business combinations	–	28,200	–	–
Remeasurement gain on retirement liability		23,524		22,306
Unrealized gain on equity securities carried at FVTOCI	**9,364**	9,364	**9,364**	9,364
Gain on disposal of foreclosed of properties	–	5,839	–	–
Unrealized foreign exchange gain	**2,703**	–	**2,703**	–
	₱490,826	₱545,776	**₱490,826**	₱431,649

Provision for (benefit from) income tax directly charged to OCI by the Group in 2019, 2018 and 2017 amounted to (₱8.16 million), ₱12.32 million and ₱8.69 million, respectively.

Provision for income tax directly charged to OCI by the Parent Company in 2019, 2018 and 2017 amounted to(₱8.16 million), ₱11.40 million and ₱7.91 million, respectively.

Deferred tax assets and liabilities are presented in the statements of financial position as follows:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Deferred tax assets	**₱–**	₱74,487	**₱–**	₱40,808
Deferred tax liabilities	**782**	66,261	782	–

The ultimate realization of deferred tax assets is dependent on the generation of future taxable income. In assessing the realizability of its deferred tax assets, the Group considers projected future taxable income, reversal of temporary differences, and tax planning strategies.

The Group assessed that not all of its deferred tax assets may be realized in the future. Accordingly, the Group did not set up deferred tax assets on the following temporary differences and excess MCIT over RCIT:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Allowance for ECL/credit and impairment losses	**₱769,664**	₱1,241,026	**₱769,664**	₱1,047,911
Advance rental income	**29,416**	139,240	**29,416**	50,741
Unamortized past service cost	**28,495**	41,730	**28,495**	41,730
Accrued expenses	–	77,119	–	77,119
Unrealized foreign exchange loss	–	2,565	–	2,565
	₱827,575	₱1,501,680	**₱827,575**	₱1,220,066

Details of the Parent Company's MCIT are as follow:

Inception Year	Amount	Used Amount	Expired Amount	Balance	Expiry Year
2017	₱3,769	₱3,769	–	–	2020
2019	5,020	–	–	5,020	2022
Total	₱8,789	₱3,769	₱–	₱5,020	

A reconciliation between the statutory income tax and the effective income tax follows:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Statutory income tax	**₱476,417**	₱256,190	₱183,842	**₱425,170**	₱255,754	₱307,142
Tax effects of:						
Nondeductible expenses and others	**33,003**	114,355	110,412	**101,525**	109,317	96,652
FCDU income before income tax	**(142,199)**	(81,707)	(49,987)	**(142,199)**	(81,707)	(49,987)
Interest income subjected to final tax	**(31,265)**	(42,933)	(27,418)	**(31,265)**	(42,783)	(27,601)
Nontaxable income	**(15,818)**	(21,283)	(16,113)	**(33,093)**	(15,650)	(17,763)
Changes on unrecognized deferred tax assets	**(117,747)**	3,107	15,611	**(117,747)**	1,350	(3,337)
Effective income tax	**₱202,391**	₱227,729	₱216,347	**₱202,391**	₱226,281	₱305,106

31. **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 Parent Company's related parties include key management personnel, close family members of key management personnel, affiliates (that is, entities which are controlled, significantly influenced by or for which significant voting power is held by the Parent Company or key management personnel or their close family members and retirement plan for the benefit of the Group's employees).

The Parent Company has business relationships with certain related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

Retirement Plans

Under PFRS, certain post-employment benefit plans are considered as related parties. The Parent Company has a business relationship with its and PRBI's defined benefit and contribution plans, as it provides trust and management services to the plans. Any investments made in the retirement plans are approved by the Parent Company's and PRBI's respective Retirement Board. The Parent Company's Retirement Board is comprised of senior officers of the Parent Company while PRBI's Retirement Board is comprised of its senior officers. Income earned by the Parent Company (presented as part of 'Income from trust operations' in the statements of income) from such services amounted to ₱4.63 million in 2019, ₱4.64 million in 2018, and ₱4.55 million in 2017. Total deposits maintained by the related party retirement plans with the Parent Company amounted to ₱6.15 million and ₱51.40 million as of December 31, 2019 and 2018, respectively.

Key Management Personnel

Key management personnel are those persons with authority and responsibility for planning, directing and controlling the activities of the Parent Company, directly or indirectly. The Parent Company considers the members of the Senior Management Team to constitute key management personnel for purposes of PAS 24.

Total remunerations of key management personnel are as follows:

	2019	2018	2017
Short-term benefits	**₱129,744**	₱142,480	₱153,150
Post-employment benefits	**4,445**	5,659	7,548
	₱134,189	₱148,139	₱160,698

Details on significant related party transactions of the Parent Company follow:

	2019		
Category	**Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Significant investors:			
Deposit liabilities	**₱3,195,068**	**₱8,388,615**	Savings and time deposit accounts with annual interest rates ranging from 0.10% to 6.50%.
Interest expense	**88,353**	–	
Depreciation expense	**20,365**	–	Branch and office space leased for five years ending in various years, with 5.00% annual escalation.
Interest expense	**4,774**		
Rent income	**3,946**	–	5-year lease of branches, subject to pre-termination, with escalation rate of 5%.
Affiliate:			
Deposit liabilities	**240**	**14,563**	Demand, savings and time deposit accounts with annual interest rates ranging from 0.10% to 3.00%.
Interest expense	**435**	–	
Rent income	**149**	–	5-year lease expiring in July 2023 with 5.00% annual escalation.
Subsidiaries:			
Deposit liabilities	**(1,265)**	**14,545**	Demand and savings deposit accounts with annual interest rates ranging of 0.10% to 0.13%.
Rent income	**27**	–	3-year lease expiring in May 2020 with 7.50% and 10.00% annual escalation on second and third year, respectively.
Key management personnel:			
Deposit liabilities	**(9,883)**	**16,539**	Savings and time deposit accounts with annual interest rates ranging from 0.10% to 3.00%.
Interest expense	**453**	–	
Provident fund:			
Deposit liabilities	**(15,818)**	**5,209**	Savings and time deposit accounts with annual interest rates ranging from 0.10% to 1.25%.
Interest expense	**583**	–	
Trust fee	**2,267**	–	A certain percentage of the monthly ending market value of the fund depending on agreement.
Retirement fund:			
Deposit liabilities	**(29,435)**	**941**	Savings and time deposit accounts with annual interest rates ranging from 0.10%
Interest expense	**580**	–	
Trust fee	**2,364**	–	A certain percentage of the monthly ending market value of the fund depending on agreement.

	2018		
Category	Volume	Outstanding Balance	Nature, Terms and Conditions
Significant investors:			
Deposit liabilities	₱3,373,142	₱5,193,547	Savings and time deposit accounts with annual interest rates ranging from 0.10% to 2.38%.
Interest expense	78,561	–	
Rent expense	30,735	–	Branch and office space leased for five years ending in various years, with 5.00% annual escalation.
Rent income	4,225	–	5-year lease of branches, subject to pre-termination, with escalation rate of 5%.

(Forward)

Category	Volume	Outstanding Balance	Nature, Terms and Conditions
	2018		
Affiliate:			
Deposit liabilities	(399)	14,323	Demand, savings and time deposit accounts with annual interest rates ranging from 0.10% to 1.50%.
Interest expense	59	−	
Rent income	156	−	5-year lease expiring in July 2018, with 5.00% annual escalation.
Subsidiaries:			
Deposit liabilities	(75,977)	15,810	Demand and savings deposit accounts with annual interest rates ranging of 0.10% to 0.13%.
Interest expense	30	−	
Rent income	174	−	3-year lease expiring in May 2020 with 7.50% and 10.00% annual escalation on second and third year, respectively.
Key management personnel:			
Deposit liabilities	13,611	26,242	Savings and time deposit accounts with annual interest rates ranging from 0.10% to 3.50%.
Interest expense	123	−	
Provident fund:			
Deposit liabilities	(36,263)	21,027	Savings and time deposit accounts with annual interest rates ranging from 0.10% to 2.00%.
Interest expense	1,854	−	
Trust fee	2,331	−	A certain percentage of the monthly ending market value of the fund depending on agreement.
Retirement fund:			
Deposit liabilities	(58,016)	30,377	Savings and time deposit accounts with annual interest rates ranging from 0.10% to 2.00%.
Interest expense	2,167	−	
Trust fee	2,306	−	A certain percentage of the monthly ending market value of the fund depending on agreement.

Category	Volume	Outstanding Balance	Nature, Terms and Conditions
	2017		
Significant investors:			
Deposit liabilities	(₱763,897)	₱1,820,405	Savings and time deposit accounts with annual interest rates ranging from 0.10% to 2.38%.
Interest expense	7,827	−	
Rent expense	21,922	−	Branch and office space leased for five years ending in various years, with 5% annual escalation.
Rent income	3,567	−	5-year lease of branches, subject to pre-termination, with escalation rate of 5.00%.
Affiliate:			
Deposit liabilities	(88)	14,722	Demand, savings and time deposit accounts with annual interest rates ranging from 0.10% to 1.50%.
Interest expense	115	−	
Rent income	133	−	5-year lease expiring in July 2018, with 5.00% annual escalation.
Subsidiaries:			
Deposit liabilities	(27,677)	91,787	Demand and savings deposit accounts with annual interest rates ranging of 0.10% to 0.13%.
Interest expense	304	−	
Rent income	168	−	3-year lease expiring in May 2020 with 7.50% and 10.00% annual escalation on second and third year, respectively.
Key management personnel:			
Deposit liabilities	2,440	12,631	Savings and time deposit accounts with annual interest rates ranging from 0.10% to 3.50%.
Interest expense	15	−	
Provident fund:			
Deposit liabilities	19,436	57,290	Savings and time deposit accounts with annual interest rates ranging from 0.10% to 2.00%.
Interest expense	460	−	
Trust fee	2,379	−	A certain percentage of the monthly ending market value of the fund depending on agreement.
Retirement fund:			
Deposit liabilities	28,382	88,393	Savings and time deposit accounts with annual interest rates ranging from 0.10% to 2.00%.
Interest expense	709	−	
Trust fee	2,175	−	A certain percentage of the monthly ending market value of the fund depending on agreement.

32. Financial Performance

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.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2019	2018	2017
Net income attributable to equity holders of the Parent Company	**₱1,157,257**	₱626,233	₱396,456
Weighted average number of common shares outstanding	**480,645**	480,645	480,645
Basic/diluted earnings per share	**₱2.41**	₱1.30	₱0.82

As of December 31, 2019, 2018 and 2017, there are no outstanding dilutive potential common shares.

33. Notes to Statements of Cash Flows

The amounts of interbank loans receivable and SPURA considered as cash and cash equivalents as of December 31, 2019, 2018 and 2017 follow:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Interbank loans receivable and SPURA shown under statements of cash flows	**₱717,736**	₱193,820	₱472,513	**₱717,736**	₱193,820	₱472,513
Interbank loans receivable and SPURA not considered as cash and cash equivalents	–	13,145	62,412	–	13,145	62,412
Allowance for ECL	–	(1)	–	–	(1)	–
	₱717,736	₱206,964	₱534,925	**₱717,736**	₱206,964	₱534,925

The following is a summary of noncash activities:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Noncash operating activities:						
Additions to investment properties from settlement of loans (Note 14)	**₱210,003**	₱113,017	₱40,909	**₱210,003**	₱101,263	₱38,870
Additions to chattel mortgage from settlement of loans	**112,024**	180,562	167,196	**112,024**	180,484	167,196
Noncash investing activities:						
Transfer to property and equipment from investment properties (Notes 13 and 14)	**(53,494)**	–	895	**(53,494)**	–	(1,416)
Transfer to investment properties from property and equipment (Notes 13 and 14)	**53,494**	–	(895)	**53,494**	–	1,416
Transfer to property and equipment from other assets (Notes 13 and 16)	**6,619**	7,014	16,291	**6,619**	7,014	16,291
Transfer to other assets from property and equipment (Notes 13 and 16)	**(6,619)**	(7,014)	(16,291)	**(6,619)**	(7,014)	(16,291)
Additional investments in subsidiary in the form of reinvested dividend (Note 7)	**–**	–	–	**–**	–	–

The changes in liabilities arising from the Group's financing activities in 2019, 2018 and 2017 are as follows:

	January 1, 2019	**Cash Flows**	**Derecognition of Subsidiary**	**Foreign Exchange Movement**	**December 31, 2019**
Bills payable (Note 19)	**₱17,659,043**	**(₱4,537,163)**	**(₱67,758)**	**₱10,702**	**₱13,064,824**
Outstanding acceptances	**46,344**	**50,412**	**–**	**(4,901)**	**91,855**
Marginal deposits*	**304**	**34,044**		**–**	**34,348**
Total liabilities from financing activities	**₱17,705,691**	**(₱4,452,707)**	**(₱67,758)**	**₱5,801**	**₱13,191,027**

** Included in 'Other liabilities'*

	January 1, 2018	Cash Flows	Foreign Exchange Movement	December 31, 2018
Bills payable (Note 19)	₱12,567,399	₱5,096,599	(₱4,915)	₱17,659,083
Outstanding acceptances	64,085	(19,683)	1,942	46,344
Marginal deposits*	532	(228)	–	304
Total liabilities from financing activities	₱12,632,016	₱5,076,688	(₱2,973)	₱17,705,731

** Included in 'Other liabilities'*

	January 1, 2017	Cash Flows	Foreign Exchange Movement	December 31, 2017
Bills payable (Note 19)	₱10,099,384	₱2,468,233	(₱218)	₱12,567,399
Outstanding acceptances	34,357	28,895	833	64,085
Marginal deposits*	165	367	–	532
Total liabilities from financing activities	₱10,133,906	₱2,497,495	₱615	₱12,632,016

** Included in 'Other liabilities'*

The changes in liabilities arising from the Parent Company's financing activities in 2019, 2018 and 2017 are as follows:

	January 1, 2019	**Cash Flows**	**Derecognition of Subsidiary**	**Foreign Exchange Movement**	**December 31, 2019**
Bills payable (Note 19)	**₱17,659,043**	**(₱4,537,163)**	**(₱67,758)**	**₱10,702**	**₱13,064,824**
Outstanding acceptances	**46,344**	**50,412**	**–**	**(4,901)**	**91,855**
Marginal deposits*	**304**	**34,044**		**–**	**34,348**
Total liabilities from financing activities	**₱17,705,691**	**(₱4,452,707)**	**(₱67,758)**	**₱5,801**	**₱13,191,027**

** Included in 'Other liabilities'*

	January 1, 2018	Cash Flows	Foreign Exchange Movement	December 31, 2018
Bills payable (Note 19)	₱12,567,399	₱5,028,800	(₱4,915)	₱17,591,284
Outstanding acceptances	64,085	(19,683)	1,942	46,344
Marginal deposits*	532	(228)	–	304
Total liabilities from financing activities	₱12,632,016	₱5,008,889	(₱2,973)	₱17,637,932

** Included in 'Other liabilities'*

	January 1, 2017	Cash Flows	Foreign Exchange Movement	December 31, 2017
Bills payable (Note 19)	₱10,099,384	₱2,468,233	(₱218)	₱12,567,399
Outstanding acceptances	34,357	28,895	833	64,085
Marginal deposits*	165	367	–	532
Total liabilities from financing activities	₱10,133,906	₱2,497,495	₱615	₱12,632,016

** Included in 'Other liabilities'*

Below is the movement of lease liability of the Group and Parent for the year ended 2019:

January 1, 2019	Additions	Cash Flows	Interest Expense	December 31, 2019
₱192,803	**₱178,209**	**(₱119,169)**	**₱18,711**	**₱270,554**

34. 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 (amounts in thousands).

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**		**Net exposure [c−d]**
				Financial instruments	**Fair value of financial collateral**	
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Financial liabilities						
Bills payable	**₱10,628,041**	**₱–**	**₱10,628,041**	**₱11,199,573**	**₱10,575,001**	**₱53,040**

December 31, 2018

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		Net exposure [c−d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Financial liabilities						
Bills payable	₱10,719,634	₱–	₱10,719,634	₱12,392,978	₱10,383,786	₱335,848

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.

35. **Events after Reporting Period**

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhance community quarantine throughout the island of Luzon until April 12, 2020, unless earlier lifted or extended. These measures have caused disruptions to businesses and economic activities, and its impact on business to continue to evolve.

PBCOM has activated its BCP (Business Continuity Plan) early on and adjusted rapidly when it became a pandemic situation. It's priority was to ensure that while we provide continued services to our customers, the Bank has to protect its people as well as service providers. Skeletal workforce was deployed while WFH (work-from-home) arrangements were activated. Selective branches were kept open in Metro Manila while critical functions were tasked to report for work, but still practicing social distancing and protection. Employees who were asked to report for work were given allowances. PBCOM has mobilized and kept its online facilities up all the time. It has also reduced fund transfer fees to other banks to P1.00. OTC (over-the-counter) transactions within branches are free. PBCom had given temporary relief in amortization payments to its borrowers following the rules of the Bayanihan Act. It is prepared to provide assistance if clients need to enter into a restructuring agreement.

The Company considers the events surrounding the outbreak as non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended December 31, 2019. However, the outbreak could have a material impact on its 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Company cannot determine at this time the impact to its financial position, performance and cash flows. Several steps, however, are being made to help manage the financial risks brought about by the outbreak:

- Prudence will be key in the way moving forward. The Bank will aim for protection of assets and weigh things before thinking of aggressively moving forward.
- Rapid portfolio review is being completed to help assess possible impact to the bank's lending portfolio in both corporate and consumer segments.
- The Bank is preparing to assist borrowers who will need a longer repayment plan to be able to support their operations post Covid-19.
- Re-prioritisation of planned capital outlay, with priority to be given to projects with high impact in either business volume or service delivery as well as to alternate channels in online space; and
- Review relevance of existing distribution channels and products

The Company will continue to monitor the situation.

Effective on March 30,2020, reserve requirement with the BSP is equal to 12.00% of customer deposits. The BSP's move to slash the reserve requirement ratio was in response to the market liquidity threat brought about by the coronavirus disease 2019 (COVID-19) outbreak. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group

36. **Approval for Release of the Financial Statements**

The financial statements were authorized for issue by the BOD of the Parent Company on April 29, 2020.

37. **Standards Issued but not yet Effective**

Pronouncements issued but not yet effective are listed below. The Group intends to adopt the following pronouncements when they become effective. The adoption of these pronouncements is not expected to have a significant impact on the Group's financial statements unless otherwise indicated.

<u>Effective beginning on or after January 1, 2020</u>

- Amendments to References to the *Conceptual Framework in PFRS*
  The amendments include a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance-in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurements uncertainty in financial reporting. The amendments should be applied retrospectively unless retrospective application would be impracticable or involve undue cost or effort.

- Amendments to PFRS 3, *Business Combinations, Definition of a Business*
  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*
  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

<u>Effective beginning on or after January 1, 2023</u>

- PFRS 17, *Insurance Contracts*
  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (that is, life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted.

Deferred Effectivity

- Amendments to PFRS 10 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.

38. Report on the Supplementary Information Required Under BSP Circular No. 1074

On February 7, 2020, the BSP issued Circular No. 1074 which amends certain provisions of Section 174 of the Manual of Regulations for Banks relating to the audited financial statements. It also required banks to disclose the following supplementary information in the financial statements:

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 (a/b)	**10.68%**	6.18%	4.39%	**10.67%**	6.17%	4.38%
a) Net income	**1,157,257**	626,237	396,459	**1,157,257**	626,233	389,456
b) Average total equity	**10,840,557**	10,134,543	9,041,004	**10,845,255**	10,143,939	9,049,858
Return on average assets (a/c)	**1.12%**	0.63%	0.45%	**1.13%**	0.64%	0.46%
c) Average total assets	**103,244,912**	99,430,297	88,989,233	**102,307,438**	97,569,211	87,017,960
Net interest margin (d/e)	**3.85%**	3.71%	3.92%	**3.90%**	3.80%	4.04%
d) Net interest income	**3,205,032**	2,869,808	2,664,502	**3,205,032**	2,869,808	2,665,009
e) Average interest earning assets	**83,216,561**	77,402,722	68,021,965	**82,213,352**	75,431,531	65,979,837

Description of Capital Instruments Issued

As of December 31, 2019 and 2018, the Parent Company has outstanding capital stock shown below:

	Shares		Amount	
	2019	2018	**2019**	2018
Common - ₱25 par value				
Authorized	**760,000**	760,000		
Issued and outstanding				
Balance at January 1	**480,645**	480,645	**₱12,016,129**	₱12,016,129
Issuance during the year (Note 1)	**–**	–	**–**	–
Balance at December 31	**480,645**	480,645	**₱12,016,129**	₱12,016,129

Significant Credit Exposures as to Industry Sector

The information on the concentration of credit as to industry before taking into account the allowance for ECL follows:

	Consolidated				Parent Company			
	2019		2018		**2019**		2018	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Wholesale and retail trade, repair of motor vehicles, motorcycles	**₱14,522,833**	**23.82**	₱12,102,137	20.26	**₱14,522,833**	**23.82**	₱12,027,801	20.76
Real estate activities	**13,262,342**	**21.75**	12,547,912	21.01	**13,262,342**	**21.75**	12,547,971	21.66
Manufacturing	**11,117,955**	**18.23**	9,478,683	15.87	**11,117,955**	**18.23**	9,478,683	16.36
Accommodation and food service activities	**3,916,028**	**6.42**	3,143,170	5.26	**3,916,028**	**6.42**	3,143,170	5.43
Electric, gas, steam and air-conditioning supply	**3,256,313**	**5.34**	3,419,905	5.73	**3,256,313**	**5.34**	3,419,905	5.90
Construction	**3,251,380**	**5.33**	2,270,234	3.80	**3,251,380**	**5.33**	2,270,232	3.92
Financial and insurance activities	**3,054,853**	**5.01**	3,190,770	5.34	**3,054,853**	**5.01**	3,190,770	5.51
Activities of households as employers and undifferentiated goods and services-producing activities of households for own use	**2,215,087**	**3.63**	8,119,399	13.60	**2,215,087**	**3.63**	6,521,909	11.26
Other service activities	**2,084,953**	**3.42**	544,781	0.91	**2,084,953**	**3.42**	494,158	0.85
Transportation and storage	**1,541,078**	**2.53**	2,546,672	4.26	**1,541,078**	**2.53**	2,546,672	4.40
Agriculture, forestry and fishing	**1,346,003**	**2.21**	1,201,574	2.02	**1,346,003**	**2.21**	1,135,310	1.96
Human health and social work activities	**732,198**	**1.20**	103,760	0.17	**732,198**	**1.20**	103,760	0.18
Mining and quarrying	**164,509**	**0.27**	237,709	0.40	**164,509**	**0.27**	237,709	0.40
Education	**94,264**	**0.15**	41,667	0.07	**94,264**	**0.15**	41,667	0.07
Others	**412,865**	**0.68**	778,132	1.30	**412,865**	**0.68**	778,131	1.34
	₱60,972,661	**100.00**	₱59,726,505	100.00	**₱60,972,661**	**100.00**	₱57,937,848	100.00

Breakdown of Total Loans as to Security

The information (gross of unearned discounts and capitalized interest) relating to receivables from customers as to secured and unsecured and as to collateral follows:

	Consolidated				Parent Company			
	2019		2018		**2019**		2018	
	Amount	**%**	Amount	%	**Amount**	**%**	Amount	%
Loans secured by:								
Real estate	**₱16,220,369**	**26.56**	₱16,649,862	27.81	**₱16,220,369**	**26.56**	₱16,550,671	28.53
Chattel	**1,410,702**	**2.31**	4,718,651	7.88	**1,410,702**	**2.31**	4,718,403	8.13
Deposit hold-out	**964,720**	**1.58**	929,744	1.55	**964,720**	**1.58**	881,009	1.52
Securities and others	**4,152,966**	**6.80**	3,417,031	5.71	**4,152,966**	**6.80**	3,417,031	5.89
Secured	**22,748,757**	**37.26**	25,715,288	42.95	**22,748,757**	**37.26**	25,567,114	44.07
Unsecured loans	**38,313,013**	**62.74**	34,161,244	57.05	**38,313,013**	**62.74**	32,448,596	55.93
	₱61,061,770	**100.00**	₱59,876,532	100.00	**₱61,061,770**	**100.00**	₱58,015,710	100.00

Breakdown of Total Loans as to Status

The table below shows the status of the Group and the Parent Company's loans (gross of unearned discounts and capitalized interest) as to performing and non-performing loans (NPL) per product line as reported to BSP.

	Consolidated			
	2019		2018	
	Performing	**NPL**	Performing	NPL
Corporate loans	**₱52,758,779**	**₱1,090,098**	₱44,107,813	₱1,154,707
Consumer loans				
Auto	**813,258**	**435,574**	5,371,264	394,609
Home	**4,571,004**	**270,245**	5,584,050	175,549
Personal	**593,869**	**528,943**	2,192,112	896,428
	₱58,736,910	**₱2,324,860**	₱57,255,239	₱2,621,293

	Parent Company			
	2019		2018	
	Performing	**NPL**	Performing	NPL
Corporate loans	**₱52,758,779**	**₱1,090,098**	₱44,107,813	₱1,154,707
Consumer loans				
Auto	**813,258**	**435,574**	5,371,264	394,609
Home	**4,571,004**	**270,245**	5,584,050	175,549
Personal	**593,869**	**528,943**	748,437	479,281
	₱58,736,910	**₱2,324,860**	₱55,811,564	₱2,204,146

In accordance with BSP Circular No. 941, *Amendments to the Regulations on Past Due and Non-Performing Loans*, loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, if it satisfies the following conditions:

a. It is considered impaired under existing accounting standards;
b. It is classified as doubtful or loss;
c. It is under litigation; and
d. 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 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

Non-performing loans, investments, receivables, or any financial asset (and/or any replacement loan) shall remain classified as such until:

a. There is sufficient evidence to support that full collection of principal and interests is probable and at least six consecutive payments of the required amortization of principal and/or interest are received; or
b. Written-off.

As of December 31, 2019 and 2018, based on the definition of NPLs under MORB Section X306.2, NPLs of ₱1.07 billion for 2019 and ₱621.75 million for 2018, which the Group reported to the BSP are net of specific allowance amounting to ₱1.25 billion and ₱2.00 billion, respectively. Gross and net NPL ratios of the Group are 3.82% and 1.76% for 2019, respectively, and 4.40% and 1.04% for 2018, respectively.

As of December 31, 2019 and 2018, based on the definition of NPLs under MORB Section X306.2, NPLs of ₱1.07 billion for 2019 and ₱590.46 million for 2018, which the Parent Company reported to the BSP are net of specific allowance amounting to ₱1.25 billion and ₱1.70 billion, respectively. Gross and net NPL ratios of the Parent Company are 3.82% and 1.76% for 2019, respectively, and 3.84% and 1.03% for 2018, respectively.

Information on Related Party Loans

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

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

	Consolidated		**Parent Company**	
	2019	2018	**2019**	2018
Total outstanding DOSRI loans	**₱3,857**	₱25,874	**₱3,857**	₱17,531
Total outstanding DOSRI loans granted under regulations existing prior to BSP Circular No. 423	**3,857**	25,874	**3,857**	17,531
New DOSRI loans granted under BSP Circular No. 423	**–**	–	**–**	–
Total outstanding non-DOSRI loans prior to BSP Circular No. 423	**60,882,337**	59,527,212	**60,882,337**	57,321,245
Percent of DOSRI loans to total loans	**0.01%**	0.04%	**0.01%**	0.03%
Percent of unsecured DOSRI loans to total DOSRI loans	**32.89%**	74.79%	**32.89%**	62.79%
Percent of past due DOSRI loans to total DOSRI loans	**0.00%**	0.04%	**0.00%**	0.06%
Percent of nonperforming DOSRI loans to total DOSRI loans	**0.00%**	0.04%	**0.00%**	0.06%

The amounts of loans and receivables 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. As of December 31, 2019 and 2018, the Parent Company is in compliance with these requirements.

Any violation of the provisions of BSP Circular No. 423 is subject to regulatory sanctions. However, loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines that are not considered DOSRI (non-DOSRI) accounts prior to the issuance of BSP Circular No. 423 are not covered by such sanctions for a transition period of two years from the effectivity of this Circular or until said loan, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

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.

Aggregate Amount of Secured Liabilities and Assets Pledged as Security
As of December 31, 2019 and 2018, 'Bills payable' amounting to ₱10.63 billion and ₱10.72 billion, respectively, are secured by a pledge of certain 'Financial assets at FVTPL amounting to ₱1.38 billion and ₱0.33 billion, respectively, 'Financial assets at FVOCI' amounting to ₱1.09 billion and ₱ 3.17 billion respectively, and 'Investment securities at amortized cost' amounting to ₱8.73 billion and ₱8.89 billion, respectively.

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:

	2019	2018
Trust department accounts (Note 25)	**₱7,144,650**	₱5,425,824
Standby LC	**1,340,632**	517,012
Spot exchange:		
Bought	**1,052,313**	630,800
Sold	**927,871**	630,508
Usance LC outstanding	**80,843**	128,412
Outstanding shipping guarantees	**218,883**	534,542
Sight LC outstanding	**594,933**	654,229
Deficiency claims receivable	**–**	–
Outward bills for collection	**117,541**	16,977
Currency forwards:		
Bought	**–**	203,574
Sold	**354,445**	204,301
Inward bills for collection	**22,916**	284,355
Items held for safekeeping	**37**	98
Items held as collateral	**7**	11
Other contingencies	**16,055**	89,852

39. Supplementary Information Under Revenue Regulations 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:

GRT	₱363,948
DST	204,076
Local taxes	41,705
Fringe benefit taxes	3,306
Others	11,080
	₱624,115

Withholding Taxes
Details of total remittances in 2019 and outstanding balance of withholding taxes as of December 31, 2019 follow:

	Total Remittances	Balance as of December 31
Final withholding taxes	₱389,304	₱9,648
Withholding taxes on compensation and benefits	110,777	17,350
Expanded withholding taxes	32,038	3,456
	₱532,119	₱30,454

Tax Assessments and Cases
As of December 31, 2019, the Parent Company has outstanding cases filed in courts for various claims for tax refund amounting to ₱181.68 million..

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

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 Stockholders and the Board of Directors
Philippine Bank of Communications
PBCom Tower, 6795 Ayala Avenue
Corner V. A. Rufino Street, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Philippine Bank of Communications and subsidiaries (the Group) and the financial statements of Philippine Bank of Communications (the Parent Bank) as at December 31, 2019, included in this Form 17-A, and have issued our report thereon dated April 29, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Revised Securities Regulation Code Rule 68, and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas

Ray Francis C. Balagtas
Partner
CPA Certificate No. 108795
SEC Accreditation No. 1510-AR-1 (Group A),
September 18, 2018, 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

April 29, 2020

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

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
ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Philippine Bank of Communications
PBCom Tower, 6795 Ayala Avenue
Corner V. A. Rufino Street, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Philippine Bank of Communications and subsidiaries (the Group) and the financial statements of Philippine Bank of Communications (the Parent Bank) as at December 31, 2019 and 2018, and for each of the three years in the period ended December 31, 2019 and have issued our report thereon dated April 29, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas

Ray Francis C. Balagtas
Partner
CPA Certificate No. 108795
SEC Accreditation No. 1510-AR-1 (Group A),
September 18, 2018, 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

April 29, 2020