2019 ANNUAL REPORT

SEC NO. 16962
FILE NO.

CHINA BANK SAVINGS, INC.
(COMPANY'S NAME)

CBS BUILDING
314 Sen. Gil J. Puyat Avenue, Makati City
(COMPANY'S ADDRESS)

8-988-95-55
(TELEPHONE NUMBER)

DECEMBER 31
(FISCAL YEAR ENDING MONTH AND DAY)

SEC FORM 17 – A
(FORM TYPE)

December 31, 2019
(PERIOD ENDED DATE)

N/A
(SECONDARY LICENSE TYPE AND FILE NUMBER)

COVER SHEET

SEC Registration Number

0000001 6962

COMPANY NAME

CHINA BANK SAVINGS, INC.

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

CBS Building, 314 Sen. Gil J. Puyat Avenue, Makati City

Form Type	Department requiring the report	Secondary License Type, If Applicable
17-A	**SEC**	**N/A**

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
cbs@chinabank.ph	**8-988-95-55**	**N/A**

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
1,545	**3rd Thursday of June**	**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
Luis Bernardo A. Puhawan	**lbapuhawan.cbs@chinabank.ph**	**8-988-95-55**	**N/A**

CONTACT PERSON's ADDRESS

CBS Building, 314 Sen. Gil J. Puyat, Makati City

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-A, *AS AMENDED*

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

1.	For the fiscal year ended	:	**December 31, 2019**
2.	SEC Identification Number	:	**16962**
3.	BIR Tax Identification Code	:	**000-504-532**
4.	Exact name of registrant as specified in its charter	:	**China Bank Savings, Inc.**
5.	Province, country or other jurisdiction or organization	:	**Makati City, Philippines**
6.	Industry Classification Code	:	**(SEC Use only)**
7.	Address of principal office	:	**CBS Building, 314 Sen. Gil J. Puyat Avenue, Makati City**
8.	Registrant's telephone number, including area code	:	**(632) 8-988-95-55**
9.	Former name, former address and former fiscal year, if changed since last report	:	N/A

10. Securities registered pursuant to Section 8 and 12 of the SRC and Section 4 and 8 of the RSA

Title of Each Class	**Number of Shares Outstanding and Amount of Debt Outstanding**
Common stock - ₱100 par value	105,414,149
Preferred stock - ₱100 par value	21,642

11. Are any or all of the registrant's securities listed on a Stock Exchange?

    Yes [ ]   No [✓]

12. Check whether the issuer:

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

    Yes [✓]   No [ ]

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

    Yes [✓]   No [ ]

TABLE OF CONTENTS

Page No.

PART I - BUSINESS AND GENERAL INFORMATION

Item 1 Business……………………………………………………………….…....…4
Item 2 Properties………………………………………………………….……....25
Item 3 Legal Proceedings…………………………………………….………..28
Item 4 Submission of Matters to a Vote of Security Holders………………….…...28

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5 Market for Registrant's Common Equity and Related Stockholder Matters…29
Item 6 Management's Discussion and Analysis or Plan of Operation………………..30
Item 7 Financial Statements……………………………………………………...37
Item 8 Changes in and Disagreements with Accountants on Accounting and Financial Disclosures…………………………………………….............38

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9 Directors and Executive Officers of the Registrant…………………………….39
Item 10 Executive Compensation……………………………………………………....46
Item 11 Security Ownership of Certain Beneficial Owners and Management…………47
Item 12 Certain Relationships and Related Transactions……………………………....47

PART IV - CORPORATE GOVERNANCE

Item 13 Corporate Governance………………………………………………….….48

PART V - EXHIBITS AND SCHEDULES

Item 14 Exhibits and Reports……………………………………………………….72
(a) Exhibits
(b) Reports on SEC Form 17-C

SIGNATURES……………………………………………………………………………..74

PART I. BUSINESS AND GENERAL INFORMATION

Item 1. DESCRIPTION OF BUSINESS

1. Business Development

Corporate Policy

China Bank Savings ("CBS" or the "Bank") is the retail lending arm of China Banking Corporation ("China Bank" or the "Parent Bank") and one of the largest thrift banks in the country today. CBS is a member of the SM Group or SM Investments Corporation, one of the country's largest conglomerates.

CBS began operations on September 8, 2008 following the Parent Bank's acquisition of Manila Bank in 2007. Subsequent mergers with Unity Bank, a Pampanga-based rural bank, and Planters Development Bank (Plantersbank) have bolstered CBS' position as a leading thrift bank in the industry. With more than 150 branches nationwide and a strong platform for retail banking, auto, housing, teachers, and enterprise finance, CBS is dedicated to servicing the needs of entry-level customers, the broad consumer market, and the strategic Small and Medium Enterprise (SME) sector. CBS is committed to promoting financial inclusiveness, and uplifting the quality of consumers and entrepreneurs in line with its *Easy Banking for You* brand of service.

The Bank's ***Easy Banking for You*** corporate tagline, promises fast, efficient and friendly service for customers. It means that the whole CBS team is putting in more effort and going the extra mile to make banking easy for customers. The Bank is complementing its organizational capacity with the infrastructure to deliver on the promise of *Easy Banking for You* through an up-to-date technology, robust employee training and development programs, wide distribution network, fast and efficient processes and competitive products and services.

The Bank's customer acquisition strategy involves sourcing new customers from the general public through its sales channels and brick-and-mortar branch network. China Bank and CBS ensure wider market coverage through their internal referral and customer acquisition process. CBS focuses on the "emerging mass-market" sector of the consumer banking market. On the funding side, the Bank's principal source is the deposits from the general public.

The Bank's website www.cbs.com.ph/ has been enhanced to support the corporate branding campaign. The secure site was provided with a fresh look that reflects the Bank's vibrant image and authentic commitment to entry-level customers, families, young professionals, and entrepreneurs.

Vision
To be the leading savings bank preferred by the markets we serve.

Mission
As the leading savings bank, we deliver the best in banking, thus:

We provide wealth-building and practical products and services that fulfill the dreams and uplift the markets we serve.

We value our employees by nurturing, developing and rewarding them, as they are vital to our success.

We maintain the highest ethical standards through good corporate governance; deliver maximum and sustainable returns for our shareholders; and serve our communities to help promote better lives.

Core Values
In doing business, CBS is guided by these values:

- ***Integrity.*** Doing the right thing to everyone at all times.
- ***Teamwork.*** We work together in harmony and we respect each other to achieve our shared goals.
- ***Pursuit of Excellence.*** We have high performance standards that exceed expectations of our customers and shareholders.
- ***Customer Focus.*** We build and maintain solid and lasting relationships that result in customer loyalty.
- ***Concern for People.*** We provide an equitable, respectful, and safe working environment for all our employees.
- ***Fairness and Firmness.*** We make decisions free from discrimination and we are resolute in our decisions.

Form and Year of Organization

Manila Bank, the precursor of CBS, reopened to the public on June 26, 1999 as a thrift bank in accordance with the Monetary Board (MB) Resolution No. 512 dated April 21, 1999. Under MB Resolution No. 512, Manila Bank was allowed to reopen its seventy-two (72) branches as provided in the Bank's operating plan.

In 2007, China Bank acquired the majority shareholdings of Manila Bank. Following the change in its majority owners, the Bank—now known as China Bank Savings—continues to operate as a thrift bank. In 2008, the Bank transferred its other existing branches and unused branch licenses to China Bank to improve cost efficiency and branch networking. As of December 31, 2019, the Bank has one hundred fifty-eight (158) branches.

The Bank's original Certificate of Incorporation was issued by the Philippine Securities and Exchange Commission (SEC) on May 23, 1960. On August 20, 2009, the Board of Directors approved the amendment of the Bank's Articles of Incorporation to extend its corporate term for another fifty (50) years, from and after May 23, 2010, the end of the original term of the Bank's corporate existence. The amendment to the Articles of Incorporation to extend the

Bank's corporate term was subsequently approved by the Stockholders of the Bank, who own/represent at least two thirds (2/3) of the outstanding capital stock, at the Annual Stockholders' meeting held in October 2009. The Amended Articles of Incorporation was approved by the SEC on March 25, 2010.

The registered office address of the Bank is at CBS Building, 314 Sen. Gil J. Puyat Avenue, Makati City.

Bankruptcy, Receivership or Similar Proceedings

The Bank is not subject to any bankruptcy, receivership or similar proceedings.

Material Reclassification Merger, Consolidation or Purchase or Sale of Assets

<u>Merger between the Bank and Unity Bank, A Rural Bank</u>
The Board of Directors of the Bank and Unity Bank, in their meetings held on June 6, 2013 and June 11, 2013, respectively, approved the proposed merger with Unity Bank, with the Bank as the surviving entity. The Plan of Merger was approved by the stockholders of both banks in their meetings held on July 18, 2013 and July 19, 2013, respectively. Unity Bank is 99.95% owned by China Bank, having acquired the former on November 20, 2012 under the Strengthening Program for Rural Banks (SPRB) Plus of the Bangko Sentral ng Pilipinas (BSP).

On December 10, 2013, the BSP approved the issuance of Certificate of Authority to register the approved Plan of Merger and Articles of Merger of the Bank and Unity Bank, with the Bank as the surviving entity. Thereafter, on January 20, 2014, the SEC formally issued the Certificate of the Filing of Articles and Plan of Merger by and between the Bank (surviving corporation) and Unity Bank (absorbed corporation). The merger was effected via a share-for-share exchange.

<u>Merger between the Bank and Planters Development Bank</u>
On June 26, 2014, the Board of Directors of both the Bank and Plantersbank approved the Plan and Articles of Merger of the Bank and Plantersbank, with the former as the surviving corporation. Plantersbank is a 99.85% owned subsidiary of China Bank. The stockholders of both Plantersbank and the Bank approved, ratified and confirmed the Plan and Articles of Merger on August 14, 2014. An amended Plan of Merger was approved by the Board of Directors of both Banks on January 29, 2015.

On August 19, 2015 and December 17, 2015, the MB of the BSP and the SEC approved the merger, respectively. The salient provisions of the Articles of the Merger are as follows:

a. Upon the effective date of the merger, Plantersbank shall be merged with and into the Bank. The separate and distinct existence of Plantersbank shall cease and terminate upon the effective date of merger.

b. The Bank shall be the surviving corporation.

c. As of the effective date, all common and preferred shares of Plantersbank shall be converted into fully paid China Bank Savings common shares totaling to 16.5 million shares.

Financial Highlights

	2019	2018
PROFITABILITY		
Total net interest income	**₱3,236,655,249**	₱3,263,990,156
Total non-interest income	**1,536,832,928**	669,242,400
Total non-interest expenses	**4,225,431,912**	3,757,592,360
Pre-provision profit	**798,638,302**	280,289,292
Provision for credit losses	**250,582,037**	104,649,096
Net income	**621,598,967**	369,863,612
SELECTED BALANCE SHEET DATA		
Liquid assets	**27,310,992,547**	23,345,940,701
Gross loans	**69,500,890,698**	67,623,432,344
Total assets	**101,984,674,968**	95,779,709,292
Deposits	**89,200,938,333**	84,601,472,786
Total equity	**9,729,703,266**	9,089,222,262
SELECTED RATIOS		
Return on equity	**6.61%**	4.24%
Return on assets	**0.63%**	0.40%
Capital adequacy ratio	**11.86%**	11.34%
OTHERS		
Headcount		
Officers	**1,093**	1,096
Staff	**1,247**	1,420

2. Business of Registrant

a. Products and Services

CBS offers a suite of products and services that cater to the different needs of its clientele, whether for business or personal finance. CBS' customer-centric and inclusive-finance approach ensures convenience, affordability, and ease-of-access in the way it delivers its products and services.

DEPOSITS

- Savings
  - **Easi-Save Basic** is an ideal starter, interest-earning savings account.
  - **Easi-Save ATM** is an interest-earning account with the convenience of a PIN-based automatic teller machine (ATM) card.
  - **Easi-Save Passbook** is an interest-earning savings account that comes with a passbook for easy monitoring.
  - **Easi-Save for Kids** is an interest-earning savings account designed for children aged at least 7 until 12 years old and comes with a passbook.
  - **US Dollar Savings Account** is a US Dollar-denominated savings account that comes with a passbook.

- Checking

  - **Easi-Checking Basic** is an entry-level checking account with low initial deposit requirement.
  - **Easi-Checking** is an interest-bearing checking account that comes with an Easi-Save ATM card.
  - **CheckMate** is an interest-bearing checking account for the professional or entrepreneur who is always on the go. Transactions can be monitored via passbook, checkbook, ATM and via CBS Mobile App or CBS Online 24/7.

- Time Deposit

  - **Easi-Earn Time Deposit** is a peso-denominated, short-term deposit account with terms of less than one year. Interest is credited upon maturity.
  - **Easi-Earn High Five** is a peso-denominated, five-year term deposit account. It has a fixed interest rate and is tax-free, provided the term is completed.
  - **US Dollar Time Deposit Account** is a US Dollar-denominated short-term deposit account with terms of less than one year. Interest is credited upon maturity.

LOANS AND CREDIT FACILITIES

- **SME Biz Loan**

  - **Term Loan** is a multipurpose credit source with a tenor of more than one year extended to business entities.
  - **Revolving Promissory Note Line** provides ready cash for purchasing, building up inventory, or as a bridge between receivables.
  - **Check Discounting Line** allows to get credit immediately every time it is needed. No more waiting time for customer's post-dated checks to clear.
  - **Invoice Financing** is a supervised and directed loan offered to business entities for the purpose of financing the purchase of their inventory goods from manufacturers, suppliers, or distributors.
  - **Floor Stock Financing** keeps inventory fully stocked while CBS handles the payments, oversees everything and making sure everything is paid on time.
  - **Domestic Standby Letter of Credit** is a standby credit line extended to businesses to guarantee financing for a project or particular business transaction with a specific or certified beneficiary.
  - **Project Financing / Development Loan** is a credit facility intended to finance the development of residential housing projects.
  - **CTS Receivables Financing with Recourse** is a credit facility that provides liquidity to real estate developers through purchase of receivables from individual home buyers covered with contract-to-sell (CTS) on accredited residential housing projects.
  - **Bus and Truck Financing** is a credit facility that provides liquidity to bus transport operators, i.e., commuter services (regular and P2P), shuttle services, tourist services, airport shuttle services, and logistics or distributions transport operators using trucks.

- **Small Biz Loan**

- **Small Biz Term Loan** is a multipurpose credit source with a tenor of more than one year extended to business entities.
- **Small Biz Revolving Promissory Note** is a loan facility for loans worth ₱10.0 million and below. Interest is computed only for the amount used. A real estate mortgage (REM) or a combination of REM and deposit assignment are required.
- **Small Biz Revolving Credit Line (Check Driven)** is a standby credit line guarantees simple financing for product or specific recipient over time.

▪ **Consumer Loan**

- **Easi-Drivin' Auto Loan** makes owning a first car a breeze. Whether buying a brand new car or a pre-owned vehicle, CBS has affordable amortization schemes and flexible terms.
- **Easi-Livin' Home Loan** makes moving in to one's dream house a reality. It can be used for lot or home purchase, home construction, home improvement or to refinance an existing home loan.
- **Easi-Funds Personal Loan** is a cash loan with no collateral. It gives one an access to cash quickly.
- **Easi-Funds Salary Loan** is a multi-purpose loan facility offered to salaried individuals employed by CBS accredited companies.
- **VROOM Motorcycle Loan** offers employees of CBS accredited companies the quickest way to vehicle ownership through flexible payment terms up to 36 monthly installments via automatic payroll deduction.

▪ **Easi-APDS Loan**

- Easi-APDS is an Automatic Payroll Deduction Salary (APDS) Loan. It is a non-collateral loan facility offered to teaching and non-teaching personnel employed by the Department of Education (DepEd), State Universities and Colleges, Local Universities and Colleges (SUC and LUC) under the Commission on Higher Education, TESDA, Department of Science and Technology (DOST) - Philippine Science High Schools and other APDS market segments covered by the Terms and Conditions of the APDS Accreditation for Loans (TCAA) and Memorandum of Agreement (MOA). CBS is a duly accredited APDS Private Lending Institution with Deduction Code 1151.

CASH MANAGEMENT SERVICES

- **Bills Payment System** is a tie-up arrangement with major and local utility providers, schools, insurance companies, credit card companies or charitable institutions.

- **Deposit Pick-Up Arrangement** is a special type of accommodation given to valued clients where the Bank sends a representative on an agreed schedule at the client's designated office or establishment to collect deposits.

- **Online Payroll Upload** credits employee's payroll accounts via uploading in CBS Online Corp or through the branch. Funds will be available on the same day.

- **Check Write Software** is a checking account which includes software for printing checks and monitoring disbursement electronically.

- **End to End Payroll Software** computes salary in an instant, including regular pay, overtime pay, salary adjustments, taxes, SSS, Pag-Ibig and PhilHealth contributions.

- **Direct Buyers Checking Account** is a special checking account designed to support the operation and collection efforts of the business.

- **Post Dated Check Warehousing** is a service for controlling and managing a client company's inventory of post-dated checks, using a stand-alone system to credit these checks to the client's account when the value date falls due.

- **SME Proposition** provides clients with equipment, gadget, business machine, or cash management services that will help them manage and grow their business through technology.

Business Contribution

	December 31, 2019		December 31, 2018	
	%	**Amount**	%	Amount
INTEREST INCOME				
Loans and receivables		**₱5,297,951,221**		₱4,723,862,839
Investment securities		**403,317,745**		282,094,661
Interbank loans receivable and SPURA		**195,271,068**		119,349,402
Due from BSP and other banks		**57,988,637**		25,347,885
		5,954,528,671		5,150,654,787
INTEREST EXPENSE				
Deposit liabilities		**2,660,109,861**		1,886,664,631
Others		**57,763,561**		–
		2,717,873,422		1,886,664,631
NET INTEREST INCOME	**67.8%**	**3,236,655,249**	83.0%	3,263,990,156
Service charges, fees and commissions	**17.9%**	**855,353,160**	6.8%	268,037,238
Gain on asset exchange	**9.4%**	**446,346,861**	6.9%	270,140,580
Trading and securities gains (losses)	**2.5%**	**117,948,013**	–	(866,221)
Income from property rentals	**0.6%**	**29,827,848**	0.8%	31,184,292
Miscellaneous	**1.8%**	**87,357,046**	2.5%	100,746,511
TOTAL OPERATING INCOME	**100.0%**	**₱4,773,488,177**	100.0%	₱3,933,232,556

Distribution Methods of Products and Services

CBS products and services are made available across multiple distribution and delivery channels: 158 branch network; 162 ATM network (159 in-branch and 3 off-site ATMs nationwide); 9 in-branch cash accept machine; 3 business centers and 13 sales offices mainly supporting the Bank's SME and consumer lending business and 24 APDS loan centers primarily supporting the Bank's APDS lending business.

The rapidly growing distribution network is enabled by a highly robust and integrated core banking platform FCBS by Infosys. The core banking systems allows real-time access to deposit and loan balances 24/7, general ledger and management of credit facilities.

NO	BRANCH	LOCATION/ADDRESS
1	ACACIA ESTATES - SAVEMORE	Acacia Taguig Town Center, Acacia Estates, Ususan, Taguig City
2	ADRIATICO - HYPERMARKET	M.H. Del Pilar, Adriatico, Malate, Manila City
3	ALABANG HILLS	GF Alabang Commercial Citi Arcade, Don Jesus Boulevard, Alabang, Muntinlupa City
4	AMANG RODRIGUEZ - SAVEMORE	Savemore Market GF GBU Building, Amang Rodriguez Ave., Santolan, Pasig City
5	AMORANTO AVENUE	Unit 101 R Place Building, 255 N.S. Amoranto Sr. Ave., Quezon City
6	ANGELES - RIZAL	639 Rizal Street, Angeles City
7	ANGONO	Manila East Road cor. Don Benito Street, Barangay San Roque, Angono, Rizal
8	ANONAS - SAVEMORE	Maamo Street, Road Lot 30, V. Luna and Anonas Extension, Sikatuna, Quezon City
9	ANTIPOLO	E.M.S. Building, GF L1 M.L. Quezon cor. F. Dimanlig Street, Antipolo City
10	ARANETA CENTER COD - SAVEMORE	Gen. Romulo Street, Araneta Center, Cubao, Quezon City
11	ARAYAT	Cacutud, Arayat, Pampanga
12	AYALA AVENUE	6772 Ayala Ave., Makati City
13	BACLARAN	3751 Quirino Ave., cor. Sta. Rita Street, Baclaran, Parañaque City
14	BACOLOD	SKT Saturn Building, Lacson cor. Rizal Streets, Bacolod City
15	BACOOR - MOLINO	Avon Building, 817 Molino Road, Molino III, Bacoor City, Cavite
16	BACOOR - TALABA	103 Bacoor Town Center - E. Aguinaldo Highway Talaba VII, Bacoor City, Cavite
17	BAGUIO - SESSION	B 108 Lopez Building, Session Road cor. Assumption Road, Baguio City
18	BALAGTAS	Ultra Mega Supermarket, Mac Arthur Highway, Burol 1st, Balagtas, Bulacan
19	BALANGA - DM BANZON	D.M. Banzon Ave. cor. Sto. Domingo Street, Balanga, Bataan
20	BALIBAGO	Mac Arthur Highway, Balibago, Angeles City
21	BALIUAG	Lot 58, Plaza Naning Street, Poblacion, Baliuag, Bulacan
22	BANAWE	No. 247-249 Banawe Street, Sta. Mesa Heights, Barangay Lourdes, Quezon City
23	BANGKAL	1661 Evangelista Street, Bangkal, Makati City
24	BATANGAS - P. BURGOS	4 Burgos Street, Batangas City
25	BIÑAN	San Vicente, Biñan, Laguna
26	BINONDO - JUAN LUNA	694-696 Juan Luna Street, Binondo, Manila City
27	BLUMENTRITT	Blumentritt Street, near Oroquieta Street, Sta. Cruz, Manila City
28	BONI AVENUE	Raymond Tower Boni, 615 Boni Ave., Plainview, Mandaluyong City
29	BUENDIA MAIN	314 Buendia Ave., Makati City
30	CABANATUAN - BAYAN	Burgos Ave., Cabanatuan City
31	CAGAYAN DE ORO	Sergio Osmeña Street, Cogon District, Cagayan de Oro City

NO	BRANCH	LOCATION/ADDRESS
32	CALAMBA	HK Building II, National Highway, Barangay Halang, Calamba, Laguna
33	CAVITE CITY	485 P. Burgos Street, Barangay 34, Caridad, Cavite City
34	CEBU - LAHUG	GF Skyrise IT Building, Barangay Apas, Lahug, Cebu City
35	CEBU - MANDAUE	A. Del Rosario Ave., Mantuyong, Mandaue City, Cebu City
36	CEBU - MANGO	JSP Mango Realty Building cor. Gen Maxilom Ave. and Echavez Street, Cebu City
37	CEBU MANDAUE - BASAK	Cebu North Road, Basak, Mandaue City
38	COMMONWEALTH AVENUE	Unit 101, Jocfer Building, Commonwealth Ave., Barangay Holy Spirit, Quezon City
39	CUBAO	Fernandina 88 Condominium 222 P. Tuazon Ave., Araneta Center, Cubao, Quezon City
40	DAGUPAN	GF Lyceum-Northwestern University, Tapuac District, Dagupan City
41	DARAGA	Rizal Street, Barangay San Roque, Daraga, Albay, Bicol
42	DASMARIÑAS	Veluz Plaza Building, Zone 1 Aguinaldo Hi-Way, Dasmarinas, Cavite
43	DAU	Mac Arthur Highway, Dau, Mabalacat, Pampanga
44	DAVAO	GF 8990 Corporate Center, Quirino Ave., Davao City
45	DAVAO - RECTO	C. Villa Abrille Building, C.M. Recto Ave., Davao City
46	DEL MONTE	392 Del Monte Ave., Barangay Sienna, Quezon City
47	DIVISORIA	3F Dragon 8 Shopping Center, C.M. Recto Ave. cor. Dagupan Street, Divisoria, Manila City
48	DOLORES	STCI Building Mac Arthur Highway, Barangay San Agustin, San Fernando City, Pampanga
49	E. RODRIGUEZ SR. - HEMADY	Hemady Square, E. Rodriguez Ave. cor, Dona Hemady Street, Quezon City
50	ESPAÑA - SUN MALL	GF Sun Mall, Espana Boulevard cor. Mayon Street, Barangay Sta. Teresita, Quezon City
51	FELIX HUERTAS - JT CENTRALE	Unit 103, GF, JT Centrale Mall, No. 1686 V. Fugoso Street cor. Felix Huertas Street, Sta. Cruz, Manila City
52	FILINVEST CORPORATE CITY	BC Group Building, East Asia Drive, near cor. Commerce Ave., Filinvest Corporate City, Alabang, Muntinlupa City
53	FTI - TAGUIG - HYPERMARKET	DBP Ave., Food Terminal Inc., Western Bicutan, Taguig City
54	G. ARANETA AVENUE	195 G. Araneta Ave., Quezon City
55	GENERAL SANTOS	Santiago Boulevard, General Santos City
56	GIL PUYAT-BAUTISTA	Lot 25 Blk 74 Bautista Street cor. Buendia Ave., Makati City
57	GREENHILLS - ORTIGAS AVE.	GF VAG Building Ortigas Ave,, Greenhills, San Juan City
58	GREENHILLS - WILSON	219 Wilson Street, Greenhills, San Juan City
59	GUAGUA	Plaza Burgos, Guagua, Pampanga
60	GUIGUINTO-RIS	RIS-5 Industrial Complex, 68 Mercado Street, Tabe, Guiguinto, Bulacan
61	ILOILO - JARO	Lopez Jaena cor. EL 98 Streets, Jaro, Iloilo
62	ILOILO - IZNART	Golden Commercial Center Building, Iznart Street, Iloilo City
63	IMUS - TANZANG LUMA	Tanzang Luma, Gen. Emilio Aguinaldo Highway, Imus, Cavite
64	KALIBO - CITYMALL	F. Quimpo Street connecting Mabini and Toting Reyes Streets, Kalibo, Aklan
65	KALOOKAN	Augusto Building, Rizal Ave., Gracepark, Kalookan City
66	KALOOKAN - MABINI	AJ Building, 353 A. Mabini Street, Kalookan City
67	KATIPUNAN AVENUE	One Burgundy Condominium, Katipunan Ave., Quezon City
68	LA UNION	A.G. Zambrano Building, Quezon Ave., San Fernando City, La Union
69	LAGRO	GF Bonanza Building, Quirino Highway, Greater Lagro, Novaliches, Quezon City
70	LAGUNA - STA. CRUZ	E & E Building, Pedro Guevarra Ave., Sta. Cruz, Laguna
71	LAOAG CITY	GF LC Square Building, J.P. Rizal cor. M.V. Farinas Streets, Laoag City, Ilocos Norte
72	LAS PINAS - ALMANZA UNO	Alabang Zapote Road, Almanza Uno, Las Piñas City
73	LEGAZPI CITY	F. Imperial Street, Barangay Bitano, Legazpi City
74	LIPA - CM RECTO	C.M. Recto Ave., Lipa City

NO	BRANCH	LOCATION/ADDRESS
75	LINGAYEN	Unit 5-6, The Hub - Lingayen Building, National Road, Poblacion, Lingayen, Pangasinan
76	LOS BAÑOS - CROSSING	Batong Malake, Los Banos, Laguna
77	LUCENA	Cor. Merchan and Evangelista Streets, Lucena City
78	MACABEBE	Poblacion, Macabebe, Pampanga
79	MAKATI - CHINO ROCES	2176 Chino Roces Ave., Makati City
80	MAKATI - J.P. RIZAL	882 J.P. Rizal Street, Makati City
81	MALABON - FRANCIS MARKET - SAVEMORE	Francis Market, Governor Pascual cor. M.H. Del Pilar Streets, Malabon
82	MALOLOS	Canlapan Street, Sto. Rosario, Malolos City, Bulacan
83	MALOLOS - CATMON	Paseo del Congreso, Catmon, Malolos City, Bulacan
84	MANDALUYONG	New Panaderos Extension, Mandaluyong City
85	MANDALUYONG - SHAW BLVD.	GF 500 Shaw Tower, 500 Shaw Boulevard, Mandaluyong City
86	MANILA - STA. ANA - SAVEMORE	Savemore, Pedro Gil Street, Sta. Ana, Manila City
87	MARIKINA	33 Bayan-Bayanan Ave., Barangay Concepcion 1, Marikina City
88	MARIKINA - GIL FERNANDO AVE.	CTP Building, Gil Fernando Ave., Marikina City
89	MEYCAUAYAN	Mancon Building, Calvario, Meycauayan, Bulacan
90	MOUNT CARMEL	Km 78 Mac Arthur Highway Barangay Saguin, San Fernando City, Pampanga
91	MUÑOZ - JACKMAN	Jackman Plaza, GF, UG 14 - UG 18 EDSA-Munoz, Barangay R. Magsaysay, Quezon City
92	NAGA	RL Building, Panganiban Street, Lerma, Naga City
93	NEPA - Q. MART - SAVEMORE	Rose Building, 770 Street EDSA and K-G Street, West Kamias, Quezon City
94	NINOY AQUINO AVE.	GF Skyfreight Building Ninoy Aquino Ave., cor. Pascor Drive, Parañaque City
95	OLONGAPO	GF City View Hotel, 25 Magsaysay Drive, New Asinan, Olongapo City
96	ORANI	Barangay Balut, Orani, Bataan
97	ORTIGAS CENTER	GF Hanston Square, San Miguel Ave., Ortigas Center, Pasig City
98	PARAÑAQUE - BETTER LIVING	90 Dona Soledad Ave., Better Living Subdivision, Bicutan, Parañaque City
99	PARAÑAQUE - BF HOMES	284 Aguirre Ave., B.F. Homes, Parañaque City
100	PARANAQUE - JAKA PLAZA	Jaka Plaza Center, Dr. A. Santos, Ave., Sucat, Parañaque City
101	PARAÑAQUE - LA HUERTA	Quirino Ave., La Huerta, Parañaque City
102	PARAÑAQUE - MOONWALK	Kassel Residence Building, E. Rodriguez Ave., Moonwalk, Parañaque City
103	PASAY - LIBERTAD	533 Cementina Street, Libertad, Pasay City
104	PASIG - CANIOGAN	Unit A, KSN Building, C. Raymundo Ave., Caniogan, Pasig City
105	PASIG - MUTYA	Richcrest Building, Caruncho cor. Market Ave., San Nicolas, Pasig City
106	PASIG - PADRE BURGOS	114 Padre Burgos Street, Kapasigan, Pasig City
107	PASO DE BLAS	Andoks Building, 629 Gen. Luis Street, Paso de Blas, Valenzuela City
108	PATEROS	500 Elisco Road, Sto. Rosario, Pateros City
109	PATEROS - ALMEDA	120 M. Almeda Street, Pateros City
110	PEDRO GIL	LKE Building, Pedro Gil cor. Pasaje, Rosario Street, Paco, Manila City
111	PLARIDEL	Banga, Plaridel, Bulacan
112	PLAZA - STA. CRUZ	MBI Building, Unit 103, Plaza Sta. Cruz, Sta. Cruz, Manila City
113	PORAC	Cangatba, Porac, Pampanga
114	QUEZON AVENUE	GF GJ Building, 385 Quezon Ave., Quezon City
115	QUEZON AVENUE - PALIGSAHAN	1184-A Ben-Lor Building, Barangay Paligsahan, Quezon City
116	QUIAPO - ECHAGUE	Palanca cor. P. Gomez Streets, Echague, Quiapo, Manila City
117	QUIAPO - QUEZON BOULEVARD	416 Quezon Boulevard, Quiapo, Manila City
118	RADA	104 Rada Street, Legaspi Village, Makati City
119	ROOSEVELT	342 Roosevelt Ave., Quezon City
120	ROXAS AVE.-CAPIZ CITYMALL	Roxas Ave., Barangay VI, Roxas City, Capiz
121	SAN FERNANDO	KHY Trading Building, San Fernando-Gapan Road, San Fernando City, Pampanga

NO	BRANCH	LOCATION/ADDRESS
122	SAN FERNANDO - BAYAN	JSL Building, Consunji Street, San Fernando City, Pampanga
123	SAN ILDEFONSO - SAVEMORE	Savemore Building, San Ildefonso, Poblacion, Bulacan
124	SAN JOSE DEL MONTE	GF Giron Building, Gov. Halili Ave., Tungkong Mangga, San Jose Del Monte, Bulacan
125	SAN JUAN	Madison Square, 264 N. Domingo Street, Barangay Pasadena, San Juan City
126	SAN MIGUEL	Norberto Street, San Miguel, Bulacan
127	SAN NARCISO	Barangay Libertad, San Narciso, Zambales
128	SAN PABLO - RIZAL AVE.	Rizal Ave. cor Lopez Jaena Street San Pablo City, Laguna
129	SAN PEDRO	Gen-Ber Building, National Highway Landayan, San Pedro, Laguna
130	SAN RAFAEL	Cagayan Valley cor. Cruz na Daan Roads, San Rafael, Bulacan
131	SANTIAGO - VICTORY NORTE	Maharlika Highway cor. Quezon Street, Victory Norte, Santiago City
132	SOUTH TRIANGLE	GF Sunnymede IT Center, Barangay South Triangle, Quezon Ave., Quezon City
133	STA. ANA	Poblacion, Sta. Ana, Pampanga
134	STA. MARIA	Gen. Luna cor. De Leon Street, Sta. Maria, Bulacan
135	STA. MESA	4128 Ramon Magsaysay Boulevard, Sta. Mesa, Manila City
136	STA. RITA	San Vicente, Sta. Rita, Pampanga
137	STA. ROSA	Sta. Rosa-Tagaytay Highway, Sta. Rosa, Laguna
138	STA. ROSA - BALIBAGO	Old National Highway cor. Roque Lazaga Street, Sta. Rosa, Laguna
139	STO. TOMAS	Agojo Corp. Building, Maharlika Highway, Sto. Tomas, Batangas
140	SUBIC	Baraca, Subic, Zambales
141	TACLOBAN CITY	YVI Center Building A, Fatima Village, Barangay 77, Marasbaras, Tacloban City, Leyte
142	TAGAYTAY- MENDEZ - SAVEMORE	Mendez Crossing West, Tagaytay-Nasugbu Highway cor. Mendez-Tagaytay Road, Tagaytay City
143	TAGUM - CITYMALL	Maharlika Highway cor. Lapu-Lapu Extension, Barangay Magugpo, Tagum City
144	TALISAY - NEGROS - SAVEMORE	Mabini St., Zone 12, Paseo Mabini, Talisay City, Negros Occidental
145	TANAUAN CITY	Jose P. Laurel National Highway, Darasa, Tanauan City, Batangas
146	TANDANG SORA	Cecileville Building III, 670 Tandang Sora Ave. cor. General Ave., Tandang Sora, Quezon City
147	TARLAC - MAC ARTHUR	Mac Arthur Highway San Nicolas, Tarlac City
148	TAYTAY	C. Gonzaga Building II, Manila East Road, Taytay, Rizal
149	TAYUMAN	1925-1929 Rizal Ave. near cor. Tayuman St., Sta. Cruz, Manila City
150	TIMOG	Jenkinsen Towers 80 Timog Ave., Quezon City
151	TUGUEGARAO	Metropolitan Cathedral Parish Rectory Complex Rizal Street, Tuguegarao City
152	TWO E-COM	Two E-Com Center Tower B, Ocean Drive near cor. Bayshore Drive, Mall of Asia Complex, Pasay City
153	UN AVENUE	552 United Nations Ave., Ermita, Manila City
154	URDANETA	Barangay Nancayasan, Mac Arthur Highway, Urdaneta City, Pangasinan
155	VALENZUELA - MARULAS	92 J Mac Arthur Highway, Marulas, Valenzuela City
156	VIGAN	Plaza Maestro Convention Center, Florentino S and Burgos Streets, Vigan City, Ilocos Sur
157	VISAYAS AVE.	Upper GF, Wilcon City Center Mall, Visayas Ave., Quezon City
158	ZAMBOANGA - CITYMALL	City Mall, Don Alfaro Street, Tetuan, Zamboanga

NO	ATM OFF-SITE	LOCATION/ADDRESS
1	CALAMBA DOCTORS HOSPITAL	49 National Highway, Parian, Calamba City, Laguna
2	RIS DEVELOPMENT CORPORATION	168 Mercado Street, Tabe, Guiguinto, Bulacan 03015
3	ZAMECO	ZAMECO II Head Office Compound, Barangay Magsaysay, Castillejos, Zambales

NO	BUSINESS CENTER	LOCATION/ADDRESS
1	Cebu Business Center	JSP Mango Realty Building cor. Gen. Maxilom Ave. and Echavez Street, Cebu City
2	Davao Business Center	8990 Corporate Center, Quirino Ave., Davao City
3	Pampanga Business Center	JSL Building, Consunji Street, San Fernando City, Pampanga

NO	SALES OFFICE	LOCATION/ADDRESS
1	Baguio Sales Office	B108 Lopez Building, 2F Session Road cor. Assumption Road, Baguio City
2	Cabanatuan Sales Office	Duran Building, Burgos Ave., Cabanatuan City
3	Dagupan Sales Office	Lyceum-Northwestern University, Tapuac District, Dagupan City
4	General Santos Sales Office	Go Chay Ching Building, I. Santiago Boulevard, General Santos City
5	Iloilo Sales Office	MSL Building, Quezon Street, Iloilo City
6	Imus Sales Office	OLMA Building, Aguinaldo Highway, Tanzang Luma, Imus City, Cavite
7	La Union Sales Office	A.G. Zambrano Building Quezon Ave., San Fernando City, La Union
8	Legaspi Sales Office	Lot 4-6 Blk 20 PCS-1617, Sol's Subdivision, Purok 5, 37 Bitano, Legazpi City
9	Lipa Sales Office	C.M. Recto Ave., Lipa City
10	Marikina Sales Office	CTP Building, 3F, Gil Fernando Ave., Marikina City
11	Plaridel Sales Office	Banga, Plaridel, Bulacan
12	San Pablo Sales Office	2F, Rizal Ave. cor. A. Fule San Pablo City
13	Urdaneta Sales Office	Nancayan, Mac Arthur Highway, Urdaneta City, Pangasinan

NO	APDS LOAN CENTER	LOCATION/ADDRESS
1	National Capital Region Regional Lending Center	2F, G.J. Building, 385 Quezon Ave., Quezon City
2	Cordillera Region Regional Lending Center	B 108 Lopez Building, Session Road cor. Assumption Road, Baguio City
3	Region 1 La Union Regional Lending Center	A.G. Zambrano Building Quezon Ave., San Fernando City, La Union
4	Region 2 Tuguegarao Regional Lending Center	GF Metropolitan Cathedral Parish Rectory Complex, Rizal Street, Tuguegarao City
5	Region 3 San Fernando Regional Lending Center	JSL Building Consunji Street, San Fernando, Pampanga
6	Region 4a Taytay Regional Lending Center	2F C Gonzaga Building 2, Manila East Road, Taytay, Rizal
7	Region 5 Legazpi Regional Lending Center	2F Lot 4-6 Blk 20 PCS-1617, Sol's Subdivision, Purok 5, 37 Bitano, Legazpi City
8	Region 6 Iloilo Regional Lending Center	Golden Commercial Building, Iznart, Iloilo City
9	Region 6 Bacolod Regional Lending Center	Skt Saturn Building, Lacson cor. Rizal Streets, Bacolod City
10	Region 7 Cebu Regional Lending Center	2F Unit 204 and 205 JSP Mango Realty Building General Maxilom Ave.., cor. Echavez Street, Cebu City
11	Region 8 Tacloban Regional Lending Center	YVI Center, GF Building A, Baybay S. Road, Tacloban City
12	Region 10 CDO Regional Lending Center	Sergio Osmeña Street, Cogon District, Cagayan De Oro City
13	Region 11 Davao Regional Lending Center	8990 Corporate Center, Quirino Ave., Davao City
14	Region 12 Gen. Santos Regional Lending Center	Santiago Boulevard, General Santos City

NO	APDS LOAN CENTER	LOCATION/ADDRESS
15	Business Center – Lingayen	The Hub Building, GF Unit 5 and 6, Solis Street, Barangay Poblacion, Lingayen, Pangasinan
16	Business Center – Lucena	Cor. Merchan and Evangelista Streets, Lucena City
17	Business Center – Malolos	Canlapan Street, Sto. Rosario, Malolos City, Bulacan
18	Business Center – Naga	2F RI Building, Panganiban Street, Lerma, Naga City
19	Business Center – Roxas City	GF T-114 City Mall Roxas Ave., Barangay VI, Roxas City
20	Business Center – San Pablo	Rizal Ave. cor. Lopez Jaena Street, San Pablo City, Laguna
21	Business Center – Santiago	JECO Building Maharlika Highway, cor. Quezon Ave. Victory Norte, Santiago City
22	Business Center – Tagum	City Mall Maharlika Highway cor. Lapu-Lapu Extension Barangay Magugpo, Tagum City
23	Business Center – Tanauan	Jose P. Laurel National Highway, Darasa, Tanauan City, Batangas
24	Business Center – Vigan	Quezon Ave. cor. Mabini Street, Vigan City

Status of Publicly Announced New Products and Services

PRODUCTS AND SERVICES	DATE LAUNCHED
Business Equipment Easy-own Plan (BEEP) Loan	March 2019
CheckMate All-in-One Check Account	July 2019

CBS rolled out the Business Equipment Easy-own Plan (BEEP) Loan, which is a customized business solution to ensure that companies get the right equipment needed to get the job done. CBS BEEP Loan is designed for acquisition by single proprietors, partnerships and corporations of general machinery to heavy equipment.

CBS also introduced the CheckMate All-in-One Check Account. This product is an interest-bearing checking account with 360-degree accessibility via passbook, checkbook, ATM card as well as CBS internet banking and CBS Mobile App. CheckMate is the premium account in the family of CBS checking accounts, which includes Easi-Checking Basic, Easi-Checking and Easi-Checking Diary. It is positioned as the perfect tool for the professional or entrepreneur who is always on the go.

CBS conducted the following deposit promo campaigns during the year:

- CASA Royale Raffle Promo, organized from March 1 to May 31, was open to all new and existing individual CBS depositors with peso-denominated deposit accounts. The promo offered electronic raffle tickets for every ₱5,000 deposit to qualified CASA account holders who were able to meet or exceed the average daily balance hurdle for the month: ₱10,000; ₱20,000; and ₱30,000, respectively. Major prizes included drone cameras, a trip to Siargao for two, and a trip to Bali Indonesia for two. A total of 58 prizes were given during this promo period.

- Pasko Passwerte Raffle Promo was organized from October 1 to December 31. The promo covered individual CBS depositors. The last quarter promo offered one electronic raffle ticket for every ₱1,000 deposit to qualified CASA account holders who were able to meet or exceed the average daily balance hurdles for the month: ₱5,000; ₱10,000; and ₱15,000, respectively. All prizes were gift certificates ranging from ₱ 3,000 to ₱20,000. A total of 95 prizes were given during the three-month promo.

The Bank also conducted promos to entice more borrowers, especially branch-based accounts:

- Back-to-School Salary Loan Promo for loan borrowers with CBS Easi-Funds Salary Loans booked from March 15 to May 31. Qualified customers covered by the CBS Salary Loans program received SM gift certificates, depending on the loan amount. The purpose of the promo is to support salaried Filipinos by providing extra budget during school enrollment period. Easi-Funds Salary Loans allow employees of accredited companies to access quick cash for personal needs. The loans are payable in easy installments through automatic payroll deduction.

- Sakto Panalo Personal Loan promo was conducted from May 2 to July 31. The promo offered cash incentives to loan borrowers who apply for CBS Personal Loans from ₱ 100,000 up to ₱1.0 million through CBS branches. Customers received up to ₱30,000 cashback on top of the proceeds of Personal Loans booked during the promo period. CBS Sakto Panalo promo aims to increase the spending power of the Filipino consumer, in line with the advocacy of financial inclusion and improving the quality of life where the Bank operates.

- CBS Auto Loan Free Gas promo was launched to help boost branch-based bookings of loans for brand-new cars. Unveiled on November 11, 2019, the Free Gas promo ran until February 29, 2020. The promo, in partnership with PETRON Corporation, offers free E-Fuel cards as incentive worth up to ₱12,000. The minimum loan amount to qualify is ₱700,000.

Competition

The thrift bank (TB) industry remained profitable despite tougher competition and continued impact of the high interest rate environment in the first few months of 2019. Major banks raised fresh funds to support growth in their core businesses.

As a result of the recent consolidation of a major player with its Parent Bank, the balance sheet of the TB industry shrinked in 2019 compared to end-2018 level. The assets of the TB industry declined by 7% to ₱1.2 trillion. Based on the published statement of condition (SOC), submitted with the BSP which differs from Philippine Financial Reporting Standards (PFRS) in some respects as of December 2019, CBS recorded the third largest nominal growth in terms of resources amounting to ₱6.1 billion or 6% to ₱102.8 billion among top-tier banks. Industry deposits declined by 10% to ₱892.9 billion, while gross loans decreased by ₱55.1 billion to ₱835.5 billion. Gross non-performing loans ratio of CBS is doing better than the industry average of 6%.

Capital of the TB industry went up by 4% or ₱6.5 billion to ₱168.3 billion. TB industry's capital adequacy ratio as of December 2019 is 17.2%.

The banking system landscape remained streamlined as a result of the ongoing industry consolidation aimed at strengthening the financial condition of banks. The TB group saw a number of mergers and consolidations over the last years.

As of December 31, 2019, there were 50 thrift banks (end-2018: 54) operating domestically including microfinance-oriented banks. CBS believes that local players would maintain a solid foothold in the domestic market despite the tougher competition.

Based on the BSP's industry ranking, CBS reported total assets of ₱102.8 billion, making it the country's fourth largest thrift bank. In terms of loans and deposits, the Bank also ranked fourth.

Sources and Availability of Raw Materials and the Names of Principal Suppliers

Not applicable

Customer/Clients

There is no single customer that accounts for 20% or more of the Bank's deposits and loans.

Transaction With and/or Dependence on Related Parties

In the ordinary course of business, the Bank has loans and other transactions with its subsidiaries and affiliates, and with certain directors, officers, stockholders and their related interest (DOSRI). These loans and other transactions are in accordance with the Bank's policy and are regularly reviewed by the Related Party Transaction Committee to ensure that they are conducted at arm's length basis, at fair market prices and upon terms not less favorable to Bank than those offered to others and in compliance with all regulatory requirements. Related party transactions are presented to the stockholders during the annual stockholders' meeting for ratification.

Transactions with related parties and with certain DOSRI are discussed in Note 31 of the Audited Financial Statements (**Exhibit 2**).

Trademarks, Licenses, Franchises, etc.

CBS is operating under a thrift banking license obtained in 1999. Over the years, CBS has registered its corporate brand, slogan and product trademarks with the Intellectual Property Office (IPO) of the Philippines – Bureau of Trademarks, as follows:

- The Bank is operating under a thrift banking license per MB Resolution No. 512 dated April 21, 1999.
- The Bank is the registered owner of the logo of CBS and the trademarks: *Easi-Save, Easi-Checking, Easi-Earn, Easi-Funds, Easi-Drivin', Easi-Livin', Easi-Financin' and CBS Easi-Padala*.
- In 2015, the Bank obtained a bancassurance license from BSP.
- The Bank launched its new tagline, "Easy Banking For You" in 2017 and submitted with the IPO the trademark application for "Easy Banking For You" and Easi-APDS Loan.
- The Bank also filed applications for tradenames *'Plantersbank'* and *'Planters Development Bank'.*

Need for Any Government Approval of Principal Products or Services

The Bank's business activities are regulated by the government agencies such as BSP, Philippine Deposit Insurance Corporation (PDIC) and SEC. Existing products and services are within the scope allowed under the Bank's regulatory licenses.

Effects of Existing or Probable Governmental Regulations

The Bank has strictly complied with the BSP requirements in terms of reserve, liquidity position, capital adequacy, limits on loans exposure, provision for losses and other reportorial requirements.

Amount spent on research and development activities

There are no major expenses on research and development activities. Expenses incurred related to these activities are included in the regular business expense of the Bank.

Costs and effects of compliance with environmental laws

Not applicable

Total Number of Employees

Below is the breakdown of the manpower complement in 2019 as well as the projected headcount for 2020:

	2019 Actual			**2020 Projected**		
	Officers	**Staff**	**Total**	**Officers**	**Staff**	**Total**
Marketing	425	195	620	445	215	660
Operations	340	805	1,145	340	805	1,145
Support	284	224	508	306	224	530
Technical	44	23	67	63	25	88
Grand Total	**1,093**	**1,247**	**2,340**	**1,154**	**1,269**	**2,423**

CBS ended the year 2019 with a total manpower of 2,340 employees. The number decreased by 7.0% from the previous year (2018 manpower: 2,516). Of the total headcount, 47% are officers and 53% are staff. The expansion of ADPS' business largely contributed to the increase.

The Bank has a CBS Training Academy that serves as the central facility for training and development of the Bank's professionals in line with the *Easy Banking for You* service promise of the Bank. CBS Academy boasts a full-scale mock-up CBS branch, a lecture hall and several conference rooms. This provides employees with key courses and training programs to match various stages of their careers, including refresher courses and advanced skills training, based on their specific areas of expertise. These courses are aimed at giving CBS officers and staff a sound grounding in core banking, as well as the development of soft skills. These include various aspects of financial services procedures, legal, compliance and risk management, leadership and team development, among other areas.

As part of the Bank's institutional-building program, the Bank has an Employee Recognition Program to motivate, recognize, and reward the movers and performers among its junior officers and staff, especially those who provide valuable back office support to the marketing frontline.

The China Bank Savings Employees Union has an existing Collective Bargaining Agreement for the period November 1, 2019 to October 31, 2024.

Risk Management Framework

The Bank is exposed to all business risks that confront all banks in general, such as credit, market, interest rate, liquidity, legal, regulatory and operational risk. The Bank's risk management structure and process that serve as mechanism to identify, assess and manage these risks are further discussed in Note 5 of the Audited Financial Statements (**Exhibit 2**).

Disclosure on Capital Structure and Capital Adequacy

Regulatory Qualifying Capital
Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory capital) as reported to the BSP. This is determined on the basis of regulatory accounting policies which differ from PFRS in some respects.

Capital Fundamentals
The Bank can only achieve sustainable growth by maintaining strong capital fundamentals. Major business initiatives with the appropriate capital planning were undertaken in coordination with the Parent Bank which also took into consideration constraints and changes in the regulatory environment. This was necessary to ensure that the Bank's commercial objectives are equally aligned with its ability to maintain an adequate capital position. The Board of Directors and management recognize that a balance should be achieved with respect to the Bank's earnings outlook vis-à-vis capital fundamentals that can take advantage of growth opportunities while increasing the Bank's ability to absorb shocks.

Risk-based capital components, including deductions for 2019 and 2018 are shown below:

	2019	2018
Common Equity Tier (CET) 1 Capital:		
Paid-up common stock	**₱10,541,414,900**	₱10,541,414,900
Additional paid-in capital	**485,349,012**	485,349,012
Retained earnings	**(1,361,683,287)**	(1,498,527,617)
Undivided profits	**659,095,724**	110,566,997
Other comprehensive income	**29,576,090**	(181,054,439)
Unsecured DOSRI	**(17,901,179)**	(7,579,743)
Deferred tax assets	**(932,296,626)**	(774,746,619)
Goodwill	**(119,621,347)**	(119,621,347)

(Forward)

	2019	2018
Other intangible assets	**(₱817,409,984)**	(₱824,883,167)
Other equity investment	**(2,192,208)**	(2,192,208)
Other capital adjustments	**(341,777,192)**	(224,890,258)
Defined benefit pension fund liabilities	**66,684,744**	94,177,510
Total CET 1 Capital	**8,189,238,647**	7,598,013,021
Additional Tier 1 Capital	**2,164,200**	2,164,200
Total Tier 1 Capital	**8,191,402,847**	7,600,177,221
Tier 2 Capital:		
Appraisal increment reserve	**74,437,147**	122,691,160
General loan Loss provision	**556,871,327**	556,286,617
Total Tier 2 Capital	**631,308,474**	678,977,777
Total Qualifying Capital	**₱8,822,711,321**	₱8,279,154,998

Risk-based capital ratios:

	2019	2018
CET 1 Capital	**₱10,353,752,439**	₱9,457,748,853
Less regulatory adjustments	**(2,164,513,792)**	(1,859,735,832)
Total CET 1 Capital	**8,189,238,647**	7,598,013,021
Additional Tier 1 Capital	**2,164,200**	2,164,200
Total Tier 1 Capital	**8,191,402,847**	7,600,177,221
Tier 2 Capital	**631,308,474**	678,977,777
Total Qualifying Capital	**8,822,711,321**	8,279,154,998
Risk Weighted Assets	**₱74,404,716,644**	₱73,010,289,143
CET 1 Capital Ratio	**11.01%**	10.41%
Capital Conservation Buffer	***5.01%***	*4.41%*
Tier 1 Capital Ratio	**11.01%**	10.41%
Total Capital Adequacy Ratio	**11.86%**	11.34%

The regulatory Basel III qualifying capital of the Bank consists of Common Equity Tier 1 capital (going concern capital), which comprises paid-up common stock, additional paid-in capital, deposit for common stock subscription, retained earnings, undivided profits and other comprehensive income less required deductions such as unsecured credit accommodations to DOSRI, deferred tax assets, goodwill, other intangible assets, and other equity investment. The other component of regulatory capital is Tier 2 capital (gone-concern capital), which includes general loan loss provision and appraisal increment reserve. A capital conservation buffer of 2.50% comprised of CET 1 capital is likewise imposed in the Basel III capital ratios.

The capital requirements for Credit, Market and Operational Risk are listed below:

	2019	2018
Credit Risk	**₱67,461,270,535**	₱66,325,081,525
Market Risk	**163,440,555**	144,400,501
Operational Risk	**6,780,005,554**	6,540,807,117
Total Capital Requirements	**₱74,404,716,644**	₱73,010,289,143

Credit Risk-Weighted Assets

On-balance sheet exposures, net of specific provisions and not covered by CRM:

	As of December 31, 2019		As of December 31, 2018	
	Exposures, net of Specific Provisions	**Exposures not Covered by CRM**	Exposures, net of Specific Provisions	Exposures not Covered by CRM
Cash on Hand	**₱1,602,702,074**	**₱1,602,702,074**	₱1,811,652,091	₱1,811,652,091
Checks and Other Cash Items	**15,731,496**	**15,731,496**	4,323,154	4,323,154
Due from BSP	**11,520,882,176**	**11,520,882,176**	6,796,829,056	6,796,829,056
Due from Other Banks	**2,375,662,222**	**2,375,662,222**	1,927,413,699	1,927,413,699
Available-for-Sale Financial Assets	**960,104,215**	**960,104,215**	1,094,646,205	1,094,646,205
Held-to-Maturity Financial Assets	**3,731,348,602**	**3,731,348,602**	8,788,706,247	8,788,706,247
Loans and Receivables	**65,743,767,073**	**58,495,144,014**	64,303,231,754	58,041,052,436
Loans and Receivables arising from Repurchase Agreements	**7,011,965,655**	**7,011,965,655**	3,001,266,667	3,001,266,667
Sales Contract Receivables	**832,905,618**	**832,905,618**	851,756,198	851,756,198
Real and Other Properties Acquired	**2,472,433,385**	**2,472,433,385**	2,818,569,165	2,818,569,165
Other Assets	**4,960,968,357**	**4,960,968,357**	4,064,243,502	4,064,243,502
Total On-Balance Sheet Assets	**₱101,228,470,873**	**₱93,979,847,813**	₱95,462,637,738	₱89,200,458,420

Credit equivalent amount for off-balance sheet items, broken down by type of exposures, are as follows:

	As of December 31, 2019		As of December 31, 2018	
	Notional Principal	**Credit Equivalent**	Notional Principal	Credit Equivalent
Direct credit substitutes	**₱–**	**₱–**	₱–	₱–
Transaction-related contingencies	**117,335,956**	**58,667,978**	148,988,582	74,494,291
Trade-related contingencies arising from movement of goods	**12,700,000**	**2,540,000**	26,558,000	5,311,600
Other commitments (which can be unconditionally cancelled at any time by the bank without prior notice)	**356,887,157**	**–**	536,351,819	–
Total Notional Principal and Credit Equivalent Amount	**₱486,923,113**	**₱61,207,978**	₱711,898,401	₱79,805,891

There is no credit equivalent amount for counterparty credit risk in the trading books as the Bank has no derivative exposures.

The following credit risk mitigants are used in the December 2019 capital adequacy ratio (CAR) report:

- guarantees by government-owned and controlled corporation (GOCC), which guarantees are counter-guaranteed by the Philippine National Government;
- holdout vs. peso deposit or deposit substitute;
- holdout vs. foreign currency-denominated unit (FCDU) deposit; and
- assignment or pledge of government securities.

Total credit exposure after risk mitigation, broken down by type of exposures, risk buckets, as well as those that are deducted from capital:

	As of December 31, 2019		
	On-balance sheet	**Off-balance sheet**	**Total**
Below 100 %	**₱37,634,055,181**	**₱–**	**₱37,634,055,181**
100% and above	**56,345,792,632**	**61,207,978**	**56,407,000,610**
Total	**₱93,979,847,813**	**₱61,207,978**	**₱93,041,055,791**

	As of December 31, 2018		
	On-balance sheet	Off-balance sheet	Total
Below 100 %	₱36,006,541,823	₱–	₱36,006,541,823
100% and above	53,193,916,597	79,805,891	53,273,722,488
Total	₱89,200,458,420	₱79,805,891	₱89,280,264,311

Total credit risk-weighted assets, broken down by type of exposures, are as follows:

	As of December 31, 2019		
	On-balance sheet	**Off-balance sheet**	**Total**
Below 100 %	**₱8,757,906,382**	**₱–**	**₱8,757,906,382**
100% and above	**58,642,156,175**	**61,207,978**	**58,703,364,153**
Covered by CRM	**–**	**–**	**–**
Excess GLLP	**–**	**–**	**–**
Total	**₱67,400,062,557**	**₱61,207,978**	**₱67,461,270,535**

	As of December 31, 2018		
	On-balance sheet	Off-balance sheet	Total
Below 100 %	₱10,679,463,161	₱–	₱10,679,463,161
100% and above	55,565,812,472	79,805,891	55,645,618,363
Covered by CRM	–	–	–
Excess GLLP	–	–	–
Total	₱66,245,275,633	₱79,805,891	₱66,325,081,524

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

Market Risk-Weighted Assets

The Standardized Approach is used in the Bank's market risk-weighted assets.

	2019	2018
Interest Rate Exposures		
Specific Risk	**₱–**	₱–
General Market Risk		
PhP	**–**	–
USD	**–**	–
Total Capital Charge	**–**	–
Adjusted Capital Charge	**–**	–
Risk-Weighted Interest Rate Exposures	**–**	–
Risk-Weighted Equity Exposures	**–**	–
Foreign Exchange Exposures		
Total Capital Charge	**13,075,244**	11,552,040
Adjusted Capital Charge	**16,344,056**	14,440,050
Risk-Weighted Foreign Exchange Exposures	**163,440,555**	144,400,501
Risk-Weighted Options	**–**	–
Total Market Risk-Weighted Assets	**₱163,440,555**	₱144,400,501

Operational, Legal, and Other Risks
For operational risk, the exposure of the Bank is profiled using a number of methodologies which also include a scenario analysis exercise as part of the internal capital adequacy assessment process (ICAAP) to validate if the computed capital requirement using the Basic Indicator Approach (BIA) is enough to cover the assessed exposure under plausible scenario and worst case scenario. For the 2020 ICAAP submission with the BSP, the Bank allocated the amount about ₱678.0 million as capital for operational risk which is more than adequate to cover the exposure from its latest scenario analysis exercise. The latest operational risk scenario assessment is estimated at ₱35.6 million under plausible scenario and ₱423.0 million in a worst-case scenario.

Tools such as the risks and controls self-assessment (RCSA), the analysis of historical loss reports and the monitoring of key risk indicators (KRI) further allow risk management to identify high risk areas, loss drivers, and trends which can be acted upon by management to prevent material failures in its processes, people, systems, and resiliency measures against external events. These results are periodically reported to management and cover all aspects of the business from core operating capabilities of the units, all products and services, outstanding legal cases, and even its sales and marketing practices.

For legal risk, the Bank assessed the status of pending legal cases with the objective of identifying those subject to final resolution in the next twelve months and with high probability for the Bank to lose the legal proceedings.

Operational Risk-Weighted Assets
The Bank's Operational Risk Weighted Assets under the BIA is ₱6.8 billion and ₱6.5 billion as of December 31, 2019 and 2018, respectively.

Internal measurement of interest rate risk in the banking book
The Bank's interest rate risk (IRR) originates from its holdings of interest rate sensitive assets and interest rate sensitive liabilities. Internally, the Earnings-at-Risk (EaR) method is used to determine the effects of adverse interest rate change on the Bank's interest earnings. The Bank's loans is assumed affected by interest rate movements on its repricing date for floating rates and on its maturity for fixed rates. Demand and savings deposits, on the other hand, are generally not interest rate sensitive. Provided in the table below are the approximate reduction in annualized interest income of a 100bps adverse change across the PhP and USD yield curves. Exposures substantially decreased as a result of increasing interest sensitive assets that were funded by non interest sensitive regular savings and demand deposits.

Earnings-at-Risk In ₱ millions	**2019**	2018
PhP IRR Exposures	**(₱31)**	(₱185)
USD IRR Exposures	**(8)**	(17)

Item 2. PROPERTIES

CBS whose principal office is located at CBS Building, 314 Sen. Gil J. Puyat Avenue, Makati City, owns several properties situated in various locations in Metro Manila and provinces.

The Bank owns various properties which are used in its banking business and acquires, by way of foreclosure, dacion en pago and other lawful means, various properties to satisfy unpaid obligations due to it and disposes of these properties on a regular basis. Moreover, it leases several properties principally for the use of its expanded branch network.

a. Bank-Owned Properties

NO	DESCRIPTION	LOCATION
1	Angeles City Branch Land and Building - CBS Branch	Rizal Street, Barangay Lourdes Sur, Angeles City, Pampanga
2	Angeles City Property Land and Building - Warehouse	Asuncion Street cor. Miranda Street Extension Barangay San Nicholas, Angeles City, Pampanga
3	Balibago Sta. Rosa Land and Building - CBS Branch	National Highway cor. R. Lazaga Street, Barangay Balibago, Sta. Rosa City, Laguna
4	Batangas Branch Land and Building - CBS Branch	P. Burgos Street, Poblacion, Batangas City
5	Biñan Branch Land and Building - CBS Branch and Warehouse	National Road, Barangay San Vincente, Biñan City, Laguna
6	Calamba Property - Vacant	No. 5-A-1, Barangay I Poblacion Crossing, Calamba City, Laguna
7	Caloocan Property - Leased to China Bank Branch	Mac Arthur Highway, Barangay 78, Kalookan City
8	CBS Buendia Land and Building - Head Office	314 Sen. Gil Puyat Ave., Barangay Bel Air, Makati City
9	Dau Branch Land and Building - CBS Branch and On Lease	Mac Arthur Highway, Barangay Dau, Mabalacat City, Pampanga
10	España Property - Leased to China Bank Branch	España Boulevard cor. Valencia Street, Sampaloc District, Manila
11	Masantol Branch Land and Building - CBS Branch	Apalit-Macabebe-Masantol Road, Barangay Poblacion, Pampanga
12	Orani Branch Land and Building - CBS Branch and On Lease	National Highway cor. Torres Bugallon Street, Barangay Balut, Orani, Bataan
13	Orani Branch Land and Building - Vacant	National Road, Barangay Tenejero, Poblacion, Orani, Bataan
14	Urdaneta Property - On Lease	Alexander Street cor. Belmonte Street, Barangay Poblacion, Urdaneta City, Pangasinan
15	VGP Building (Ground, Mezzanine, 2nd, 3rd, 7th and 8th Floor) - CBS Office and Leased to China Bank Office	VGP Center, No. 6772 Ayala Ave., Makati City

All bank-owned properties are free from any and all liens and encumbrances. There are no restrictions on titles and the Bank does not have any contractual commitments for acquisition of properties.

b. Leased Properties

NO	BRANCH	CONTRACT PERIOD		RENTAL RATE PER MONTH (₱)
		FROM	TO	
1	ACACIA ESTATES - SAVEMORE	27-Dec-17	26-Dec-19	51,051.00
2	ADRIATICO - HYPERMARKET	1-Aug-19	31-Jul-21	71,662.50
3	ALABANG HILLS	16-Aug-17	15-Aug-22	100,230.56
4	AMANG RODRIGUEZ - SAVEMORE	27-Dec-17	26-Dec-19	66,150.00
5	AMORANTO AVENUE	15-Nov-16	14-Nov-21	77,421.09
6	ANGONO	1-Jun-16	31-May-23	56,287.35
7	ANONAS - SAVEMORE	30-Jul-19	30-Nov-21	53,603.00
8	ANTIPOLO	1-May-15	30-Apr-25	101,131.19
9	ARANETA CENTER COD - SAVEMORE	24-May-19	31-Jul-20	38,288.45
10	ARAYAT	16-Nov-16	15-Nov-21	39,703.55
11	BACLARAN	5-Apr-16	4-Apr-23	86,100.00
12	BACOLOD	1-Aug-10	31-Jul-20	77,055.50
13	BACOOR - MOLINO	1-Oct-14	30-Sep-21	94,500.00
14	BACOOR - TALABA	1-Feb-17	31-Jan-27	98,130.84
15	BAGUIO - SESSION AND SALES OFFICE	17-Jun-16	16-Jun-21	159,404.96
16	BALAGTAS	6-Mar-17	5-Mar-22	31,500.00
17	BALANGA - DM BANZON	15-Oct-17	14-Oct-22	119,153.03
18	BALIBAGO	1-Jan-16	31-Dec-22	115,762.50
19	BALIUAG	26-May-16	25-May-19	140,390.97
20	BANAWE	22-Nov-12	21-Nov-22	128,136.12
21	BANGKAL	21-Jun-12	21-Jun-22	147,597.19
22	BINONDO - JUAN LUNA	16-Sep-13	15-Sep-23	220,764.80
23	BLUMENTRITT	28-Mar-17	27-Mar-27	110,000.00
24	BONI AVENUE	1-Sep-17	31-Aug-27	66,000.00
25	CABANATUAN - BAYAN	1-Mar-15	28-Feb-22	99,225.00
26	CAGAYAN DE ORO	1-Nov-10	31-Oct-22	128,275.45
27	CALAMBA	1-Nov-17	31-Oct-22	109,395.56
28	CAVITE CITY	31-Oct-14	30-Oct-21	55,125.00
29	CEBU - LAHUG	1-Jun-17	31-May-25	200,753.37
30	CEBU - MANDAUE	1-Aug-11	31-Jul-21	100,507.16
31	CEBU - MANGO	1-Jan-18	31-Dec-22	306,433.85
32	CEBU MANDAUE - BASAK	1-Aug-18	31-Jul-23	58,635.73
33	COMMONWEALTH AVENUE	16-Apr-16	15-Apr-23	59,535.00
34	CUBAO	1-Jul-15	30-Jun-22	84,426.03
35	DAGUPAN	2-Nov-10	1-Nov-20	126,639.04
36	DARAGA	16-Jun-11	15-Jun-21	79,860.00
37	DASMARIÑAS	1-Apr-16	31-Mar-26	78,750.00
38	DAVAO	1-Jan-11	31-Dec-20	175,837.50
39	DAVAO - RECTO	1-Aug-18	31-Jul-23	84,000.00
40	DEL MONTE	1-Apr-18	31-Mar-28	184,500.00
41	DIVISORIA	17-Mar-16	16-Mar-26	200,395.60
42	DOLORES	1-Jul-15	30-Jun-25	64,845.52
43	E. RODRIGUEZ SR. - HEMADY	1-Sep-14	31-Aug-21	134,681.95
44	ESPAÑA - SUN MALL	1-Nov-19	31-Oct-20	127,492.50
45	FELIX HUERTAS - JT CENTRALE	16-Dec-16	15-Dec-23	59,584.00
46	FILINVEST CORPORATE CITY	1-Aug-17	31-Jul-22	153,153.78
47	FTI - TAGUIG - HYPERMARKET	2-May-14	1-May-19	71,496.00
48	G.ARANETA AVENUE	15-Mar-17	14-Mar-24	62,075.00
49	GENERAL SANTOS AND SALES OFFICE	1-Apr-13	21-Mar-20	82,958.31
50	GIL PUYAT-BAUTISTA	1-Jul-17	30-Jun-24	136,800.00
51	GREENHILLS - ORTIGAS AVE.	1-Dec-15	30-Nov-20	125,465.59
52	GREENHILLS - WILSON	16-Oct-17	15-Oct-22	166,320.00
53	GUAGUA	1-Jan-13	31-Dec-23	92,913.19
54	GUIGUINTO-RIS	25-Sep-17	24-Sep-27	30,000.00
55	ILOILO - JARO	1-May-13	30-Apr-23	86,787.15
56	ILOILO - IZNART	1-Feb-18	31-Jan-28	165,669.00
57	IMUS - TANZANG LUMA and Sales Office	26-Nov-13	25-Nov-20	114,865.34

NO	BRANCH	CONTRACT PERIOD		RENTAL RATE PER MONTH (₱)
		FROM	TO	
58	KALIBO - CITYMALL	1-Jan-17	31-Dec-22	76,072.50
59	KALOOKAN	16-Aug-17	15-Aug-25	145,902.42
60	KALOOKAN - MABINI	1-Jan-17	31-Dec-23	113,514.88
61	KATIPUNAN AVENUE	16-Feb-16	15-Feb-23	137,812.50
62	LAGRO	9-Sep-16	8-Sep-23	76,236.70
63	LAGUNA - STA. CRUZ	8-Nov-14	7-Nov-21	49,000.00
64	LAOAG CITY	1-Jul-15	30-Jun-22	79,980.00
65	LAS PINAS - ALMANZA UNO	1-Sep-17	31-Aug-22	107,399.88
66	LEGAZPI BRANCH and Sales Office	1-Mar-18	28-Feb-27	168,000.00
67	LINGAYEN	1-Jul-18	30-Jun-28	130,000.00
68	LIPA - CM RECTO	5-Jul-10	4-Jul-20	162,222.10
69	LOS BAÑOS - CROSSING	1-Jan-18	31-Dec-20	80,000.00
70	LUCENA	16-Sep-18	15-Sep-23	75,735.14
71	MACABEBE	16-Jun-17	15-Jun-27	49,481.25
72	MAKATI - CHINO ROCES	1-Oct-13	30-Sep-23	129,233.00
73	MAKATI - J.P. RIZAL	1-Sep-13	31-Aug-23	132,300.00
74	MALABON - FRANCIS MARKET - SAVEMORE	6-Feb-19	31-Mar-20	36,465.19
75	MALOLOS	1-Jul-17	30-Jun-22	72,930.00
76	MALOLOS - CATMON	6-Apr-15	5-Apr-20	75,481.52
77	MANDALUYONG	1-Mar-12	31-May-22	139,797.00
78	MANDALUYONG - SHAW BLVD.	1-Dec-18	30-Nov-23	134,473.89
79	MANILA - STA. ANA - SAVEMORE	5-Feb-16	4-Feb-21	44,100.00
80	MARIKINA	24-Feb-10	23-Feb-20	88,647.33
81	MARIKINA - GIL FERNANDO AVENUE	1-Jan-18	31-Dec-22	93,079.31
82	MEYCAUAYAN	1-Nov-16	31-Oct-23	62,141.31
83	MOUNT CARMEL	20-Jul-15	19-Jul-25	115,762.50
84	MUÑOZ - JACKMAN	1-Jun-17	31-May-24	87,005.10
85	NAGA	16-Jul-12	15-Jul-22	100,194.07
86	NEPA - Q. MART - SAVEMORE	30-Jul-19	30-Nov-21	38,288.40
87	NINOY AQUINO AVE.	1-Jun-12	31-May-22	150,491.25
88	OLONGAPO	25-Oct-17	24-Oct-22	107,476.63
89	ORTIGAS CENTER	1-Feb-18	31-Jan-21	159,474.42
90	PARAÑAQUE - BETTER LIVING	1-Oct-18	30-Sep-23	93,211.97
91	PARAÑAQUE - BF HOMES	1-Jul-13	30-Jun-23	79,230.38
92	PARANAQUE - JAKA PLAZA	19-Apr-16	18-Apr-23	86,120.63
93	PARAÑAQUE - LA HUERTA	1-Oct-13	30-Sep-28	109,395.56
94	PARAÑAQUE - MOONWALK	17-Apr-15	16-Apr-22	86,711.62
95	PASAY - LIBERTAD	20-Feb-17	19-Feb-24	86,625.00
96	PASIG - CANIOGAN	15-Jun-16	14-Jun-23	73,500.00
97	PASIG - MUTYA	16-Jul-17	15-Jul-27	99,000.00
98	PASIG - PADRE BURGOS	16-Jun-18	15-Jun-23	99,886.50
99	PASO DE BLAS	15-Jan-16	15-Jan-21	68,835.83
100	PATEROS	1-Jul-10	30-Jun-20	105,532.53
101	PATEROS - ALMEDA	30-Aug-17	30-Aug-22	84,426.02
102	PEDRO GIL	1-Sep-18	31-Aug-25	111,962.00
103	PLARIDEL	1-Sep-12	31-Aug-22	153,153.79
104	PLAZA - STA. CRUZ (former Avenida-Savemore)	1-Apr-16	31-Mar-26	110,000.00
105	PORAC	14-Dec-15	13-Dec-20	56,653.95
106	QUEZON AVENUE and APD RBC NCR	1-Nov-18	31-Oct-28	108,482.79
107	QUEZON AVENUE - PALIGSAHAN	16-Apr-16	15-Apr-21	120,558.38
108	QUIAPO - ECHAGUE	1-Aug-18	31-Jul-28	150,000.00
109	QUIAPO - QUEZON BOULEVARD	5-Feb-16	4-Feb-23	105,000.00
110	RADA	16-Jun-16	15-Jun-21	125,669.28
111	ROOSEVELT	15-Jun-17	31-May-24	70,000.00
112	ROXAS AVE. CAPIZ -CITYMALL	14-Nov-18	13-Nov-23	66,697.50
113	SAN FERNANDO	16-Jul-10	15-Jul-20	162,520.10
114	SAN FERNANDO - BAYAN	1-Jun-18	31-May-25	107,600.00
115	SAN ILDEFONSO - SAVEMORE	22-Jun-15	21-Jun-20	92,075.85
116	SAN JOSE DEL MONTE	1-Aug-12	31-Jul-22	93,168.56

NO	BRANCH	CONTRACT PERIOD		RENTAL RATE PER MONTH (₱)
		FROM	TO	
117	SAN JUAN	1-Sep-14	31-Aug-21	81,033.75
118	SAN MIGUEL	1-Dec-18	30-Nov-23	80,000.00
119	SAN NARCISO	8-Dec-16	7-Dec-24	38,998.41
120	SAN PABLO - RIZAL AVE.	1-Apr-15	31-Mar-22	110,526.32
121	SAN PEDRO	1-Mar-12	28-Feb-22	36,050.00
122	SAN RAFAEL	13-Dec-15	12-Dec-22	76,388.47
123	SANTIAGO - VICTORY NORTE	15-Oct-17	14-Oct-22	121,550.63
124	SOUTH TRIANGLE	1-Sep-18	31-Aug-25	158,800.00
125	STA. ANA	1-Dec-18	30-Nov-23	56,001.26
126	STA. MARIA	8-Dec-18	7-Dec-19	112,000.00
127	STA. MESA	16-Mar-17	15-Mar-24	66,774.75
128	STA. RITA	8-Oct-12	7-Oct-22	36,733.20
129	STA. ROSA	17-Jun-13	16-Jun-22	170,170.88
130	STO. TOMAS	26-Oct-15	25-Oct-20	125,583.72
131	SUBIC	1-Mar-19	28-Feb-29	73,600.00
132	TACLOBAN CITY	16-Sep-19	15-Sep-24	112,500.00
133	TAGAYTAY - MENDEZ - SAVEMORE	6-Feb-19	31-Mar-20	47,656.60
134	TAGUM - CITYMALL	1-Jun-17	31-May-22	55,440.00
135	TALISAY - NEGROS - SAVEMORE	23-May-14	22-May-19	98,456.85
136	TANAUAN CITY	1-Dec-18	30-Nov-28	68,400.00
137	TANDANG SORA	16-May-17	15-May-24	76,500.00
138	TARLAC - MAC ARTHUR	15-Sep-16	14-Sep-23	84,060.90
139	TAYTAY	15-Oct-18	14-Oct-23	113,374.08
140	TAYUMAN	1-Oct-16	30-Sep-23	105,000.00
141	TIMOG	1-May-17	30-Apr-24	120,122.40
142	TUGUEGARAO	16-Aug-17	15-Aug-22	111,710.81
143	TWO E-COM	1-Nov-16	31-Oct-19	145,288.50
144	UN AVENUE	1-Feb-19	31-Jan-24	163,249.47
145	URDANETA	24-Aug-16	23-Aug-23	75,000.00
146	VALENZUELA - MARULAS	20-Oct-15	19-Oct-20	69,457.50
147	VIGAN	5-Jun-17	4-Jun-27	204,970.81
148	VISAYAS AVE.	2-Mar-17	1-Mar-22	115,311.09
149	ZAMBOANGA - CITYMALL	30-Sep-15	29-Sep-20	81,502.50

Note: These lease contracts are renewable under certain terms and conditions and include pre-termination clause.

c. Description of Properties The Bank Intends To Acquire/Lease In The Next 12 Months

The Bank has future plans to acquire/lease properties but no description/location of properties yet at this time.

Item 3. LEGAL PROCEEDINGS

There are pending cases for and against the Bank arising from normal business activities. In the opinion of the management and the legal counsel, the Bank has no material pending legal proceedings to which the Bank is a party or which any of its property is the subject.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There are no matters that will be included in the agenda of the annual stockholders' meeting that may give rise to the exercise by a dissenting stockholder of the right of appraisal and demand payment of the fair value of his shares under Section 81 of the Corporation Code (Batas Pambansa Bilang 68).

PART II. OPERATIONAL AND FINANCIAL INFORMATION

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

1. Market Information

The registrant's equity is not listed in any exchange. There were no shares transferred in 2019 and 2018.

PERIOD	NO. OF SHARES TRANSFERRED	PRICE PER SHARE	
		High	Low
January 1, 2018 to December 31, 2019	No transaction		

2. Holders

The Bank's authorized common shares (₱100 par value) amounted to 134.0 million in 2019 and 2018 and authorized preferred shares (₱100 par value) amounted to 6.0 million in 2019 and 2018. There are approximately 1,423 stockholders of the 105,414,149 subscribed common shares as of December 31, 2019. The top 20 common shareholders as of December 31, 2019 are as follows:

NAME OF STOCKHOLDER	NUMBER OF SHARES	% OF HOLDINGS
1. China Banking Corporation	104,995,882	99.60%
2. Marinduque Mining and Industrial Corp.	46,002	0.04%
3. Bogo Medellin Milling Co., Inc.	33,521	0.03%
4. Reyes, Rodrigo C.	31,205	0.03%
5. Estate of Gil J. Puyat	13,729	0.01%
6. Development Bank of the Philippines	8,418	0.01%
7. Jipson, Espinela A.	8,248	0.01%
8. Cruz, Manuel C.	6,313	0.01%
9. Puyat, Patria Gil VDA. DE	5,350	0.01%
10. Newsal Esterprise	5,036	0.00%
11. Pryce Plans, Inc.	4,984	0.00%
12. Del Rosario, Pedro R.	4,938	0.00%
13. Gocolay, Antonio K.	4,587	0.00%
14. Magsaysay, Cecilia Hernaez	4,284	0.00%
15. Hernaez, Celina R.	4,283	0.00%
16. Ponce, Teofilo L.	3,852	0.00%
17. Estate of Bienvenido P. Buan	3,789	0.00%
18. Heirs of Florencio and Rizalina Buan	3,789	0.00%
19. Reyes, Edmundo A.	3,789	0.00%
20. Reyes, Felipe Delos, and OR Reyes, Rose M. R. De Los Reyes	3,670	0.00%

3. Dividends

There were no dividends declared in 2019 and 2018.

4. Recent Sales of Unregistered Securities or Exempt Securities

There were no unregistered securities sold by the Bank for the past three (3) years.

Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

1. Plan of Operation

The year 2020 is one of the most auspicious in the entire history of the China Bank Group because it is celebrating its centennial anniversary. CBS' utmost focus now is its role to the China Bank Group. This goes back to the Group's centennial slogan of "Celebrating the Past, Embracing the Future." As the thrift bank subsidiary that will be facing the new and younger generation of banking clients, CBS is front and center in the efforts to maintain a respectable market share in a future where financial inclusion is the name of the game. CBS aims to be the bank for first-time depositors, small and micro businesses, and individual loan applicants.

Over the next period, the Bank will focus on increasing its customer base by developing long-term, beneficial relationships with its customers and use network of branches, sales offices and business centers to deepen its reach within its existing territories. The Bank will leverage its strong tradition of personalized service to attract borrowers from teachers, auto and homebuyers, SMEs, without neglecting its services for entry-level customers like young professionals, wage-earners and micro entrepreneurs.

To achieve the net income target over the next twelve months, the Bank's objective is to sharpen its focus on four key strategies: (a) concentrate on high-yielding loans; (b) build current accounts/savings accounts (CASA) deposits; (c) aggressively reduce non-performing assets (NPAs) composed of real and other properties acquired (ROPA) and non-performing loans (NPLs); and (d) improve operational efficiency.

The priority is to continuously expand the higher-yielding loan products. The APDS (teachers') loans and consumer loan products, composed of retail housing, auto, personal, handy salary and handy credit loans, will continue to be the major component of CBS' loan portfolio for 2020. For SME loan products, the Bank will concentrate on growing the Smallbiz and the buses and trucks lending portfolios. The Bank's strategy is to bridge the market gap by opening additional lending centers and lending branch lites in 2020 and utilizing majority of its 158 brick-and-mortar branch network. The Bank is also working towards automating and streamlining its loan origination process to be more competitive, provide better client service and achieve a faster turn-around time.

To fund its growing lending business, CBS will also focus on building up its low cost of funds or CASA. The Bank will take advantage of the declining trend in the key interest rates as seen in the latter half of 2019. An enhanced sales management will be implemented to improve the sales activities of the Bank's distribution channels. New products will be launched and existing products will be enhanced further to meet the specific needs of its market clientele. The Bank will also re-launch and rebrand its Cash Management Services to generate less volatile CASA.

To support branch-based CASA build up efforts, the Bank will aggressively use the social media platform and intensify its marketing promotions. The reorganized Marketing Division will be working very closely with the Bank's sales units to develop the necessary tools for attracting more customers.

The Bank will continue to pursue its aggressive reduction of NPAs through its NPL Recovery Program and ROPA Reduction Program. For 2020, the Bank will redouble its efforts to unload significant chunk of ROPA through a competitive pricing scheme. Marketing and selling activities will be intensified through the social media platform, licensed brokers, internal referrals, auction sale and open house programs as well as CBC and CBS developer clients The branch network and lending account officers will also be utilized as to enhance the force multipliers.

The aforementioned strategies will be strongly supported by improved operational efficiency. The Bank will focus on addressing productivity through manpower optimization and workforce planning, process improvements and automation on the backroom support.

With the growth in loan portfolio, improvement in asset quality, increase in CASA and effective cost management, net income will significantly increase over the next 5 years.

The Bank will continue to strengthen capital management through its internally-generated income from operations and also ensure that the Bank's CAR remains aligned and adequate with its expansion plans and risk parameters.

By exhibiting a solid core performance that continues to be on pace with its growth objectives, CBS has never been more motivated to be at the top of its game. A reinforced capital base, combined with a robust business franchise and extensive distribution network, puts the Bank in a premier position to capture growth opportunities and face headwinds from an increasingly competitive and volatile environment.

2. Management's Discussion and Analysis

a. Analysis of Statements of Condition

As of December 31, 2019 and 2018

CBS achieved solid results in its overall financial performance for 2019. By the end of 2019, total assets peaked at ₱102.0 billion, total deposits reached ₱89.2 billion and total net loans hit ₱66.9 billion.

CBS' 2019 performance was driven by the rapid expansion of loans, particularly the APDS and consumer lending businesses, which is supported by the sustained low-cost of funds generation. CBS grew its client base from 0.45 million to 0.56 million as of December 31, 2019.

Gross loans expanded by 2.8% primarily attributed to APDS and consumer loans, which jumped by 20.9% or ₱7.3 billion to ₱42.5 billion. The growth in consumer loans was led by the significant increase in auto and housing loans at 6.0% and 4.0%, respectively.

In 2019, the Bank sold investment securities at amortized cost amounting to ₱5.3 billion to comply with regulatory limits. The sold investments included securities with carrying amount of ₱2.0 billion that are nearing their maturity dates and where the selling price approximated amortized cost. The disposals resulted in gains amounting to ₱118.0 million.

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

Property and equipment increased by 43.6% or ₱535.2 million to ₱1.8 billion as of December 31, 2019 due to the adoption of the new accounting standard on leases, PFRS 16, which requires recognition by lessees of the assets and related liabilities for most leases on their balance sheets and subsequently depreciates the lease assets and recognizes interest on the lease liabilities in their profit or loss. The adoption of PFRS 16 resulted in the recognition of right-of-use asset classified under property and equipment and lease liability classified under other liabilities amounting to ₱609.6 million and ₱675.4 million, respectively, as of December 31, 2019.

The growth in loans and asset base was supported by the growth in funding base. Total deposits rose by 5.4%, boosted by 13.5% growth in low-cost funds, resulting to a healthy CASA ratio of 36.7%, while the loans-to-deposit ratio was steady at 75.0%.

Investment properties decreased by 18.6% or ₱593.3 million from 2018 level of ₱3.2 billion due to the recovery efforts of the Bank's NPLs and aggressive reduction of the ROPAs through sale and disposal.

Capital also increased from ₱9.1 billion as of end-2018 to ₱9.7 billion as of end-2019, as a result of the improved operations of the Bank for 2019. The Bank's total CAR was computed at 11.86% as of December 31, 2019.

As of December 31, 2018 and 2017

Despite the challenging market conditions, the Bank stayed resilient with its strong balance sheet and steady financial results. Total assets expanded by ₱8.6 billion to ₱95.8 billion. Gross loans grew by 3.3% or ₱2.1 billion to ₱67.6 billion due to strong demand, particularly in consumer and APDS loans, which jumped by 17.8% or ₱5.3 billion to ₱35.1 billion. The growth in consumer loans was led by the significant increase in auto and housing loans at 11% and 13%, respectively.

The growth in loans and asset base was supported by the growth in funding base. Total deposits rose by 10.7% to ₱84.6 billion, boosted by 15.6% growth in low-cost funds, resulting to healthy CASA ratio of 34.1%, while the loans-to-deposit ratio was steady at 77.0%. CBS also grew its client base from 0.36 million to 0.45 million as of December 31, 2018.

Even as the expansion in the Bank's loan portfolio continued apace, stronger focus on credit underwriting standards and disciplined collection efforts led to a milestone reduction in the Bank's NPL ratio to 5.2% as NPL dropped by ₱439.3 million or 11.2%. Continued provisioning improved the loan loss coverage ratio to 65.1% from 54.0%.

Investment properties slightly increased by ₱39.9 million or 1.3% from 2017 level of ₱3.2 billion due to the recovery efforts on the Bank's non-performing loans while aggressively reducing the same through sale and disposal.

Capital also increased from ₱8.4 billion as of end-2017 to ₱9.1 billion as of end-2018, due to the additional capital infusion of the Parent Bank amounting to ₱0.5 billion in June 2018 which was partially offset by the impact of adopting the new accounting standard on financial instruments, PFRS 9. The Bank's total CAR was computed at 11.34% as of December 31, 2018.

b. Discussion of Results of Operations

For the years ended December 31, 2019 and 2018

The Bank achieved a net income of ₱621.6 million in 2019, 68.1% higher than a year ago. The Bank's core businesses delivered improved results with a total operating income of ₱ 4.8 billion, primarily driven by the service fee income generated in 2019. This is attributed to the significant growth in the APDS and consumer lending businesses. Net interest income was down by 0.8% in 2019 to ₱3.2 billion due to higher interest expense. Net interest margin was at 3.9[1]%.

Total interest income increased by 15.6% or ₱803.9 million, better than the ₱5.2 billion recorded in 2018. Interest income from loans and receivables showed a 12.2% improvement or an increase of ₱574.1 million from ₱4.7 billion in 2018. Interest income on investment securities also rose by 43.0% to ₱403.3 million from ₱282.1 million primarily due to the yield improvements of the investment portfolio despite the sale made in the latter half of 2019. Interest earned from interbank loans receivable and SPURA increased by 63.6% or ₱75.9 million. Moreover, interest earned from deposits with BSP and interest income from other banks posted an increase of 128.8% to ₱58.0 million.

Interest expense on the Bank's deposit liabilities was higher by 41.0% to ₱2.7 billion compared to ₱1.9 billion during the same period in 2018 due to the combined impact of increased deposits and still high cost of funds. The adoption of PFRS 16 in 2019, which requires the recognition of interest on the lease liabilities, also resulted to an increase in interest expense by ₱57.8 million.

Service charges, fees and commissions increased by more than 200% or ₱587.3 million from ₱268.0 million in 2018 primarily attributed to the expansion in the APDS loan portfolio. The Bank registered ₱446.3 million gain on the sale and foreclosure of investment properties in 2019, 65.2% higher than a year ago. CBS also recognized a gain on sale of investment securities at amortized cost of ₱118.0 million in 2019.

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[1] Had the Bank included the interest expense on lease liabilities, NIM is 3.8% for the year ended December 31, 2019.

Compensation and fringe benefits increased to a managed level of 3.8%. Depreciation and amortization increased by 46.6% or ₱154.9 million while occupancy costs declined by 56.5% or ₱171.4 million, both of which were attributed to the adoption of PFRS 16 in 2019, which requires depreciation of the leased assets on a straight-line basis over the lease term. Under the old accounting standard, lease payments are recognized as occupancy costs.

Taxes and licenses went up by 35.3% while security, clerical, messengerial and janitorial services were at ₱278.5 million. In line with the Bank's thrust to further strengthen its balance sheet, the Bank set aside a total of ₱250.6 million provision for impairment and credit losses for the year ended December 31, 2019. Acquired asset and other litigation expense also increased by 36.0% or ₱48.2 million as a result of the Bank's aggressive stance in reducing NPAs.

Increase in operating expenses was also driven by the ongoing distribution network expansion such as the set-up of additional lending centers in 2019. Other cost items were kept at a manageable single-digit growth, notwithstanding the continued investment in distribution network expansion, technology, system upgrades, and customer acquisition initiatives.

For the years ended December 31, 2018 and 2017

The Bank achieved a net income of ₱369.9 million in 2018, 26.3% lower than a year ago. The Bank's core businesses delivered stable results with total income of ₱3.9 billion, driven by loan and fee income led by healthy growth in the consumer and APDS lending businesses. Net interest income was down by 1.9% in 2018 to ₱3.3 billion due to higher interest expense. Net interest margin was at 4.1%.

Total interest income increased by 11.0% or ₱512.3 million, better than the ₱4.6 billion recorded in 2017. Interest income from loans and receivables showed a 10.6% improvement or an increase of ₱454.3 million from ₱4.3 billion in 2017. Interest income on investment securities rose by 7.3% to ₱282.1 million from ₱262.8 million due to the Bank's higher investment portfolio in 2018. Interest earned from interbank loans receivable and SPURA increased by 29.8% or ₱27.4 million. Moreover, interest earned from deposits with BSP and interest income from other banks posted an increase of 79.9% to ₱25.3 million.

Interest expense on the Bank's deposit liabilities was higher by 43.8% to ₱1.9 billion compared to ₱1.3 billion during the same period in 2017 due to overall rise in interest rates and total deposits in 2018.

Service charges, fees and commissions increased by ₱28.6 million from ₱239.5 million in 2017. The Bank registered ₱270.1 million gain on the sale of investment properties in 2018, 124.1% higher than a year ago.

Other operating expenses went up by only ₱135.1 million or 3.7% from 2017 ago level of ₱3.6 billion. In line with the Bank's thrust to further strengthen its balance sheet, the Bank set aside a total of ₱104.6 million provision for impairment and credit losses for the year ended December 2018. Compensation and fringe benefits increased by 8.3%. Occupancy and equipment-related costs increased by 16.8% or ₱43.5 million to ₱303.2 million as a result from higher rent expense. As of December 31, 2018, the Bank has 162 branches and 167 ATMs nationwide.

Security, clerical, messengerial and janitorial services were at ₱244.8 million while depreciation and amortization of Bank's property and equipment, investment properties and software costs were at ₱325.5 million from ₱345.8 million in 2017. Taxes and licenses went up by 14.7% or ₱32.9 million brought by the implementation of the TRAIN Law. Miscellaneous expenses were lower by ₱2.2 million at ₱162.9 million from ₱165.1 million in 2017.

Increase in operating expenses was driven mainly by increase in documentary stamp tax and the ongoing branch expansion and set-up of additional lending centers in 2018. Other cost items were kept at a manageable single-digit growth, notwithstanding the continued investment in branch network expansion, technology, system upgrades, and customer acquisition initiatives.

c. Key Performance Indicators

	2019	2018	2017
Capital Adequacy Ratio			
Capital to Risk Assets Ratio	**11.86%**	11.34%	11.43%
Asset Quality			
Non-Performing Loans to Total Loans	**5.78%**	5.16%	6.09%
Liquidity			
Liquid Assets to Total Deposits	**30.62%**	27.60%	22.80%
Profitability			
Return on Equity (ROE)	**6.61%**	4.24%	6.19%
Return on Assets (ROA)	**0.63%**	0.40%	0.60%
Cost Efficiency			
Operating Expenses to Total Income	**88.52%**	95.53%	93.51%

2019 vs. 2018 Comparative highlights on key performance indicators

Capital adequacy ratio as of December 31, 2019 was at 11.9%. NPL ratio increased to 5.8% as of end-2019 as compared to the 5.2% in 2018.

ROE and ROA for the year 2019 is at 6.6% and 0.6%, respectively, better than end-2018's 4.2% and 0.4%, respectively. Cost efficiency ratio also improved to 88.5% as of December 31, 2019, from 95.5% as of December 31, 2018.

2018 vs. 2017 Comparative highlights on key performance indicators

Capital adequacy ratio as of December 31, 2018 was at 11.3%. NPL ratio decreased to 5.2% as of year-end 2018 as compared to the 6.1% in 2017.

ROE and ROA for the year 2018 is at 4.2% and 0.4%, respectively, slightly lower than end-2017's 6.2% and 0.6%, respectively. Cost efficiency ratio also increased to 95.5% as of December 31, 2018, from 93.5% as of December 31, 2017. '

Key Variables and Other Qualitative and Quantitative Factors

a. Liquidity

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

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

b. Events that will Trigger Direct or Contingent Financial Obligation

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

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

c. Material Off-Balance Sheet Transactions, Arrangements and Obligations

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

	2019	2018
Committed credit lines	**₱334,215,969**	₱524,162,035
Standby domestic letters of credit	**117,335,956**	148,988,582
Late deposits/payments received	**33,355,747**	36,672,003
Outward bills for collection	**1,852,979**	1,924,156
Others	**162,462**	151,625
	₱486,923,113	₱711,898,401

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

d. Material Commitments for Capital Expenditures

The Bank's capital expenditures in 2019 included expenses for renovation and relocation of branches, new APDS loan centers and upgrade of bank premises including infrastructure, furniture, fixtures and equipment, IT-related activities on systems and licenses. For 2020, the Bank plans to open 4 full branches, 4 branch lites, 8 APDS loan centers and 27 APDS lending branch lites. Capital expenditures will be sourced from the Bank's capital and operations.

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

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

f. Known Trends, Events or Uncertainties or Seasonal Aspects

The financial statements of the Bank have been prepared in compliance with PFRS.

Item 7. FINANCIAL STATEMENTS

Please refer to the attached **Exhibit 2** for the Audited Financial Statements as of and for the years ended December 31, 2019 and 2018.

Independent Public Accountant

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

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

	2019	2018
Audit and Audit-Related Fees:		
▪ Fees for services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements	**₱2,100,000**	₱2,200,000

Audit Committee’s Approval Policies and Procedures for Above Services

As China Bank’s subsidiary, the Bank adopted the Parent Bank’s policies and procedures on audit engagement contract for external auditors. The same was discussed and approved by the Audit Committee. Included in the duties and responsibilities of the Audit Committee as provided for in the Audit Committee Charter are to recommend to the Board of Directors the appointment, re-appointment and dismissal of external auditors; to review and evaluate the external auditors’ qualifications, performance, independence, and objectivity; and to review the external auditors’ audit plan and scope among others.

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

Chairman	Alberto S. Yao, *Independent Director* .
Vice-Chairman	Margarita L. San Juan, *Independent Director*
Member	Philip S. L. Tsai, *Independent Director*

Item 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The financial statements of the Bank for the years ended December 31, 2019 and 2018 have been audited by SGV & Co. in accordance with Philippine Financial Reporting Standards. There were no changes in and disagreements with accountants on accounting and financial disclosures.

PART III. CONTROL AND COMPENSATION INFORMATION

Item 9. DIRECTORS AND EXECUTIVE OFFICERS

1. The Members of the Board of Directors

The Board of Directors is composed of distinguished members with extensive background in banking and business. The members of the Board hold the office for the remainder of the term of their successors and, with prior approval of the MB, concurrently with their position/s in the Parent Bank are as follows:

Ricardo R. Chua, 69, Filipino, is the Chairman of the Board since 2007. He held several key positions with China Bank including Director from 2008 up to October 2017, President and Chief Executive Officer from September 2014 up to October 2017, and Chief Operating Officer from 2012 to 2014. He is the Chairman of China Bank's Technology Steering Committee. He currently sits in the boards of other China Bank subsidiaries: Chairman of China Bank Capital Corporation (CBCC), Director of China Bank Insurance Brokers, Inc. (CBC-IBI), Director of CBC Properties and Computer Center, Inc. (CBC-PCCI) and in other companies not listed in the PSE - CAVACON Corporation, and Sun & Earth Corporation, among others. A Certified Public Accountant, Mr. Chua earned his Bachelor of Science degree in Business Administration, Major in Accounting, *cum laude*, from the University of the East, and finished his Master's in Business Management (MBM) degree from the AIM. He has had extensive training in banking operations and corporate directorship, and attended AML and corporate governance seminars, among others.

Nancy D. Yang, 80, Filipino, is the Vice Chairman of the Board since 2007. She holds the position of Senior Vice President and the Head of China Bank's Retail Banking Business. She is a Director of China Bank subsidiary, China Bank Insurance Brokers, Inc. (CBC-IBI). She currently sits in the Board level committees of the Bank: Vice Chairman of Executive Committee and Risk Oversight Committee. She also holds various positions in the following institutions: Val Gardena Development Corporation, Hamersley Development Corporation, GDSK Development Corporation, Pacifica Royale Properties, Makati Curb Holdings, Corporation, Great Expectation Holdings, Inc., The Big D Holdings Corporation, Richesse Development Corporation, and Azureblue Properties, Inc., among others. Ms. Yang is a degree holder of Bachelor of Arts from the Philippine Women's University and Human Development & Child Psychology from Merrill Palmer Institute in Detroit, Michigan, USA. She has attended the Allen Management Program in 1990, BAI Retail Delivery Conference in Phoenix, Arizona, USA in 1994, Environmental Risk Management Program for Bankers conducted by the Bank of America in 1997, BAI Retail Delivery Conference in Miami Beach, Florida in 1999, and BAI Retail Delivery Conference in Orlando, Florida in 2008.

William C. Whang, 61, Filipino, is a member of the Board of CBS, and a Director and the President of China Bank since November 1, 2017. He does not hold any directorship position in any other PSE-listed company apart from China Bank. He also serves in the boards of China Bank subsidiaries: China Bank Insurance Brokers, Inc. (CBC-IBI), CBC Properties and Computer Center, Inc. (CBC-PCCI), China Bank Capital Corporation (CBCC), and China Bank Securities Corporation (CBSC). He is also the Chairman of the following CBS' Board level committees: Executive Committee, Retirement Committee, and Compensation and Remuneration Committee. He is actively involved in the boards of BancNet, Inc., Banker's

Association of the Philippines, Philippine Payments Management Inc., and Manulife China Bank Life Assurance Corporation (MCBLife). He has more than 39 years of banking experience, previously holding key positions in various financial institutions including Metropolitan Bank & Trust Co., Republic National Bank of New York, International Exchange Bank, Security Bank, and Sterling Bank of Asia. Mr. Whang is a Bachelor of Science degree holder in Commerce, Major in Business Management, from the De La Salle University. He participated in numerous seminars and conferences on corporate governance, Anti-Money Laundering (AML), branch based marketing, quality service management, sales management, and corporate strategy, among others.

Alexander C. Escucha, 63, Filipino, is a Director of the Bank. He is also a Senior Vice President and the Head of the Investor and Corporate Relations Group of China Bank. He is also a member of the following CBS' Board level committees: Corporate Governance Committee and Nominations and Personnel Committee and a member of the management level committee, Information Technology Steering Committee. He also serves as Chairman of the UP Visayas Foundation, Inc. Board of Trustees. He is a fellow of the Foundation for Economic Freedom (FEF) and a member of the Shareholders Association of the Philippines (SharePhil). He has served as president of the Philippine Economic Society (PES) and concurrent Chairman of the Federation of ASEAN Economic Associations (FAEA), and president of the Corporate Planning Society of the Philippines (CPSP) and Bank Marketing Association of the Philippines (BMAP). As an international resource person, he chaired the Technology Conferences at the Asian Banker Summit from 2006 to 2016 and chaired its Technology awards from 2007 to 2011. Prior to joining the China Bank Group, he was Vice President of International Corporate Bank (InterBank). Mr. Escucha obtained his Bachelor of Arts degree in Economics, *cum laude*, from the University of the Philippines and was the G.P. Sicat awardee for Most Outstanding Undergraduate Thesis. Over the years, he participated in various seminars here and abroad – the BSP/IFC Sustainable Finance Forum in February 2018, Moody's ASEAN Briefing in June 2018, the CFA Society Training on ETHICS in June 2018, the SEC-PSE Corporate Governance Summit in October 2018, Microsoft CEO Forum, Investment Conferences of CFA Society Philippines and The Asset, GRI Sustainability Summit in October 2018, the Annual conventions of the PES and FAEA in November 2018, and BSP Financial Education Forum and Expo in November 2018 and the UN ARISE Disaster Resilience Summit in December 2018.

Rosemarie C. Gan, 62, Filipino, is a CBS Director. She is also an Executive Vice President and Segment Head of Retail Banking Business of China Bank. She serves as a Director in China Bank subsidiary CBC Properties and Computer Center, Inc. (CBC-PCCI). She is also a member CBS Executive Committee. With nearly 42 years of experience in the banking industry, she has had wide exposure and training in marketing, financial analysis, credit portfolio management, strategic planning and corporate governance. Ms. Gan holds a Bachelor of Science degree in Business Administration, Major in Management, from the University of Santo Tomas, where she graduated *magna cum laude* and received the distinguished Rector's Award. She attended the Asian Institute of Management's (AIM) Advanced Bank Management Program in 2013. She also participated in the BAI Retail Delivery Conference conducted by the Bank Administration Institute in 2012, and Corporate Governance workshops/seminars conducted by the Institute of Corporate Directors (ICD) from 2014 to 2018, and AMLA seminar conducted by ICD in December 2017, among others.

Patrick D. Cheng, 57, Filipino, is a CBS Director. He is also a Senior Vice President and the Chief Finance Officer of China Bank. He currently sits in the Board of China Bank subsidiary, as Chairman of China Bank Insurance Brokers, Inc. (CBC-IBI). He is a member of the following CBS Board level committees: Risk Oversight Committee, Retirement Committee, and Ex-Officio Member of Compensation and Remuneration Committee. He also serves in the boards of Manila Overseas Commercial Inc. and SR Holdings Corporation, among others. In the past, he held several key positions at the Philippine Bank of Communications, HSBC Savings Bank (Philippines), HSBC (Philippine Branch), Citicenter Condominium Corp., and Citibank N.A. (Philippine Branch). He was the President and Chief Executive Officer of HSBC Savings Bank (Philippines) from 2008 to 2013 and was also a two-term President of the Chamber of Thrift Banks from 2011 to 2012. A Certified Public Accountant placing 7th in the National Exams, Mr. Cheng graduated *magna cum laude* from the University of the Philippines with a Bachelor of Science degree in Business Administration and Accountancy. He earned his Master's in Management degree, with Distinction, from the Hult International Business School in Cambridge, Massachusetts, and finished the Trust Operations and Investment Management course, also with Distinction, from the Trust Institute of the Philippines. In 2010, he received the Distinguished Alumnus Award from the Virata School of Business of the University of the Philippines - Diliman. He has had extensive training on corporate governance, AML, asset liability management, operational risk, and information security.

Alberto S. Yao, 73, Filipino, is the Lead Independent Director of the Bank. He was elected to the China Bank Board on July 7, 2004 and also the Lead Independent Director. He is also an Independent Director in the following China Bank subsidiaries: China Bank Capital Corporation (CBCC), and China Bank Securities Corporation (CBSC). He is a member of CBS Board level committees: Risk Oversight Committee, Corporate Governance Committee, Nominations and Personnel Committee, Chairman of Audit Committee, Compensation and Remuneration Committee, and Related Party Transaction Committee. He holds directorship in companies not listed in the PSE - as President & CEO of Richwell Philippines, Inc. and Internationale Globale Marques, Inc.; President of Richphil House Incorporated; and Member of` the Philippine Constitution Association. In the past, he was Vice President for Merchandising of Zenco Sales, Inc., Director of Planters Development Bank, President and CEO of Richwell Trading Corporation and Europlay Distributor Co., Inc., and President of Megarich Property Ventures Corporation. A graduate of Bachelor of Science in Business Administration, Minor in Accounting, from the Mapua Institute of Technology, Director Yao participated in various seminars including ICD's Corporate Governance Training Program in 2018 and AMLA seminar in 2017.

Philip S.L. Tsai, 69, Filipino, was elected as Independent Director of CBS and China Bank on November 7, 2018 to serve the unexpired term of Mr. Roberto F. Kuan who passed away on September 15, 2018. He currently serves as an Independent Director of China Bank subsidiaries China Bank Capital Corporation (CBCC) and China Bank Insurance Brokers, Inc. (CBC-IBI). He is a member of CBS Board level committees: Risk Oversight Committee, Chairman of Corporate Governance Committee, Nominations and Personnel Committee, Audit Committee, and Related Party Transaction Committee. Aside from the China Bank Group, he does not hold any position in other PSE-listed companies. He has had more than 36 years of banking experience. He previously held positions in First CBC Capital (Asia) Limited, Midwest Medical Management, Fortune Paper Inc., Chemical Bank New York, Consolidated Can Corp., Plastic Container Packaging, and in the Bank's Retail Banking Business until his retirement in 2015. Director Tsai earned his Bachelor of Science degree in

Business Administration from the University of the Philippines, and received his Master‘s degree in Business Administration from the Roosevelt University in Chicago, Illinois. He has attended several trainings on corporate governance, bank protection, AML, and branch-based marketing, among others.

Margarita L. San Juan, 66, Filipino, is an Independent Director of CBS and China Bank. On May 4, 2017, she was first elected to the China Bank Board. She is currently an Independent Director of China Bank subsidiaries China Bank Capital Corporation (CBCC) and China Bank Insurance Brokers, Inc. (CBC-IBI). She is a member of CBS Board level committees: Chairman of Risk Oversight Committee, Corporate Governance Committee, Nominations and Personnel Committee, Audit Committee, and Related Party Transaction Committee. She does not hold directorship position in any other PSE-listed company. She worked with Ayala Investment and Development Corporation, Commercial Bank and Trust Co., and in the Bank‘s Account Management Group as Senior Vice President and Group Head until her retirement in 2012. Director San Juan graduated with a Bachelor of Science degree in Business Administration, Major in Financial Management, from the University of the Philippines, and completed the Advance Bank Management Program from the Asian Institute of Management (AIM). She attended various trainings including development financing, international banking operations, marketing, financial analysis and control, credit and risk management, and the latest on AML in 2017 and corporate governance in 2018.

Angeline Ann H. Hwang, 69, Filipino, was elected an Independent Director of CBS and China Bank on June 20, 2019. She was also appointed to sit in the following CBS Board level committees: Corporate Governance Committee, Chairman of Nominations and Personnel Committee and Chairman of Related Party Transaction Committee. She is presently the President of Wingsan Properties Corporation and Oxleyrise Properties Inc., which are both private family-owned corporations. She has more than 45 years of experience in the banking industry, ranging from international trade finance to account management/relationship management for SME and middle market segments as well as branch banking, branch administration and branch expansion. She previously held positions in Philippine Business Bank, Solidbank Corporation, Far East Bank & Trust Company and Bank of the Philippine Islands. She has had various trainings on International Financial Reporting Standards (IFRS), financing, related party transactions, data privacy, SME, credit risk management, AML and corporate governance. Ms. Hwang is a graduate of Bachelor of Science in Business Administration, Major in Banking and Finance, from the University of the Philippines.

The Directors’ number of years including number of shares held are as follows:

NAME OF MEMBERS	PRINCIPAL STOCKHOLDER REPRESENTED	NUMBER OF YEARS SERVED AS DIRECTOR	NUMBER OF DIRECT AND INDIRECT SHARES HELD	PERCENTAGE OF SHARES HELD TO TOTAL OUTSTANDING SHARES OF THE BANK
1. Ricardo R. Chua	None	12 years	1	0.00000000948%
2. Nancy D. Yang	None	12 years	1	0.00000000948%
3. William C. Whang	None	3 years	1	0.00000000948%
4. Alexander C. Escucha	None	12 years	1	0.00000000948%
5. Rosemarie C. Gan	None	6 years	1	0.00000000948%
6. Patrick D. Cheng	None	2 years	1	0.00000000948%
7. Alberto S. Yao*	None	10 years	1	0.00000000948%
8. Philip S. L. Tsai*	None	1.5 years	1	0.00000000948%
9. Margarita L. San Juan*	None	6 years	1	0.00000000948%
10. Angeline Ann H. Hwang*	None	0.5 year	1	0.00000000948%

** Independent Director*

2. Executive Officers

Joseph C. Justiniano, 63, Filipino, Executive Vice President, is appointed as the Officer-in-Charge of CBS replacing Mr. Alberto Emilio V. Ramos who retired on November 30, 2019. Mr. Justiniano brings with him more than 37 years of banking experience that started with Manila Bank, the precursor of CBS. His years of experience and exposure in audit paved the way for his successful career in credit and collections in Insular Savings Bank, International Exchange Bank, and Union Bank of the Philippines. In 2007, he joined United Coconut Planters Bank (UCPB) as First Vice President and was subsequently designated as the President and Chief Executive Officer of the United Coconut Planters Savings Bank for 8 years. He also served as the Consumer Group Head of Bank of Commerce from November 2014 to April 2017.

Agerico G. Agustin, 59, Filipino, Senior Vice President, is the Head of Branch Banking Group. Before joining CBS, he was a Director, President and Chief Executive Officer of Philippine Resources Savings Bank in 2016 and Maximum Savings Bank from 2015 to 2016. Mr. Agustin is a degree holder of Bachelor of Science in Civil Engineering from the University of the Philippines - Diliman. He attended various seminars and trainings, such as Certificate Course in Compliance conducted by ABComp, De La Salle University in 2015, Corporate Governance conducted by Ateneo - BAP in 2016, and Data and Business Analytics conducted by UP - National Engineering Center in 2016.

Luis Bernardo A. Puhawan, 43, Filipino, First Vice President II, is the Controller of the Bank. Prior to CBS, he was the Controller of the former Plantersbank. In 2006, he joined Plantersbank as Assistant Vice President and Head of the Financial Reporting and Control Department. Before joining Plantersbank, he worked for Philippine Veterans Bank from 2002 to 2005, Deutsche Knowledge Services - Manila as Senior Associate from 2005 to 2006 and a Senior Associate of SGV & Co. from 1997 to 2002. A Certified Public Accountant, Mr. Puhawan is a degree holder of Bachelor of Science in Accountancy from the University of Santo Tomas.

Jan Nikolai M. Lim, 42, Filipino, First Vice President II, is the Head of Consumer Lending Group. Prior to joining the Bank, he served as the Vice President of East West Banking Corporation, Vice President of Philippine Savings Bank, Assistant Vice President of Standard Chartered Bank and started his banking career in Citibank, N.A. as a Manager in 2001. Mr. Lim is a degree holder of Bachelor of Science in Manufacturing Engineering and Management from De La Salle University.

Atty. Odel S. Janda, 62, Filipino, First Vice President, is the Head of Legal Division and Acting Corporate Secretary. Prior to CBS, he was also the Head of Legal Support Services Department and Corporate Secretary of the former Plantersbank. Before joining Plantersbank, he was Active Bank's Head of Legal, Personnel and Security. Atty. Janda is a holder of degree of Bachelor of Laws from the University of the East.

Atty. Josephine F. Fernandez, 57, Filipino, First Vice President, is the Head of Human Resources Division. She was a former Senior Vice President and Head of Human Resources of East West Banking Corporation, Vice President and Deputy Head of Human Resources of Bank of the Philippine Islands, and First Vice President and Deputy Head of Human Resources of Metropolitan Bank & Trust Co. She also held various positions at Equitable Banking Corporation and Bank of Tokyo-Mitsubishi. She started her career as College

Instructor at University of Luzon with the Commerce Department. Atty. Fernandez is a degree holder of Bachelor of Science degree in Business Administration from University of the Philippines - Diliman in 1983 and completed Bachelor of Laws in San Beda College and San Sebastian College, Manila in 1993.

Jaydee P. Caparas, 46, Filipino, First Vice President, is the National Sales Director of the Branch Banking Group. He has more than 24 years of banking experience, having handled various positions at Bank of the Philippine Islands and Philippine Savings Bank. He was also a former Management Trainee of Bank of the Philippine Islands. A Certified Public Accountant, accredited by Board of Accountancy and Securities and Exchange Commission as a practicing CPA and External Auditor, Mr. Caparas is a degree holder of Bachelor of Science Major in Accountancy, *magna cum laude*, from San Sebastian College - Cavite where he also earned his Master's in Business Administration.

Edith N. Young*, 61, Filipino, Vice President II, is the Head of Information Technology. BSP approved her interlocking functions on April 27, 2016. She is concurrently the Chief Technology Officer of China Bank subsidiary, CBC Properties and Computer Center, Inc. (CBC-PCCI). Prior to joining the China Bank group, she held various IT-related positions in PCIBank, IBAA, Bank of the Philippine Islands, Family Bank/FMLSC, Cybernetics and Pascual Laboratories. Ms. Young is a degree holder of Bachelor in General Science from the University of the East.

Arthur S. Esquivel, 59, Filipino, Vice President II, is the Chief Marketing Officer of the Bank. Prior to joining the Bank, he was formerly a branch banking head and senior vice president of Philippine Resources Savings Bank. He was also the vice president of sales & marketing of Opportunity Kauswagan Microfinance Thrift Bank, vice president & profit center head of Philamlife Insurance, vice president & marketing director of Nextel Communications Inc., senior vice president of Express Telecommunications and vice president of Citibank NA credit cards. He attended numerous marketing training programs in the Philippines and abroad and represented his companies in numerous regional and international meets, conferences and workshops held in Asia and the Americas. Mr. Esquivel graduated from the Ateneo de Manila University with a Bachelor of Science degree in Management Engineering.

Sonia B. Ostrea, 56, Filipino, Vice President II, is the Head of Centralized Operations Group. Prior to CBS, she was the Clearing Operations Head of the former Plantersbank. Before joining Plantersbank, she served as the Central Operations Department Head of PCIBank and Dao Heng Bank, Phils. A Certified Public Accountant, Ms. Ostrea is a degree holder of Bachelor of Science in Commerce, major in Accounting, from Saint Louis University.

Niel C. Jumawan, 50, Filipino, Vice President II, is the Head of APDS Lending Group. Before joining CBS, he held various key positions at City Savings Bank, Inc. He also worked as Front Desk Officer of Staff Experts, Inc. (assigned at Pag-Ibig Fund), Loan Programmer of WVSU Multi-Purpose Cooperative, Sales and Training Supervisor of Forest Lake Development, Inc., Sales Manager, Branch Head and Business Development Officer of Visayas for Sky Internet, Inc. Mr. Jumawan is a degree holder of Computer Science Major in Computer Technology and Bachelor of Science in Commerce Major in Management.

James Christian T. Dee*, 46, Filipino, Vice President II, is the Treasurer of the Bank. . BSP approved his secondment appointment on November 19, 2012. He is concurrently the Asset-

Liability Management Head of the Treasury Group of China Bank since 2009. In the past, he held several key positions at the Trust Group of China Bank and Citibank N.A. Philippines. Mr. Dee is a degree holder of Bachelor of Science in Mechanical Engineering from the University of the Philippines and Master's degree in Business Management from Asian Institute of Management. He trained with the Regional Treasury Certifications from Citigroup, N.A., Treasury Certification Program from Ateneo-BAP, and ICAAP Risk Models Validation from SGV. He likewise graduated with distinction on the 1 year course on Trust Operation from Trust Institute Foundation of the Philippines.

Marilyn G. Yuchenkang*, 66, Filipino, Vice President, is the Chief Audit Executive. BSP approved her interlocking functions on June 8, 2018. She started her career with China Bank in 1986 as a Supervisor of the Audit Division, rising to the ranks. Ms. Yuchenkang is a degree holder of Bachelor of Arts-BSC-Accounting from St. Scholastica's College and earned her Master's degree from De La Salle University.

Frank Hilario D. Mendoza, 55, Filipino, Vice President, is the Chief Compliance Officer of the Bank. Prior to joining the Bank, he was the Executive Vice President and Chief Operating Officer of Country Builders Bank and Chief Operating Officer of Insular Bank. He also held various positions at AMA Bank, Active Bank, Bank Examiner of the BSP, U-Bix Corporation, and Philippine Fruits & Vegetables Industries, Inc. A Certified Public Accountant, Mr. Mendoza is a degree holder of BSBA Major in Accountancy from National College of Business Administration.

Raymond C. Apo, 52, Filipino, Vice President, is the Risk Management Division Head. He has more than 20 years of banking experience. Prior to joining the Bank, he held various key positions at Solidbank Corporation, First Metro Investment Corporation, Rizal Commercial Banking Corporation, Asiatrust Development Bank, and Export and Industry Bank. A Certified Public Accountant, Mr. Apo is a degree holder of Bachelor of Science in Commerce Major in Accountancy from Far Eastern University.

Hanz Irvin S. Yoro*, 37, Filipino, Senior Assistant Vice President, is the Information Security Officer of the Bank. BSP approved his interlocking functions on April 27, 2016. He is concurrently the Information Security Officer of China Bank. Prior to joining China Bank, he was the Information Security Officer of Megalink and EPacific Global. Mr. Yoro is a degree holder of Bachelor of Science in Computer Science Information Technology from Asia Pacific College.

Note 1: All the foregoing officers have been involved in the banking industry for more than five (5) years.

Note 2: None of the above-mentioned directors and officers works with the government.

Note 3: With interlocking functions in China Bank duly approved by the BSP*.

3. Term

The Directors are elected to hold office for one (1) year until the next succeeding annual stockholders' meeting or until the respective successors have been elected and qualified.

4. Significant Employees

The registrant is not highly dependent on the services of certain key personnel.

5. Family Relationship

None of the directors or officers is related to each other within the fourth degree either by consanguinity or affinity.

6. Involvement in Certain Legal Proceedings

The Bank has no knowledge of any involvement of any of the directors or executive officers in any material legal proceedings affecting their ability or integrity before any court of law or administrative body in the Philippines or elsewhere for the last five (5) years.

Item 10. EXECUTIVE COMPENSATION

Comparative amount of salaries paid for the Directors and Key Executives of the Corporation (with cut off of December 31, 2019), and, any amount of per diem including bonus of the directors for the last three years.

	YEAR	SALARY	BONUS, PER DIEM and OTHER COMPENSATION	TOTAL
Total for the 5 most highly compensated executive officers	2020 (estimate)	₱24,418,684	₱8,139,561	₱32,588,245
	2019 (actual)	21,830,929	6,880,005	27,710,934
	2018 (actual)	21,921,984	4,453,225	26,375,209
Total for all key executive officers	2020 (estimate)	38,900,485	12,966,828	51,867,314
	2019 (actual)	35,256,289	10,495,311	45,751,600
	2018 (actual)	31,862,967	6,942,052	37,305,018
Total for all Directors	2020 (estimate)	–	2,022,530	2,022,530
	2019 (actual)	–	1,763,000	1,763,000
	2018 (actual)	–	1,503,470	1,503,470

Note: The top 5 most highly compensated executive officers are: EVP Joseph C. Justiniano, SVP Agerico G. Agustin, FVPII Jan Nikolai M. Lim, FVPII Luis Bernardo A. Puhawan and FVP Josephine F. Fernandez.

- The Key Executive Officers who were appointed by China Bank to CBS on a concurrent/seconded basis do not receive salaries and other bank benefits, bonuses and per diem from the registrant.
- The Directors, who hold their offices concurrently with their positions in China Bank, likewise receive no fees, per diem and bonuses from the registrant. Only the Independent Directors received per diems from the registrant.
- The only contract existing between the executive officers and the registrant is that of an employee–employer relationship.
- There are no other compensation arrangements for their services.
- There are no outstanding warrants or stock options held by the registrant’s officers and directors.

Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

1. Security Ownership of Certain Record and Beneficial Owners

The following own more than 5% of any class securities as of December 31, 2019.

TITLE OF CLASS	NAME, ADDRESS OF RECORD OWNER AND RELATIONSHIP W/ ISSUER	BENEFICIAL OWNER AND RELATIONSHIP W/ RECORD OWNER	CITIZENSHIP	NO. OF SHARES HELD	%
Common Stock	China Banking Corporation		Filipino	104,995,882	99.60%

The Chairman, Mr. Ricardo R. Chua, is the duly authorized representative of China Bank, and shall exercise the right to vote all the above-enumerated shares by appropriate proxy.

The Corporation has no knowledge of any person holding more than 5% of the Bank's outstanding shares under a voting trust or similar agreement. The Corporation is likewise not aware of any arrangement which may result in a change in control of the Corporation or any additional shares which the above listed beneficial or record owners have the right to acquire within thirty days, from options, warrant, rights, conversion privilege or similar obligation, or otherwise.

2. Security Ownership of Directors and Top Management

TITLE OF CLASS	NAME OF RECORD OWNER	AMOUNT (₱)	CITIZENSHIP	PERCENTAGE
	Directors			
Common Stock	Ricardo R. Chua	100	Filipino	0.00010%
	Nancy D. Yang	100	Filipino	0.00010%
	William C. Whang	100	Filipino	0.00010%
	Alexander C. Escucha	100	Filipino	0.00010%
	Rosemarie C. Gan	100	Filipino	0.00010%
	Patrick D. Cheng	100	Filipino	0.00010%
	Alberto S. Yao	100	Filipino	0.00010%
	Philip S. L. Tsai	100	Filipino	0.00010%
	Margarita L. San Juan	100	Filipino	0.00010%
	Angeline Ann H. Hwang	100	Filipino	0.00010%
	Total as a Group	**1,000**		**0.00100%**

3. Voting Trust Holders of 5% or More

No other person holds more than 5% of a class under voting trust or similar agreement.

Item 12. CERTAIN RELATIONSHIP AND RELATED TRANSACTIONS

In the ordinary course of business, the Board of Directors continues to ensure that loans and other transactions with its DOSRI are made substantially on terms not less favorable to the Bank than those offered by others. Full disclosures for these transactions were made through timely reports with the BSP.

None of the directors or officers is related to each other within the fourth civil degrees either by consanguinity or affinity.

PART IV. CORPORATE GOVERNANCE

Item 13. CORPORATE GOVERNANCE

GOVERNANCE MECHANISMS AND POLICIES

The corporate governance structure of the Bank is supported by the policies and mechanisms adopted to foster a culture of good governance. These are enshrined in the Bank's Corporate Governance Manual, Code of Ethics, Compliance Manual and various internal circulars. The Bank has also adopted leading practices in corporate governance for the continuous promotion and protection of its stakeholders.

The Bank is continuously updating its Board-approved Manual on Corporate Governance. The Manual embodies the principles of good corporate governance and best practices. To comply with the new regulations issued by the BSP, the Manual was recently revised and approved by the Board. The amendment solidifies the Bank's commitment to formalize and institutionalize the principles of good corporate governance in the entire organization and strengthened the oversight function of the Board of Directors.

The Board of Directors, management, employees and shareholders believe that good corporate governance is a necessary component of what constitutes sound strategic business management. Thus, it has, within the bounds of its resources, implemented all planned action to create a heightened and continuing awareness on good corporate governance within the organization.

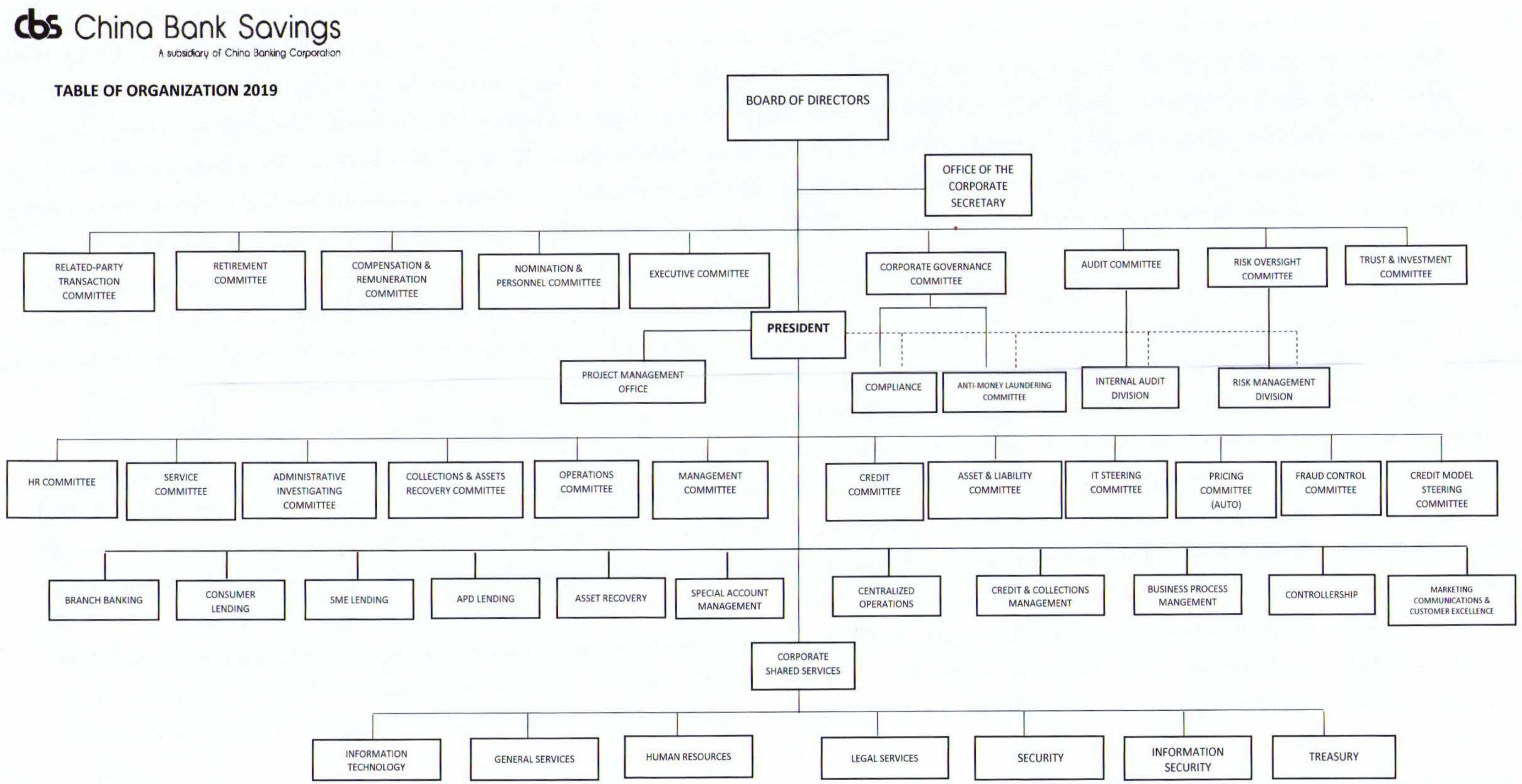
To ensure good governance, there is an evaluation system for the Board, individual Directors and various Board Committees such as Executive Committee, Risk Oversight Committee, Audit Committee and Corporate Governance Committee.

For 2019, the Bank submitted with the SEC the annual Certification of Compliance on Good Corporate Governance. The Certification was submitted on January 22, 2020.

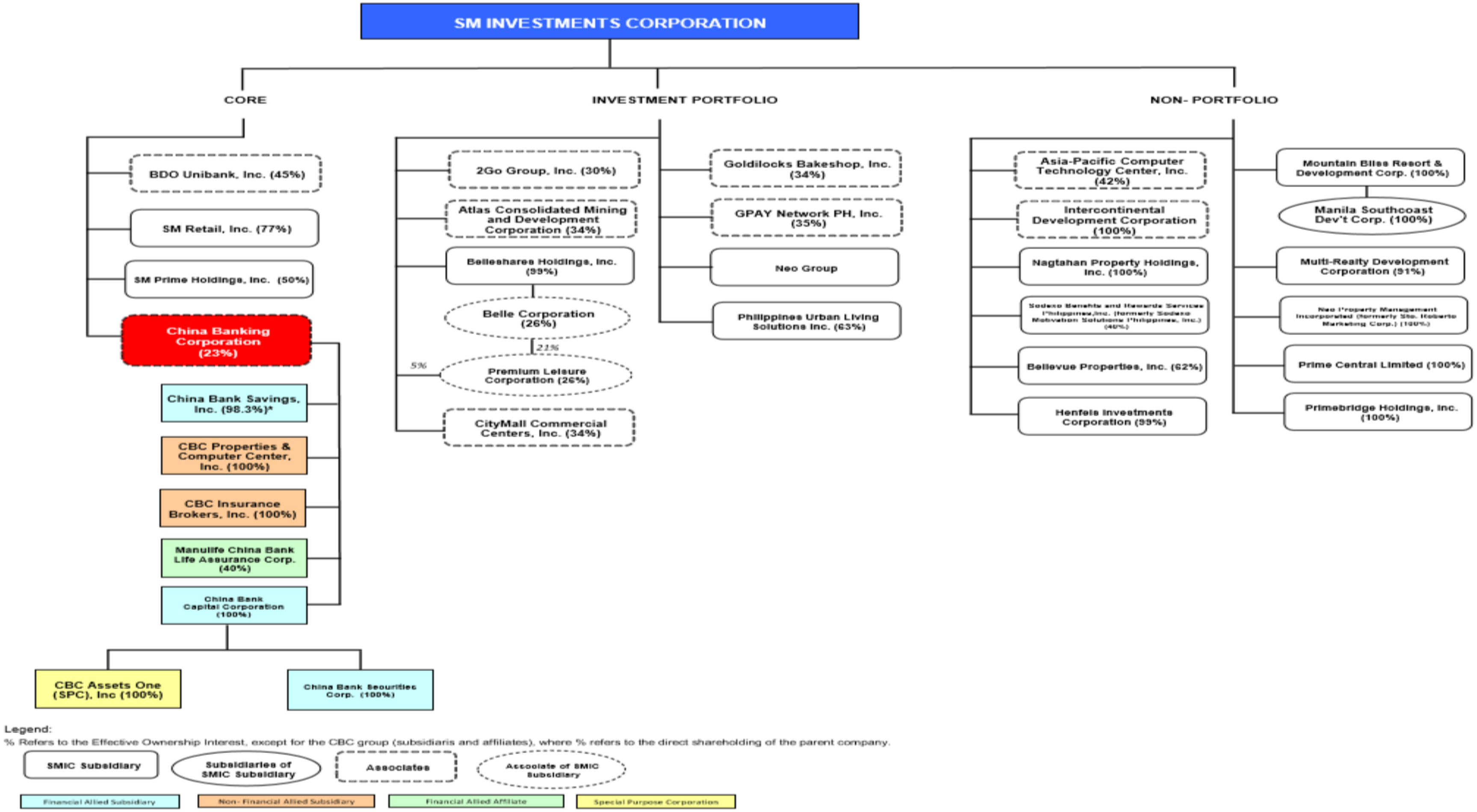
Organizational structure

The Board of Directors being at the core of the Bank's corporate governance structure continues to foster a culture of a proactive Board that is accountable and responsible for the affairs and performance of the Bank supported by dynamic officers and staff in achieving its goal of governance of going beyond best practice compliance.

In January 2019, the Board approved the new table of organization, to wit:



Conglomerate Structure



Board of Directors

The Bank has ten (10) directors. In accordance with the Bank's Manual on Corporate Governance aligned with laws, rules and regulations, the members of the Board are selected from a broad pool of qualified candidates after considering, among other things, their integrity, competence, independence, leadership, ability to exercise sound judgment, and experience at policy-making levels involving issues affecting business, government, as well as other areas relevant to the Bank's operations.

Acknowledging the significant and crucial roles of Independent Directors, the Bank has four (4) independent directors in the Board to promote independent oversight of management by the Board of Directors. The Bank's Independent Directors are independent of management and major/substantial shareholders, and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with exercise of independent judgment in carrying out their responsibilities as directors of the Bank.

The members of the Board are given a copy of their general and specific duties and responsibilities as prescribed by the Manual of Regulations for Banks (MORB); the directors acknowledge that they have received and certify that they read and fully understood the same. Copies of the acknowledgement receipt and certification are submitted to the BSP within the prescribed period. Moreover, the Directors individually submit a Sworn Certification that they possess all the qualifications as enumerated in the MORB. These certifications are submitted to the BSP after their election. Additional certifications are executed by Independent Directors to comply with Securities Regulation Code and BSP rules which are then submitted to the SEC.

Board Meetings and Supply of Information

The meetings of the Board are scheduled in advance in accordance with the Bank's By-Laws every third Thursday of each month. Special meetings are held when necessary.

The Directors are expected to prepare for, attend and participate in these meetings, and to act judiciously, in good faith and in the interest of the Bank and its shareholders, thus, they are provided Board materials related to the agenda days in advance of meetings by the Corporate Secretary.

A director may participate via telephone-conferencing when exigencies prevent him from attending a Board meeting in person.

The Board is provided with the information and resources needed to effectively discharge its fiduciary duty. The Board is informed on an ongoing basis of the Bank's performance, major business issues, new developments, and the impact of recent developments in the economic and regulatory environment.

Members of Senior Management are invited to attend Board meetings to provide the Board with detailed explanations and clarifications on proposals tabled to enable the Board to make an informed decision. The meetings of the Board and its committees are recorded in minutes, and all resolutions are documented.

For the period January to December 2019, the Board of Directors had 13 meetings, including the organizational meeting. The incumbent directors attended/participated in more than 50% of all the meetings, as follows:

DIRECTOR	ATTENDANCE
1. Ricardo R. Chua	100.00%
2. Nancy D. Yang	100.00%
3. William C. Whang	92.30%
4. Alexander C. Escucha	92.30%
5. Rosemarie C. Gan	92.30%
6. Patrick D. Cheng	100.00%
7. Alberto S. Yao*	84.60%
8. Philip S. L. Tsai*	100.00%
9. Margarita L. San Juan*	92.30%
10. Angeline Ann H. Hwang*	75.00%

** Independent Director*

Board Committees

In order to effectively carry out its mandate of good corporate governance through compliance with laws, rules, regulations and best practices, the Board of the Bank is supported by various committees, as follows:

a. **Executive Committee** when the Board is not in session has the powers of the Board in the management of the business and affairs of the Bank, to the fullest extent permitted under Philippine law.

Executive Committee (ExCom)	
Chairman	William C. Whang
Vice-Chairman	Nancy D. Yang
Member	Rosemarie C. Gan
Member	Jose L. Osmeña, Jr.

b. **Corporate Governance Committee** is responsible for ensuring the Board's effectiveness and due observance of Corporate Governance principles and guidelines, and oversees the periodic evaluation of the Board and its Committees, as well as of the Executive Management.

Corporate Governance Committee (CorpGovCom)	
Chairman	Philip S. L. Tsai, *Independent Director*
Member	Alexander C. Escucha
Member	Alberto S. Yao, *Independent Director*
Member	Margarita L. San Juan, *Independent Director*
Member	Angeline Ann H. Hwang, *Independent Director*

c. **Audit Committee** primarily oversees all matters pertaining to audit, including the evaluation of the adequacy and effectiveness of the Bank's internal control system. It likewise provides oversight on the activities of management and the internal and external auditors. The Committee is also empowered to oversee the Bank's external audit functions, financial reporting and policies, by selecting the auditors and approving their fees, reviewing and discussing the scope and plan of annual audit, and reviewing and discussing with management and auditors the annual audited financial statements of the Bank. It also provides oversight over management‘s activities in managing credit, market, liquidity, operational, legal and other risks of the Bank, including regular receipts from management of information on risk exposures and risk management activities.

Audit Committee (AuditCom)	
Chairman	Alberto S. Yao, *Independent Director* .
Vice-Chairman	Margarita L. San Juan, *Independent Director*
Member	Philip S. L. Tsai, *Independent Director*

d. **Risk Oversight Committee** is responsible for the oversight and development of all the Bank‘s risk management functions, including the evaluation of the risk management plan to ensure its continued relevance, comprehensiveness, and effectiveness.

Risk Oversight Committee (ROC)	
Chairman	Margarita L. San Juan, *Independent Director*
Member	Alberto S. Yao, *Independent Director*
Member	Nancy D. Yang
Member	Philip S. L. Tsai, *Independent Director*
Member	Patrick D. Cheng

e. **Nominations and Personnel Committee** is responsible for reviewing and evaluating the qualifications of all persons nominated to the Board and other appointments that require Board approval, including promotions favorably endorsed by the Promotions Review Committee. It also has the task of identifying the qualities of the nominees/appointees to the Board aligned with the Bank‘s strategic directions.

Nominations and Personnel Committee	
Chairman	Angeline Ann H. Hwang, *Independent Director*
Member	Alexander C. Escucha
Member	Alberto S. Yao, *Independent Director*
Member	Margarita L. San Juan*, Independent Director*
Member	Philip S. L. Tsai, *Independent Director*
Ex-Officio	Maria Rosanna L. Testa
Ex-Officio	Josephine F. Fernandez

f. **Compensation and Remuneration Committee** provides oversight on the remuneration of Senior Management and other key personnel, ensuring that compensation is consistent with the Bank‘s culture, strategy and control environment.

Compensation and Remuneration Committee	
Chairman	William C. Whang
Member	Alberto S. Yao, Independent Director
Ex-Officio	Patrick D. Cheng
Ex-Officio	Maria Rosanna L. Testa
Ex-Officio	Josephine F. Fernandez

g. **Retirement Committee** shall discharge the Board of Directors' responsibilities relating to oversight of the investment of the funds of the Company's retirement benefit plans and the performance of plan trustee and investment fiduciaries.

Retirement Committee	
Chairman	William C. Whang
Member	Patrick D. Cheng
Member	Jose L. Osmena, Jr.
Ex-Officio	Maria Rosanna L. Testa
Ex-Officio	Josephine F. Fernandez

h. **Related Party Transaction Committee** is responsible for reviewing all material related party transactions to ensure that they are conducted in accordance with the arm's length principles.

Related Party Transaction Committee (RPTCom)	
Chairman	Angeline Ann H. Hwang, *Independent Director*
Member	Alberto S. Yao, *Independent Director*
Member	Margarita L. San Juan, *Independent Director*
Member	Philip S. L. Tsai, *Independent Director*

For the period January to December 2019, the incumbent directors and executive officer attended/participated in more than 50% of all the committee meetings, as follows:

NAME OF MEMBERS	EXCOM	CORPGOV COM	AUDIT COM	ROC	RPT COM
No. of Meetings	**24**	**5**	**5**	**6**	**2**
1. Ricardo R. Chua	-	-	-	-	-
2. Nancy D. Yang	100.00%	-	-	100.00%	-
3. William C. Whang	95.80%	-	-	-	-
4. Alexander C. Escucha	-	100.00%	-	-	-
5. Rosemarie C. Gan	87.50%	-	-	-	-
6. Patrick D. Cheng	-	-	-	100.00%	-
7. Alberto S. Yao*	-	100.00%	80.00%	83.30%	100.00%
8. Philip S. L. Tsai*	-	100.00%	100.00%	100.00%	100.00%
9. Margarita L. San Juan*	-	100.00%	100.00%	83.30%	100.00%
10. Angeline Ann H. Hwang*	-	100.00%	-	-	100.00%
11. Jose L. Osmeña, Jr.**	87.50%	-	-	-	-

** Independent Director*
*** CBC Executive Officer*

OTHER MANAGEMENT COMMITTEES

Management Committee (ManCom)	
Chairman	EVP Joseph C. Justiniano, *Officer-In-Charge*
Members	SVP Agerico G. Agustin, *Branch Banking Group Head*
	FVP II Luis Bernardo A. Puhawan, *Controller*
	FVP II Jan Nikolai M. Lim, *Consumer Lending Group Head*
	FVP Atty. Josephine F. Fernandez, *Human Resources Division Head*
	FVP Jaydee P. Caparas, *Branch Banking Group Deputy Head*
	VP II James Christian T. Dee, *Treasurer*
	VP II Sonia B. Ostrea, *Centralized Operations Group Head*
	VP II Arthur S. Esquivel, *Chief Marketing Officer*
	VP II Niel C. Jumawan, *APD Lending Group Head*
	VP II Emmanuel Antonio R. Gomez, *SME Lending Group OIC*
Ex-Officio	VP II Edith N. Young, *Information Technology Head* or IT Officer
Secretary	SM Faye Abigail G. Año, *Corporate Planning Unit Head*

Asset and Liability Committee (ALCO)	
Chairman	EVP Joseph C. Justiniano, *Officer-In-Charge*
Vice-Chairman	VP II James Christian T. Dee, *Treasurer*
Members	SVP Agerico G. Agustin, *Branch Banking Group Head*
	FVP II Luis Bernardo A. Puhawan, *Controller*
	FVP II Jan Nikolai M. Lim, *Consumer Lending Group Head*
	VP II Niel C. Jumawan, *APD Lending Group Head*
	VP II Emmanuel Antonio R. Gomez, *SME Lending Group OIC*
Ex-Officio	VP Raymond C. Apo, *Risk Management Department Head*
	SM Faye Abigail G. Año, *Corporate Planning Unit Head*
Secretary	VP Charmaine S. Hao, *Treasury Officer*

Information Technology Steering Committee (ITSC)	
Chairman	EVP Joseph C. Justiniano, *Officer-In-Charge*
Vice-Chairman	VP II Edith N. Young, *Information Technology Head*
Members	Director Alexander C. Escucha, *Board Member*
	SVP Agerico G. Agustin, *Branch Banking Group Head*
	FVP II Luis Bernardo A. Puhawan, *Controller*
	FVP II Jan Nikolai M. Lim, *Consumer Lending Group Head*
	VP II Sonia B. Ostrea, *Centralized Operations Group Head*
	VP II Niel C. Jumawan, *APD Lending Group Head*
Ex-Officio	FVP Adonis C. Yap, *Digital Bank/Alternative Channels/Worksite Division Head*
	VP Raymond C. Apo, *Risk Management Division Head*
	VP Marilyn G. Yuchenkang*****, *China Bank Audit Division Head*
Resource Person	VP Frank Hilario D. Mendoza, *Chief Compliance Officer*
Secretary	AVP Marilou M. De Guzman, *Business Process Management Division Head*

******Interlocking appointment shall only be temporary until such time that CBS appoints its full-time Internal Audit Division Head.*

Credit Committee (CreCom)	
Chairman	EVP Joseph C. Justiniano, *Officer-In-Charge*
Vice-Chairman	VP Maria Consuelo S. Ruffy, *SME Credit Division Head*
Members	VP II Sonia B. Ostrea, *Centralized Operations Group Head*
	VP II Emmanuel Antonio R. Gomez, *SME Lending Group OIC*
	VP Pablito C. Veloria, *Consumer Credit Division Head (Alternate)*
	VP Mary Grace F. Guzman, *Asset Recovery Group Head*
	AVP Grace Z. Floresca, *Credit Policy and Quality Assurance Division Head (Alternate)*
Ex-Officio	FVP Atty. Odel S. Janda, *Legal Services Division Head*
	VP Raymond C. Apo, *Risk Management Division Head*
Secretary	M Jaynee Ann C. Victoria, *Credit & Collections Management Group Officer*

Sub-Credit Committee (Sub-CreCom)	
Chairman	VP Maria Consuelo S. Ruffy, *SME Credit Division Head*
Vice-Chairman	VP Pablito C. Veloria, *Consumer Credit Division Head*
Members	VP Mary Grace F. Guzman, *Asset Recovery Group Head*
	AVP Grace Z. Floresca, *Credit Policy and Quality Assurance Division Head (Alternate)*
Endorsing Members	SVP Agerico G. Agustin, *Branch Banking Group Head*
	FVP II Jan Nikolai M. Lim, *Consumer Lending Group Head*
	VP II Emmanuel Antonio R. Gomez, *SME Lending Group OIC*
Secretary	M Jaynee Ann C. Victoria, *Credit & Collections Management Group Officer*

Pricing Committee (Auto)	
Chairman	VP Pablito C. Veloria, *Consumer Credit Division Head*
Vice-Chairman	FVP II Jan Nikolai M. Lim, *Consumer Lending Group Head*
Members	VP Mary Grace F. Guzman, *Asset Recovery Group Head*
	VP Emmanuelito M. Gomez, *Auto Lending Division Head*
Secretary	SAM Anthony Arnold U. Miras, *Acquired Assets Division Officer*

Anti-Money Laundering Committee (AMLACom)	
Chairman	VP Frank Hilario D. Mendoza, *Chief Compliance Officer*
Vice-Chairman	VP II Sonia B. Ostrea, *Centralized Operations Group Head*
Members	SVP Agerico G. Agustin, *Branch Banking Group Head*
	FVP Atty. Odel S. Janda, *Legal Services Division Head*
	VP Raymond C. Apo, *Risk Management Division Head*
	SAVP Myrna G. Mendoza, *Branch Operations Division Head*
Secretary	Anti-Money Laundering Officer

Collections and Asset Recovery Committee (CarCom)	
Chairman	EVP Joseph C. Justiniano, *Officer-In-Charge*
Vice-Chairman	VP Mary Grace F. Guzman, *Asset Recovery Group Head*
Members	FVP II Luis Bernardo A. Puhawan, *Controller*
	FVP II Jan Nikolai M. Lim, *Consumer Lending Group Head*
	FVP Atty. Odel S. Janda, *Legal Services Division Head*
	VP II Emmanuel Antonio R. Gomez, *SME Lending Group OIC*
	VP II Christian Hermes M. Bite, *Collections Division Head*
	VP Raymond C. Apo, *Risk Management Division Head*
	AVP Grace Z. Floresca, *Credit Policy and Quality Assurance Division Head*
Secretary	Asset Recovery Group Officer

Operations Committee (OpCom)	
Chairman	VP II Sonia B. Ostrea, *Centralized Operations Group Head*
Vice-Chairman	AVP Marilou M. De Guzman, *Business Process Management Division Head*
Members	VP Rosalinda T. Munsayac, *Loans Operations Division Head*
	VP Maria Consuelo S. Ruffy, *SME Credit Division Head*
	SAVP Myrna G. Mendoza, *Branch Operations Division Head*
	AVP Jinkee C. Rejuso, *Loans Business Center Head*
	M Dennis V. Mancilla, *APD Loan Operations Division Head*
Resource Person	VP Frank Hilario D. Mendoza, *Chief Compliance Officer*
	VP Raymond C. Apo, *Risk Management Division Head*
	AVP Grace Z. Floresca, *Credit Policy and Quality Assurance Division Head*
Secretary	Business Process Management Division Officer

Service Committee (ServCom)	
Chairman	EVP Joseph C. Justiniano, *Officer-In-Charge*
Vice-Chairman	VP II Arthur S. Esquivel, *Chief Marketing Officer*
Members	SVP Agerico G. Agustin, *Branch Banking Group Head*
	VP II Sonia B. Ostrea, *Centralized Operations Group Head*
	VP Pablito C. Veloria, *Consumer Credit Division Head (Alternate)*
	AVP Marilou M. De Guzman, *Business Process Management Division Head*
	AVP Maria Theresa E. Santos, *Customer Experience Management Department Head*
Resource Person	VP Frank Hilario D. Mendoza, *Chief Compliance Officer*
Secretary	AM Stephanie T. Trinidad, *Service Quality Unit Head*

Fraud Control Committee (FraudCom)	
Chairman	VP Raymond C. Apo, *Risk Management Division Head*
Vice-Chairman	FVP Atty. Josephine F. Fernandez, *Human Resources Division Head*
Members	SVP Agerico G. Agustin, *Branch Banking Group Head*
	FVP II Jan Nikolai M. Lim, *Consumer Lending Group Head*
	FVP Atty. Odel S. Janda, *Legal Services Division Head*
	VP II Sonia B. Ostrea, *Centralized Operations Group Head*
Secretary	Risk Management Division Officer

Administrative Investigation Committee (AIC)	
Chairman	FVP Atty. Josephine F. Fernandez, *Human Resources Division Head*
Vice-Chairman	VP II Emmanuel Antonio R. Gomez, *SME Lending Group OIC*
Members	SVP Agerico G. Agustin, *Branch Banking Group Head*
	FVP II Luis Bernardo A. Puhawan, *Controller*
	FVP Atty. Odel S. Janda, *Legal Services Division Head*
	VP Raymond C. Apo, *Risk Management Department Head*
Secretary	Human Resources Officer

Credit Model Steering Committee (CMSC)	
Chairman	EVP Joseph C. Justiniano, *Officer-In-Charge*
Vice-Chairman	VP Pablito C. Veloria, *Consumer Credit Division Head (Alternate)*
Members	VP II Christian Hermes M. Bite, *Collections Division Head*
	VP Raymond C. Apo, *Risk Management Department Head*
	AVP Grace Z. Floresca, *Credit Policy and Quality Assurance Division Head*
Resource Person	FVP Ananias S. Cornelio, III, *China Bank Group Chief Risk Officer*

Human Resources Committee	
Chairman	FVP Atty. Josephine F. Fernandez, *Human Resources Division Head*
Vice-Chairman	SVP Agerico G. Agustin, *Branch Banking Group Head*
Members	FVP II Luis Bernardo A. Puhawan, *Controller*
	FVP II Jan Nikolai M. Lim, *Consumer Lending Group Head*
	VP II Sonia B. Ostrea, *Centralized Operations Group Head*
	VP II Niel C. Jumawan, *APD Lending Group Head*
Secretary	Human Resources Officer

Employee Recognition Committee	
Chairman	VP II Arthur S. Esquivel, *Chief Marketing Officer*
Vice-Chairman	FVP Atty. Josephine F. Fernandez, *Human Resources Division Head*
Members	VP II Emmanuel Antonio R. Gomez, *SME Lending Group OIC*
	VP II Sonia B. Ostrea, *Centralized Operations Group Head*
	VP Kristine Michele C. Broadhurst, *Housing Loans Division Head*

Screening Committee (Employee Recognition Sub-Committee)	
Chairman	FVP Atty. Josephine F. Fernandez, *Human Resources Division Head*
Vice-Chairman	AVP Marilou M. De Guzman, *Business Process Management Division Head*
Members	AVP Maria Theresa E. Santos, *Customer Experience Management Department Head*
	SM Arnold A. Alcala, *BBG-BOD Policies and Procedures Unit Head*
Secretary	Human Resources Officer

Selection Process for the Board and Senior Management

The nominations and personnel committee and/or corporate governance committee shall assist the Board of Directors in fulfilling its corporate governance responsibilities. It shall review and evaluate the qualifications of all persons nominated to the board as well as those nominated to other positions requiring appointment by the Board of Directors.

The corporate governance committee shall be responsible for ensuring the board's effectiveness and due observance of corporate governance principles and guidelines. It shall oversee the periodic performance evaluation of the board and its committees and executive management; and shall also conduct an annual self-evaluation of its performance. The committee chairman shall certify that it conduct a "proper and fit test" on the Bank's directors and Senior Management.

Powers/Responsibilities and Duties of Directors

The duties of care and loyalty are the two key elements of the fiduciary duty of the Board. The duty of care requires the members of the Board to act on a fully informed basis, in good faith, with due diligence and care, while, the duty of loyalty is where the board members should act in the best interest of the Bank and all its stakeholder, such as the depositors, creditors, employees and regulators.

a. Powers of the Board of Directors. The corporate powers of the bank shall be exercised, its business conducted, and all its property shall be controlled and held by the Board of Directors. The powers of the Board of Directors as conferred by law are original and cannot be revoked by the stockholders. The directors hold their office charged with the duty to exercise sound and objective judgment for the best interest of the Bank.

b. General responsibility of the Board of Directors. The position of a bank director is a position of trust. A director assumes certain responsibilities to different constituencies or stakeholders, i.e., the Bank itself, its stockholders, its depositors and other creditors, its management and employees, the regulators, deposit insurer and the public at large. These constituencies or stakeholders have the right to expect that the institution is being run in a prudent and sound manner. The Board of Directors is primarily responsible for approving and overseeing the implementation of the Bank's strategic objectives, risk strategy, corporate governance and corporate values. Further, the Board of Directors is also responsible for monitoring and overseeing the performance of Senior Management as the latter manages the day to day affairs of the institution.

c. Specific duties and responsibilities of the Board of Directors

- To define the Bank's corporate culture and values.
- To approve Bank's objectives and strategies and oversee management's implementation thereof.
- To appoint/select key members of Senior Management and heads of control functions and for the approval of a sound remuneration and other incentive policies for personnel.
- To approve and oversee implementation of the Bank's corporate governance framework.
- To approve the Bank's risk governance framework and oversee management's implementation thereof.
- To approve and oversee the implementation of policies governing major areas of banking operations.
- To consistently conduct the affairs of the institution with a high degree of integrity.
- To constitute committees to increase efficiency and allow deeper focus in specific areas.

Duties and Responsibilities of the Chairperson of the Board of Directors

The duties and responsibilities of the Chairperson include, among others, the following:

a. To provide leadership in the Board of Directors. The chairperson of the board shall ensure effective functioning of the board, including maintaining a relationship of trust with board members.

b. To ensure that the board takes an informed decision. The chairperson of the board shall ensure a sound decision making process and he should encourage and promote critical discussion and ensure that dissenting views can be expressed and discussed within the decision-making process. In relation to this, the chairperson shall guarantee that the Board receives accurate, timely, relevant, insightful, concise, and clear information to enable it to make sound decisions.

Specific Duties and Responsibilities of a Director

a. To remain fit and proper for the position for the duration of his term. A director is expected to remain fit and proper for the position for the duration of his term. He should possess unquestionable credibility to make decisions objectively and resist undue influence. He shall treat Board of Directorship as a profession and shall have a clear understanding of his duties and responsibilities as well as his role in promoting good governance. Hence, he shall maintain his professional integrity and continuously seek to enhance his skills, knowledge and understanding of the activities that the Bank is engaged in or intends to pursue as well as the developments in the banking industry including regulatory changes through continuing education or training.

b. To conduct fair business transactions with the Bank and to ensure that personal interest does not bias board decisions. Directors should avoid situations that would give rise to a conflict of interest. If transactions with the institutions cannot be avoided, it should be done in the regular course of business and upon terms not less favorable to the institution than those offered to others. The basic principle to be observed is that a director should not use his position to make profit or to acquire benefit or advantage for himself and/or his related interests. He should avoid situations that would compromise his impartiality.

c. To act honestly and in good faith, with loyalty and in the best interest of the institution, its stockholders, regardless of the amount of their stockholdings, and other stakeholders such as its depositors, investors, borrowers, other clients and the general public. A director must always act in good faith, with the care which an ordinarily prudent man would exercise under similar circumstances. While a director should always strive to promote the interest of all stockholders, he should also give due regard to the rights and interest of other stakeholders.

d. To devote time and attention necessary to properly discharge their duties and responsibilities. Directors should devote sufficient time to familiarize themselves with the institution's business. They must be constantly aware of the institution's condition and be knowledgeable enough to contribute meaningfully to the board's work. They must attend and actively participate in board and committee meetings, request and review meeting materials, ask questions, and request explanations. If a person cannot give sufficient time and attention to the affairs of the institution, he should neither accept his nomination nor run for election as member of the board.

e. To act judiciously. Before deciding on any matter brought before the Board of Directors, every director should thoroughly evaluate the issues, ask questions and seek clarifications when necessary.

f. To contribute significantly to the decision-making process of the board. Directors should actively participate and exercise objective independent judgment on corporate affairs requiring the decision or approval of such board.

g. To exercise independent judgment. A director should view each problem/situation objectively. When a disagreement with others occurs, he should carefully evaluate the situation and state his position. He should not be afraid to take a position even though it might be unpopular. Corollary, he should support plans and ideas that he thinks will be beneficial to the institution.

h. To have a working knowledge of the statutory and regulatory requirements affecting the institution, including the content of its articles of incorporation and by-laws, the requirements of the BSP and where applicable, the requirements of other regulatory agencies. A director should also keep himself informed of the industry developments and business trends in order to safeguard the institution's competitiveness.

i. To observe confidentiality. Directors must observe the confidentiality of non-public information acquired by reason of their position as directors.

Board and Committee Performance Evaluation

The Board conducts an annual assessment of its performance and effectiveness as a body, as well as its various committees, and the individual directors through self-assessment. The results thereof are reported to the Board through the Corporate Governance Committee. This exercise covers the assessment of the ongoing suitability of each board member taking into account his or her performance in the Board and board-level committees.

In 2019, there are no significant deviations noted and, in general, the Bank has complied with the provisions and requirements of the MORB and the Bank's Corporate Governance Manual.

Corporate Governance Manual

The Corporate Governance Manual contains the governance principles and policies that serves as a guide/reference in complying with regulations. The manual formalizes and institutionalizes the principles of good corporate governance in the Bank.

In furtherance of its responsibilities under the Manual and Corporate Governance Charter, the Corporate Governance Committee reviewed and approved the following:

a. Revised Corporate Governance Manual;
b. Amended Corporate Governance Charter; and
c. Updated Board and board-level committees' Self-Assessment Questionnaires.

Compliance Risk Management System

The compliance risk management system is designed to specifically identify and mitigate risks that may erode the franchise value of the Bank such as risks of legal or regulatory sanctions, material financial loss, or loss to reputation, the Bank may suffer as a result of its failure to comply with laws, rules, related self-regulatory organization standards, and codes of conduct applicable to its activities.

It is the method by which the Bank manages the compliance process. It consists of rules, policies and procedures which provide assurance for an effective compliance culture in the Bank. The Bank's compliance system includes compliance policies and procedures which provide the framework for the bank's compliance processes as source of reference of all stakeholders, the Board of Directors, officers and employees.

Compliance risk management is an integral part of the culture and risk governance framework of the Bank. Compliance is a responsibility and shared accountability of all personnel, officers, and the Board of Directors.

The Compliance System of the Bank was established pursuant to the regulatory mandate of the BSP and SEC. It is carried out through a Board-approved Compliance Program by the Compliance Office, which reports directly to the Corporate Governance Committee. Compliance Office oversees the implementation of the Compliance Program, and is responsible for, among others, (i) identification of all relevant laws and regulations applicable to the activities and business of the Bank, and monitoring and controlling of attendant compliance risks, (ii) creating awareness on all banking laws and regulations among Bank employees with dissemination of all regulatory issuances and regular trainings; (iii) regular compliance testing of all Bank activities and products; and (iv) liaise and dialogue with BSP and other government regulatory agencies.

Bank Compliance Framework

The Bank's Compliance Framework was established to implement a strong compliance system. The Bank employs a triple level approach for observing laws and regulation.

- 1st level - Employee participation (compliance with the relevant regulations)
- 2nd level - Compliance Office (implementation of the compliance program)
- 3rd level - Internal Audit Department (post audit)

The Compliance Office, in particular, has an approved manpower count of 16 members including the CCO, an administrative assistant, 9 Compliance Officers for AML and 5 Compliance officers for the General and Corporate Governance. Unit Compliance Coordinators are assigned on each unit of the Bank to help the compliance office perform the monitoring and testing functions.

Compliance Program

The compliance program includes an annual plan that should ensure that the bank's compliance system is effectively running and in place, rules and regulations are adhered to, taking into account the risks involved for the protection of its clients, bank's reputation, its employees, business efforts and strategies.

Components of the Compliance Program

1. Review and implementation of specific policies and procedures
2. Compliance risk assessment
3. Compliance testing
4. Educating personnel on compliance matters
5. Monitoring compliance risk exposures
6. Regular reporting to the board and board-level committees

Testing and Reporting

Compliance Office conducts its regular compliance testing in accordance with the approved Compliance Testing Plan. The basis of the Compliance Testing Plan is the result of the latest risk assessment of business units. The risk profile is used as guide of Compliance Office in the prioritization of a unit/branch to be included in the annual Compliance Testing Plan.

All bank compliance issues and concerns, including results of compliance testing and internal audit, BSP examinations results, implementation of internal control policies, and all other issues monitored by the BSP are reported to the CGCOM every other month. The Members of the CGCOM, on the other hand, provide guidance on the effectiveness of all actions taken/to be taken.

Anti-Money Laundering Prevention

The Bank adheres to the Anti-Money Laundering Act and all related and applicable rules, regulations and issuances of the BSP. The Bank commits to protect and preserve the integrity and confidentiality of its customers' accounts and shall not allow them to be used as money laundering site for the proceeds of unlawful activity.

The Bank has in place a board-approved Money Laundering and Terrorist Prevention Program (MTPP) which contains and consolidates all laws and regulations on anti-money laundering, such as, know-your-client (KYC) requirements, monitoring of accounts and transactions, training of all officers and employees on AML laws and regulations and other relevant information. The MTPP manual is updated on an annual basis using the most recent updates on the applicable rules, regulations and issuances of the BSP.

Dissemination of laws and regulations is regularly made to all officers and employees of the Bank to equip them with necessary knowledge and information to combat money laundering activities. AML trainings are regularly given during orientation sessions of new employees and refresher courses are regularly conducted.

Conflict of Interest

Conflict between the interest of the Bank, of the employees and related parties should be avoided at all times. In cases of conflict, the interest of the Bank should prevail. Our Directors, Officers, Stockholders and related parties are not allowed to have direct or indirect financial interests that conflict or appear to conflict with their duties and responsibilities as employees of the Bank.

In this regard, the Directors and/or Officers concerned shall disclose any direct, indirect or on behalf of third parties, a financial interest in the transaction or matter affecting the Bank.

Directors and/or officers with personal interest, related or any form of connection which may potentially result to a conflict of interest in the transaction shall abstain from the discussion, deliberation, approval and management of such transaction or matter affecting the Bank.

Code of Ethics

CBS is committed to carry out its business operations in accordance with the highest standards of ethics. The Bank, as a whole, together with the members of the Board of Directors, stakeholders, and all employees are dedicated in ensuring that they abide by the acceptable rules and regulations which dictate its operations.

The Code of Ethics is founded on basic standards and ethical business and personal conduct, including honesty and candor in all activities, avoidance of activities and transactions that could result or potentially result in conflicts between personal and the Bank's interest, maintenance of the Bank's reputation, avoidance of personal gain at the expense of the institution, and conduct contrary to ethical business practices. The Code also embodies policies that will prevent fraud, or the use of the facilities of the Bank in the furtherance of any unlawful or immoral pursuit. In all activities and decisions, one must consider the ethics or propriety of every situation, full transparency and be beyond reproach.

Related Party Transactions

The Bank recognizes that transactions between and among related parties may create financial, commercial and economic benefits to individuals, institutions and to the entire group where the Bank belongs.

In this regard, as required by existing regulations for related party transaction (RPT), the Bank, its Board, management, all officers and staff ensure that RPTs are done on an arm's length basis and that the appropriate oversight and implementation of an effective control system for the management of exposures are in place.

Therefore, the Bank's Board of Directors, management, officers and staff are mandated to comply with the board-approved policies in the RPT Framework (RPT Framework or Framework) and shall not allow RPTs that may lead to abuses or may cause disadvantages to the Bank, its depositors, creditors, fiduciary clients, and other stakeholders.

The RPT Framework was approved by the Board on July 21, 2016. The Framework is supported by an implementing policy guidelines which was approved by the Board on January 17, 2019. The RPT policy guidelines was revised to incorporate latest regulatory updates which was approved by the Board on January 16, 2020.

Overarching Policies and Procedures for Managing Related Party Transactions

The Bank's Policy on Related Party Transactions applies to all covered RPT of the Bank, regardless of the amount, and the Bank has set specific procedures and guidelines in managing the Bank's RPTs.

Related Party Transactions are transactions or dealings with related parties of the Bank, regardless of whether or not a price is charged. These include, but not limited to the following:

a. On-and-off balance sheet credit exposures and claims and write-offs;
b. Investment and/ or subscription for debt/ equity issuances;
c. Consulting, professional, agency and other service arrangements/ contracts;
d. Purchase and sales of assets, including transfer of technology an intangible items;
e. Construction arrangements/ contracts;
f. Lease arrangements/ contracts;
g. Trading and derivative transactions;
h. Borrowings, commitments, fund transfer and guarantees;
i. Sale, purchase or supply of any goods or materials; and
j. Establishment of joint venture entities

RPTs shall be conducted at an arm's length terms to ensure that the transaction is conducted in the regular course of business; and not undertaken on more favourable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement, etc.) to such related parties covering similar transactions with non-related parties under similar circumstances.

The concept of arm's length terms is to ensure that both parties in the transaction are acting in their own self-interest and are not subject to any pressure from the other. It ensures that parties to transaction are on equal footing. It is used specifically in the contract law to make an equitable agreement which stands up to legal scrutiny, even though parties may be closely related or may have shared interest.

In this regard, to ensure that transactions are engaged into at terms that promote the best interest of the Bank and its stakeholders, an effective Price Discovery Mechanism should be implemented.

Related Party Transaction Committee

The committee is responsible for the following, among others:

1. Evaluating on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified.
2. Evaluating all material RPTs
3. Ensuring that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the bank's RPT exposure, and policies on conflicts of interest or potential conflicts of interest.
4. Reporting to the Board of Directors on a regular basis, the status and aggregate exposures to each related party as well as the total amount of exposures to all related parties.
5. Ensuring that transactions with Related Parties, including write-off of exposures, are subject to periodic independent review or audit process; and
6. Overseeing the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.

Materiality Threshold

The business units (BUs) shall identify if transactions are classified as material RPTs based on the following criteria:

- If the parties and relationship of parties involved in the transaction are classified as RPs, as defined in the policy; and
- If the amount of transaction is equal or higher than the materiality threshold set by the Bank.

The materiality threshold shall be reviewed by the business units every year or as necessary based on changes in BSP regulation or mandate of management. The Compliance Office shall present the summary of materiality threshold to the RPT Committee, for ratification by the Board.

A. Approval Requirements of Material RPTs

   All material RPTs shall be endorsed to the RPT Committee using the prescribed forms and approved by the Board of Directors.

   All board-approved material RPT shall be ratified by the Stockholders (by majority vote) during the Annual Stockholders' Meeting.

B. Approval Requirements of Non-material RPTs

All non-material RPTs shall follow the existing approval requirements of the respective business unit transactions.

C. For credit transactions to DOSRI, approval by the Board of Directors shall be required.

Health and Safety

The Bank strives to provide employees and officers with a safe and healthy work environment. Each employee and officer has responsibility for maintaining a safe and healthy workplace for all employees and officers by following environmental, safety and health rules and practices and reporting accidents, injuries and unsafe equipment, practices or conditions. Violence and threatening behavior are not permitted.

Performance Assessment Program

The Bank has a Performance Management System (PMS), a vital tool for aligning individual performance with the Bank's strategic direction and operational business plans. It is an integrated process by which the organization involves its employees in improving organizational effectiveness towards the accomplishment of its mission and strategic goals. The Bank also uses the Balanced Scorecard (BSC) as a tool to capture, describe and translate its strategic goals into defined objectives at group, divisional, departmental, and branch levels. It uses the PMS to capture the individual officers' objectives that are aligned with the BSC.

Orientation and Education Program

With the continuing and growing footprint of CBS in the banking industry, the CBS Academy plays a very central and crucial role. In today's dynamic environment, it is essential that the Bank continues to keep abreast of the latest trends and developments in the financial services world. CBS owes it to its customers, who put their trust in the Bank. Knowledge, skills and attitude assimilation is a very important aspect of ensuring the continuing competitiveness of any financial institution. The Bank looks upon its people as one of its key stakeholders, and investing in their personal development is integral to the Bank's corporate responsibility.

The opening of the CBS Academy boosted the efforts of the Bank's Human Resources Division in delivering a high level of professional training and banking skills to help each one of them optimize his/ her full potential. It is imperative that such a dedicated facility is available to bring everyone under one roof to deliver greater efficiency and to meet the competency, training and developmental needs of the Bank's employees at all levels that will help them grow and contribute within the Bank's overall framework.

The CBS Academy provides employees with various key courses and training programs at various stages in their career, including refresher courses and advanced skills, based on their specific areas of expertise. These courses are aimed to give its people a sound grounding of core banking training as well as soft skills development. These include various aspects of financial services procedures, legal, compliance and risk, leadership and management skills and team development, amongst other areas. In addition to expanding their knowledge base and skills, these courses enable its workforce to enhance their career development prospects. It is of great importance though that the Bank ensures that the Training Academy remains current and relevant. The Bank will ensure that they are perfectly aligned to the Bank's strategy and business needs, as well as in synch with emerging regulatory requirements.

Retirement and Succession Policy

The Bank believes that excellent leadership talent positively contributes to the overall organizational performance. The Bank implements and maintains a Succession Planning and Management Program that ensures the availability of qualified officers for key positions for the entire life of the organization.

a. Board of Directors – any vacancy, expect those caused by removal by the stockholders or by expiration of term, may be filled by election or appointment by the remaining Directors, if still constituting a quorum. If there is no quorum, the vacancy must be filled by the stockholders owning and/or representing majority of the subscribed capital stock at a special meeting duly called for the purpose.

b. Chairman of the Board – vacancy will be temporarily filled up by the Vice Chairman, until such time the Board of Directors elects a successor who will hold office for the unexpired term. In the absence or inability of both the Chairman and the Vice Chairman, the President shall preside the meeting of the Board in order not to hold up important matters requiring the action of the Board, and in which case the decision on all matters to be considered must be unanimous.

c. Vice Chairman – it will be filled by a successor in the same manner the position of Chairman is filled. The successor will serve and hold office for the unexpired term.

d. President/Chief Executive Officer – will be temporarily filled by the next most ranking officer, who will act as Officer-in-Charge until such time that the Board of Directors, by majority vote, elects a successor who will hold office for the unexpired term.

e. Corporate Secretary – the Assistant Corporate Secretary, if any, or if none, the Chief Legal Counsel, will temporarily assume the position until such time the Board of Directors appoints a successor.

f. Treasurer – will be temporarily filled by the next ranking officer, who will act as Officer-in-Charge, until such time the Board of Directors appoints a successor.

g. Internal Auditor – will be temporarily filled by the Assistant Auditor or the next most senior ranking officer in the Internal Audit Department, who will act as Officer-in-Charge, until such time the Board of Directors appoints a successor.

h. Operations Group Head – will be temporarily filled by the next most senior ranking officer in the Group, who will act as Officer-in-Charge, until such time the Board of Directors appoints a successor.

i. Risk Officer - will be temporarily filled by the next most senior ranking officer in the Risk Management Division, who will act as Officer-in-Charge, until such time the Board of Directors appoints a successor.

k. Compliance Officer - will be temporarily filled by the Assistant Compliance Officer or the next most senior ranking officer, who will act as Officer-in-Charge, until such time the Board of Directors appoints a successor.

l. Chief Legal Counsel - will be temporarily filled by the next most senior ranking Legal Officer, who will act as Officer-in-Charge, until such time the Board of Directors appoints a successor.

m. Other Group/Division Heads - will be temporarily filled by the next most senior ranking officer, who will act as Officer-in-Charge, until such time the Board of Directors appoints a successor.

Remuneration Policy

The Bank grants annual salary increases to its officers in accordance with its Pay for Performance policy. The increases are given in the form of merit increases which vary depending on the officers' performance rating and corporate rank for the given year. On top of the regular bonuses, CBS officers are entitled to a performance bonus based on their previous year's performance rating. On a continuing and regular basis, the Bank, through its Senior Management evaluates recommendations of various Division/Department Heads for the promotion of their subordinate officers to the following corporate rank. Those whose promotions are approved are given promotion increase in addition to the change in their fringe benefits package.

Dividend Policy

In accordance with the Amended By-Laws of the Bank, dividends shall be declared and paid out of surplus and/or net profits of the Bank, after allocating the percentage of the net profits, as often and such time as the Board of Directors may determine and in accordance with the provisions of law and the regulations of the BSP. There were no dividends declared in 2019 and 2018.

Consumer Welfare Protection

The Board of Directors is ultimately responsible in ensuring that consumer protection practices are embedded in the Bank's operations. The Bank adheres to the highest standards and embrace a culture of fair and responsible dealings in the conduct of its business.

The Board and Senior Management are responsible for the Bank's protection strategy and establishing an effective oversight function over the Bank's consumer protection programs. The Board is primarily responsible for approving and overseeing the implementation of the consumer protection policies of the Bank.

The Bank subscribes to the perspective that creating a positive customer experience and performing excellent customer service mean managing customer expectations and delivering what is promised, in a manner that manifests its mission that is: "We understand the needs of our customers, thus, we provide value-enhancing, customer-driven solutions through their preferred channels" and one of its core values on Customer Service Focus: "We value our relationships with all our stakeholders."

The Bank undertakes to manage customer expectations and resolve complaints within the bounds of pertinent policies and guidelines. It endeavors to institute appropriate actions to continuously improve or minimize, if not, prevent the incidence and/or recurrence of complaints.

The Consumer Protection Risk Management System (CPRMS) is a means by which the Bank identifies, measures, monitors and controls consumer protection risks inherent in its operations. These include both risks to the financial consumers and the Bank.

Independent of the compliance function, the Audit Division reviews the Bank's consumer protection practices, adherence to internal policies and procedures, and compliance with existing laws, rules and regulations. The Bank's internal audit of the different business units/functions includes the Consumer Protection Audit Program.

The Human Resources Division and respective business units ensure that all relevant personnel specifically those whose roles and responsibilities have customer interface, receive specific and comprehensive training that reinforces and helps implement written policies and procedures on consumer protection. The training program should be able to address changes in consumer protection laws, rules and regulations and policies and procedures should be provided in a timely manner.

The Bank increased its awareness and adherence to the Consumer Act of the Philippines and such other regulations promoting consumer protection. As part of its intensified drive for a positive customer experience and excellent customer service, the ServCom meets on a weekly basis not only to address complaints but to dynamically reposition the Bank to meet customer expectation.

Conformably with BSP Circular No. 857, in relation to consumer protection, the Bank continues to track the significant statistics on customer concerns.

Corporate Social Responsibility Initiatives

Community involvement is a cornerstone of CBS' CSR programs. The Bank supports a wide range of noteworthy projects for the underprivileged sector, provide educational assistance to promising children, undertake charitable fundraising, and encourage employee volunteerism in its efforts to give back to society.

Brigada Eskwela - CBS supports clean, safe, learner-friendly school facilities and improving the quality of public education in the country. The Bank is a regular participant of Brigada Eskwela, the annual campaign of the Department of Education to mobilize parents, students, faculty and private sector stakeholders to clean, refurbish and rehabilitate pubic elementary and high school campuses and facilities before the start of each school year.

On May 20, 2019, CBS mobilized 250 employees to provide labor, deliver construction materials and cleaning supplies, and distribute snacks and refreshments in 80 campuses (up from 50 schools) across 24 towns and cities, from Tuguegarao in the far north Luzon all the way to Davao City in Mindanao.

CBS Financial Wellness Road Show - The nationwide advocacy in response to the call by the BSP for private sector stakeholders to promote financial inclusion, raise financial literacy to higher levels, and increase the number of Filipinos in the formal banking system. Launched in March 2019, the CBS Financial Wellness Road Show brought the message *Charting the Course of Your Financial Life* to close to 1,000 public school administrators, faculty and non-teaching staff in 19 cities, including 10 locations in Visayas and Mindanao. Each session is a three-hour seminar-workshop and covers financial goal-setting; cash flow analysis; expense and debt management; and retirement planning.

CBS Financial Wellness for Young Filipino / WYFi - The novel program to develop basic financial literacy, savings consciousness and promote bank usage among elementary school pupils and teenagers nationwide. The program is CBS' contribution to the youth-oriented Banking on Your Future (BOYF) advocacy of the BSP. Launched in July 2018, the program has visited 30 elementary schools, high schools and universities in Luzon, Visayas and Mindanao.

National Teachers Day - CBS was the major partner of the Department of Education in hosting the National Teachers Day celebration in Cagayan de Oro City on October 5, 2019. The event was attended by 5,000 elementary and high school principals and teachers from all over the country. CBS donated a Toyota WIGO, three Honda motor scooters and several laptops for the raffle draws as well as bags of corporate items for delegates.

Give a Bag of Love this Christmas - CBS officers and staff at Head Office, Salcedo Tower and VGP Center in Makati prepared 50 Christmas packages for Mama's Hope Haven of Norway, a charitable institution which shelters and cares for orphans, street children, distressed girls and women, and abandoned elderly in Gen. Trias City, Cavite. The care packages contained food and drinks, toiletries, educational toys, items of clothing, as well as bedding and laundry supplies for the residents of the haven.

PART V. EXHIBITS AND SCHEDULES

Item 14. EXHIBITS AND REPORTS

(a) Exhibits

Exhibit 1 Statement of Management's Responsibility for Financial Statements
Exhibit 2 Audited Financial Statements as of December 31, 2019 and 2018
Exhibit 3 Supplementary Schedules
a Independent Auditors' Report on Supplementary Schedules
b Schedules Required under Securities Regulation Code Rule 68

(b) Reports on SEC Form 17-C

	REPORT	DATE REPORTED
1	**Board Meeting – June 20, 2019:** a. Election of Key Officers of the Bank b. Appointment/Re-appointment of Board Level Committee Members c. Appointment/Re-appointment of Management Level Committee Members **Annual Stockholders' Meeting held on June 20, 2019:** I. Approval, ratification and confirmation of the 2018 Audited Financial Statements II. Notation of 1 Related Party Transaction III. Ratification of all acts and proceedings of the Board of Directors, Executive Committee, the Board Oversight Committee and Management Committee taken up since the last Annual Stockholders' Meeting IV. Re-election of the following as members of the Board of Directors: a) Ricardo R. Chua b) Nancy D. Yang c) Alberto Emilio V. Ramos d) William C. Whang e) Alexander C. Escucha f) Rosemarie C. Gan g) Patrick D. Cheng h) Alberto S. Yao, Independent Director i) Margarita L. San Juan, Independent Director j) Philip S.L. Tsai, Independent Director k) Angeline Ann H. Hwang, Independent Director V. Appointment of SGV & Co. as the external auditor and Mr. Ray Francis C. Balagtas, as the partner-in-charge VI. Delegation to the Board of Directors the Authority to amend, repeal or adopt new By-Laws under Article XIV (Fourteen) of the By-Laws of the Bank	24-Jun-2019

	REPORT	DATE REPORTED
2	**Board Meeting – September 19, 2019:** a. Approval of the schedules for the conduct of business (banking days and hours) for Tacloban City and Angeles-Rizal Branches – Monday to Saturday at 9:00AM to 4:30PM b. Appointment of Emmanuel Antonio R. Gomez, as OIC/Head of SME Lending Group, effective October 1, 2019 and shall take effect until after a successor to Maria Teresita R. Dean, Senior Vice President, has been hired c. Approval of the SME Credit Evaluation Department Operations Manual, Amendments on the Bus Fleet Financing Facility, Amendments on the Smallbiz Policy and CBS CASA Raffle 2 Promo d. Resignation of SME Lending Group Head, Maria Teresita R. Dean, from employment with China Bank Savings, Inc. effective October 1, 2019 as per Letter of Resignation dated July 22, 2019 e. Approval of the CBS Capitalization Action Plans	25-Sep-2019
3	**Board Meeting – October 24, 2019:** a. Resignation of Alberto Emilio V. Ramos as President of China Bank Savings, Inc. effective November 30, 2019 b. Approval of the Revised Table of Organization for the creation of a rank of Executive Vice President c. Appointment of Joseph C. Justiniano as Executive Vice President of China Bank Savings, Inc., with Class 1 signing authority effective November 1, 2019	30-Oct-2019

SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned in the City of Makati on this 14 day of April 2020.

CHINA BANK SAVINGS, INC.

By:

JOSEPH C. JUSTINIANO
Executive Vice President and
Officer-in-Charge

JAMES CHRISTIAN T. DEE
Vice President II and
Treasurer

LUIS BERNARDO A. PUHAWAN
First Vice President II and
Controller

Atty. ODEL S. JANDA
First Vice President I and
Corporate Secretary

SUBSCRIBED AND SWORN to before me this __ day of JUN 02 2020 2020 at Makati City, affiants exhibited to me their government issued identification cards, as follows:

NAME	NUMBER
Joseph C. Justiniano	Unified Multi-Purpose ID No. CRN-0111-7606153-2
James Christian T. Dee	SSS No. 33-49988673
Luis Bernardo A. Puhawan	Unified Multi-Purpose ID No. CRN-0033-4600510-6
Odel S. Janda	IBP No. 32346

Doc. No. 10 ;
Page No. 003;
Book No. VII;
Series of 2020.

ATTY ANNA MARIELA O. MARIFOSQUE
Notary Public until Dec. 31, 2021
Appointment No. M-181 (2019-2021)
Roll No. 71147 IBP No. 064245
PTR No 8116168 01/02/2020 Makati
MCLE Compliance No VI-0013080 0. 19
1 H V Dela Costa St., Salcedo Village, Makati City

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **CHINA BANK SAVINGS, INC.** is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the year ended December 31, 2019, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

RICARDO R. CHUA
Chairman of the Board

JOSEPH C. JUSTINIANO
Executive Vice President and
Officer-in-Charge

JAMES CHRISTIAN T. DEE
Vice President II and
Treasurer

LUIS BERNARDO A. PUHAWAN
First Vice President II and
Controller

JUN 02 2020

SUBSCRIBED AND SWORN to before me this __ day of _________ 2020 affiant(s) exhibiting to me their government-issued identification cards, as follows:

NAME	NUMBER
Ricardo R. Chua	SSS No. 03-2416389-8
Joseph C. Justiniano	Unified Multi-Purpose ID No. CRN-0111-7606153-2
James Christian T. Dee	SSS No. 33-49988673
Luis Bernardo A. Puhawan	Unified Multi-Purpose ID No. CRN-0033-4600510-6

Doc. No. 6;
Page No. 003;
Book No. VII;
Series of 2020.

ATTY ANNA MARIELA O. MARIFOSQUE
Notary Public until Dec. 31, 2021
Appointment No. M-181 (2019-2021)
Roll No. 71147 IBP No. 064245
PTR No 8116168 01/02/2020 Makati
MCLE Compliance No. VI-0018080 07-11-19
169 H V Dela Costa St., Salcedo Village, Makati City

China Bank Savings, Inc.
(A Majority Owned Subsidiary of China Banking Corporation)

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

and

Independent Auditor's Report

SGV
Building a better working world

A member firm of Ernst & Young Global Limited

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of China Bank Savings, Inc. (the Bank), a majority-owned subsidiary of China Banking Corporation, which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report 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 32 and Revenue Regulations 15-2010 in Note 33 to the financial statements is presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of China Bank Savings, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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

March 20, 2020

CHINA BANK SAVINGS, INC.
(A Majority Owned Subsidiary of China Banking Corporation)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2019	2018
ASSETS		
Cash and Cash Equivalents (Notes 6 and 24)	**₱22,672,899,338**	₱13,551,253,323
Financial Assets at Fair Value through Other Comprehensive Income (Note 7)	**948,332,885**	1,081,864,447
Investment Securities at Amortized Cost (Note 7)	**3,689,760,324**	8,712,822,931
Loans and Receivables (Notes 8 and 24)	**66,936,376,157**	65,131,357,475
Non-current Assets Held for Sale (Note 9)	**342,781,398**	379,192,579
Property and Equipment (Note 10)	**1,763,533,531**	1,228,301,104
Investment Properties (Note 11)	**2,603,799,735**	3,197,091,385
Branch Licenses (Note 12)	**74,480,000**	74,480,000
Software Costs (Note 12)	**55,859,984**	63,333,167
Deferred Tax Asset (Note 22)	**863,876,485**	613,401,172
Other Assets (Notes 13 and 24)	**2,032,975,131**	1,746,611,709
	₱101,984,674,968	₱95,779,709,292
LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities (Notes 15 and 24)		
Demand	**₱17,477,968,724**	₱16,036,991,323
Savings	**15,254,976,507**	12,796,615,183
Time	**56,467,993,102**	55,767,866,280
	89,200,938,333	84,601,472,786
Manager's Checks	**462,742,405**	484,179,921
Accrued Interest and Other Expenses (Note 16)	**394,224,470**	418,850,987
Income Tax Payable	**24,306,931**	345,478
Other Liabilities (Notes 16 and 24)	**2,172,759,565**	1,185,637,858
	92,254,971,704	86,690,487,030
Equity		
Capital stock (Note 18)	**10,543,579,100**	10,543,579,100
Additional paid-in capital (Note 18)	**485,049,814**	485,049,814
Other equity reserves (Note 28)	**(2,248,520,637)**	(2,248,520,637)
Surplus (Notes 18 and 23)	**965,983,538**	347,992,619
Remeasurement gains (losses) on retirement liability (Note 20)	**(46,931,831)**	747,845
Net unrealized losses on financial assets at fair value through other comprehensive income (Note 7)	**(12,564,323)**	(85,306,273)
Cumulative translation adjustment	**43,107,603**	45,679,794
	9,729,703,264	9,089,222,262
	₱101,984,674,968	₱95,779,709,292

See accompanying Notes to Financial Statements.

CHINA BANK SAVINGS, INC.
(A Majority Owned Subsidiary of China Banking Corporation)

STATEMENTS OF INCOME

	Years Ended December 31		
	2019	2018	2017
INTEREST INCOME			
Loans and receivables (Notes 8 and 24)	**₱5,297,951,221**	₱4,723,862,839	₱4,269,523,330
Investment securities (Note 7)	**403,317,745**	282,094,661	262,808,362
Interbank loans receivable and securities purchased under resale agreements (Note 6)	**195,271,068**	119,349,402	91,952,398
Due from Bangko Sentral ng Pilipinas and other banks (Notes 6 and 24)	**57,988,637**	25,347,885	14,087,651
	5,954,528,671	5,150,654,787	4,638,371,741
INTEREST EXPENSE			
Deposit liabilities (Notes 15 and 24)	**2,660,109,861**	1,886,664,631	1,311,815,042
Lease liabilities (Note 16)	**57,763,561**	–	–
	2,717,873,422	1,886,664,631	1,311,815,042
NET INTEREST INCOME	**3,236,655,249**	3,263,990,156	3,326,556,699
Service charges, fees and commissions	**855,353,160**	268,037,238	239,452,223
Gain (loss) on asset exchange (Notes 9, 11 and 24)	**446,346,861**	270,140,580	120,530,783
Gain on disposal of investment securities at amortized cost (Notes 7 and 24)	**117,948,013**	–	–
Income from property rentals (Notes 11, 21 and 24)	**29,827,848**	31,184,292	27,847,995
Trading and securities gains (losses) - net (Notes 7 and 24)	**–**	(866,221)	68,871,922
Miscellaneous (Note 19)	**87,357,046**	100,746,511	90,554,583
TOTAL OPERATING INCOME	**4,773,488,177**	3,933,232,556	3,873,814,205
Compensation and fringe benefits (Notes 20 and 24)	**1,312,559,000**	1,264,557,216	1,167,316,193
Depreciation and amortization (Note 10)	**487,256,814**	332,367,204	345,824,017
Taxes and licenses	**346,592,543**	256,232,538	223,349,751
Documentary stamp taxes	**343,581,629**	325,246,773	198,543,153
Security, clerical, messengerial and janitorial	**278,535,583**	244,763,404	254,444,223
Provision for impairment and credit losses (Note 14)	**250,582,037**	104,649,096	295,680,313
Insurance	**246,862,118**	219,076,739	195,971,231
Acquired asset and other litigation expense	**182,312,670**	134,088,277	171,657,363
Occupancy costs (Note 21)	**131,781,947**	303,179,796	259,647,476
Transportation and travel	**126,106,142**	117,739,730	91,703,285
Entertainment, amusement and recreation (Note 22)	**118,248,652**	99,022,205	86,039,178
Utilities	**105,696,611**	96,004,237	88,691,492
Data processing and information technology	**33,697,778**	21,625,946	30,242,093
Stationery, supplies and postage	**28,946,607**	31,635,981	36,402,353
Management and other professional fees	**6,626,151**	12,781,365	11,844,995
Miscellaneous (Notes 11 and 19)	**226,045,629**	194,621,853	165,148,841
TOTAL OPERATING EXPENSES	**4,225,431,911**	3,757,592,360	3,622,505,957
INCOME BEFORE INCOME TAX	**548,056,266**	175,640,196	251,308,248
BENEFIT FROM INCOME TAX (Note 22)	**(73,542,701)**	(194,223,416)	(250,233,969)
NET INCOME	**₱621,598,967**	₱369,863,612	₱501,542,217

See accompanying Notes to Financial Statements.

CHINA BANK SAVINGS, INC.
(A Majority Owned Subsidiary of China Banking Corporation)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2019	2018	2017
NET INCOME	**₱621,598,967**	₱369,863,612	₱501,542,217
OTHER COMPREHENSIVE INCOME			
Items that recycle to profit or loss in subsequent periods:			
Changes in net unrealized gains (losses) on:			
Financial assets at fair value through other comprehensive income (Note 7)	**69,133,902**	(8,132,886)	–
Available-for-sale financial assets (Note 7)	**–**	–	25,196,599
Cumulative translation adjustment	**(2,572,191)**	30,284,244	(2,314,166)
Items that do not recycle to profit or loss in subsequent periods:			
Remeasurement gains (losses) on retirement asset (liability) (Note 20)	**(47,679,676)**	67,712,284	19,294,655
	18,882,035	89,863,642	42,177,088
TOTAL COMPREHENSIVE INCOME	**₱640,481,002**	₱459,727,254	₱543,719,305

See accompanying Notes to Financial Statements.

CHINA BANK SAVINGS, INC.
(A Majority Owned Subsidiary of China Banking Corporation)
STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 18)	Additional Paid-in Capital (Note 18)	Deposit for Future Stock Subscription (Notes 18 and 24)	Other Equity Reserves (Note 28)	Surplus Reserves (Notes 18 and 23)	Surplus (Notes 18 and 23)	Remeasurement Gains (Losses) on Retirement Liability (Note 20)	Net Unrealized Losses on Financial Assets at Fair Value through Other Comprehensive Income (Note 7)	Net Unrealized Losses on Available-for-Sale Financial Assets (Note 7)	Cumulative Translation Adjustment	Total Equity
Balance at January 1, 2019	**₱10,543,579,100**	**₱485,049,814**	**₱–**	**(₱2,248,520,637)**	**₱–**	**₱347,992,619**	**₱747,845**	**(₱85,306,273)**	**₱–**	**₱45,679,794**	**₱9,089,222,262**
Total comprehensive income (loss) for the year	–	–	–	–	–	**621,598,967**	**(47,679,676)**	**69,133,902**	–	**(2,572,191)**	**640,481,002**
Realized loss on sale of equity securities at fair value through other comprehensive income	–	–	–	–	–	**(3,608,048)**	–	**3,608,048**	–	–	–
Balance at December 31, 2019	**₱10,543,579,100**	**₱485,049,814**	**₱–**	**(₱2,248,520,637)**	**₱–**	**₱965,983,538**	**(₱46,931,831)**	**(₱12,564,323)**	**₱–**	**₱43,107,603**	**₱9,729,703,264**
Balance at January 1, 2018	₱10,043,579,100	₱490,049,814	₱–	(₱2,248,520,637)	₱22,764,290	₱242,276,780	(₱66,964,439)	₱–	(₱132,516,533)	₱15,395,550	₱8,366,063,925
Effect of initial application of PFRS 9	–	–	–	–	–	(286,912,063)	–	(77,173,387)	132,516,533	–	(231,568,917)
Balance at January 1, 2018, as restated	10,043,579,100	490,049,814	–	(2,248,520,637)	22,764,290	(44,635,283)	(66,964,439)	(77,173,387)	–	15,395,550	8,134,495,008
Issuance of capital stock	500,000,000	(5,000,000)	–	–	–	–	–	–	–	–	495,000,000
Total comprehensive income (loss) for the year	–	–	–	–	–	369,863,612	67,712,284	(8,132,886)	–	30,284,244	459,727,254
Transfer from surplus reserves	–	–	–	–	(22,764,290)	22,764,290	–	–	–	–	–
Balance at December 31, 2018	₱10,543,579,100	₱485,049,814	₱–	(₱2,248,520,637)	₱–	₱347,992,619	₱747,845	(₱85,306,273)	₱–	₱45,679,794	₱9,089,222,262
Balance at January 1, 2017	₱7,402,164,200	₱495,643,582	₱2,647,942,142	(₱2,248,520,637)	₱22,585,422	(₱259,086,569)	(₱86,259,094)	–	(₱157,713,132)	₱17,709,716	₱7,834,465,630
Application of deposit for future stock subscription to issued shares (Notes 18 and 24)	2,641,414,900	(5,593,768)	(2,647,942,142)	–	–	–	–	–	–	–	(12,121,010)
Total comprehensive income (loss) for the year	–	–	–	–	–	501,542,217	19,294,655	–	25,196,599	(2,314,166)	543,719,305
Transfer to surplus reserves	–	–	–	–	178,868	(178,868)	–	–	–	–	–
Balance at December 31, 2017	₱10,043,579,100	₱490,049,814	₱–	(₱2,248,520,637)	₱22,764,290	₱242,276,780	(₱66,964,439)	–	(₱132,516,533)	₱15,395,550	₱8,366,063,925

See accompanying Notes to Financial Statements.

CHINA BANK SAVINGS, INC.
(A Majority Owned Subsidiary of China Banking Corporation)

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱548,056,266**	₱175,640,196	₱251,308,248
Adjustments for:			
Depreciation and amortization (Note 10)	**487,256,814**	332,367,204	345,824,017
Gain on asset exchange (Notes 9, 11 and 24)	**(446,346,861)**	(270,140,580)	(120,530,783)
Provision for impairment and credit losses (Note 14)	**250,582,037**	104,649,096	295,680,313
Gain on disposal of investment securities at amortized cost (Notes 7 and 24)	**(117,948,013)**	–	–
Interest on lease liabilities (Note 21)	**57,763,561**	–	–
Amortization of premium on investment securities	**17,931,986**	64,529,787	47,877,645
Realized trading gain on financial assets at fair value through other comprehensive income (Note 7)	**–**	(866,221)	–
Realized trading gain on available-for-sale financial assets (Note 7)	**–**	–	(63,355,179)
Amortization of unrealized loss on held-to-maturity financial assets reclassified from available-for-sale financial assets	**–**	–	3,267,094
Unrealized mark-to-market losses on fair value through profit or loss investments (Note 7)	**–**	–	1,646,852
Changes in operating assets and liabilities:			
Decrease (increase) in the amounts of:			
Loans and receivables	**(2,830,279,917)**	(3,201,090,037)	(6,053,432,776)
Financial assets at fair value through profit or loss	**–**	–	333,950,906
Other assets (Notes 13 and 27)	**(273,793,100)**	(323,896,787)	(254,786,332)
Increase (decrease) in the amounts of:			
Deposit liabilities	**4,599,465,547**	8,164,390,166	4,847,465,600
Manager's checks	**(21,437,516)**	(247,622,385)	147,600,685
Accrued interest and other expenses	**(24,626,516)**	152,008,705	(13,010,145)
Other liabilities (Notes 16 and 27)	**187,272,241**	(286,946,080)	415,581,452
Net cash generated from operations	**2,433,896,529**	4,663,023,064	185,087,597
Income tax paid (Notes 22 and 27)	**(152,971,156)**	(113,361,063)	(58,641,721)
Net cash provided by operating activities	**2,280,925,373**	4,549,662,001	126,445,876
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Investment securities at amortized cost	**(921,935,660)**	(3,452,219,037)	–
Property and equipment (Note 10)	**(160,081,572)**	(221,501,212)	(343,660,006)
Software costs (Note 12)	**(15,561,541)**	(12,739,815)	(16,544,421)
Financial assets at fair value through other comprehensive income	**–**	(384,875,194)	–
Available-for-sale financial assets	**–**	–	(1,034,304,528)
Held-to-maturity financial assets	**–**	–	(188,875,689)
Proceeds from sale/maturity of:			
Investment securities at amortized cost	**6,060,273,607**	44,100,000	–
Investment properties (Notes 9 and 11)	**1,376,206,100**	506,060,571	556,300,236
Non-current assets held for sale (Note 9)	**514,196,567**	414,687,056	484,618,905
Financial assets at fair value through other comprehensive income	**151,248,429**	46,190,714	–
Property and equipment (Note 10)	**5,392,029**	–	57,701,286
Available-for-sale financial assets	**–**	–	1,018,832,682
Net cash provided by (used in) investing activities	**7,009,737,959**	(3,060,296,917)	534,068,465

(Forward)

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of principal portion of lease liabilities (Note 16)	**(₱195,866,966)**	₱–	₱–
Proceeds from capital infusion (Notes 18 and 24)	**–**	500,000,000	–
Net cash provided by (used in) financing activities	**(195,866,966)**	500,000,000	–
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**26,849,649**	27,365,612	(2,933,718)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**9,121,646,015**	2,016,730,696	657,580,623
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**13,551,253,323**	11,534,522,627	10,876,942,004
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱22,672,899,338**	₱13,551,253,323	₱11,534,522,627
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest received	**₱5,914,536,827**	₱5,015,119,977	₱4,421,272,502
Interest paid	**2,697,428,911**	1,767,878,474	1,294,064,555

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

China Bank Savings, Inc. (the Bank or CBS) reopened to the public on June 26, 1999 as a thrift bank in accordance with the Monetary Board (MB) Resolution No. 512 dated April 21, 1999. Under MB Resolution No. 512, the Bank was allowed to reopen its 72 branches as provided in the Bank's operating plan.

In 2007, China Banking Corporation (the Parent Bank or CBC) acquired the majority shareholdings of the Bank. Following the change in its majority owners, the Bank continues to operate as a thrift bank. In 2008, the Bank transferred its other existing branches and unused branch licenses to CBC to improve cost efficiency and branch networking. As of December 31, 2019 and 2018, the Bank has 158 and 162 branches, respectively.

The Bank's original Certificate of Incorporation was issued by the Philippine Securities and Exchange Commission (SEC) on May 23, 1960. On August 20, 2009, the Board of Directors (BOD) approved the amendment of the Bank's Articles of Incorporation to extend its corporate term for another fifty (50) years, from and after May 23, 2010, the end of the original term of the Bank's corporate existence. The amendment to the Articles of Incorporation to extend the Bank's corporate term was subsequently approved by the stockholders of the Bank, who own/represent at least two thirds (2/3) of the outstanding capital stock, at the Annual Stockholders' Meeting held in October 2009. The Amended Articles of Incorporation was approved by the SEC on March 25, 2010.

As of December 31, 2019 and 2018, CBC, the ultimate parent bank, has ownership interest in the Bank of 99.60%.

The registered office address of the Bank is at CBS Building, 314 Sen. Gil Puyat Avenue, Makati City.

<u>Merger between the Bank and Unity Bank, A Rural Bank Inc.</u>
The BOD of the Bank and Unity Bank, A Rural Bank, Inc. (Unity Bank), in their meetings held last June 6, 2013 and June 11, 2013, respectively, approved the proposed merger with Unity Bank, with the Bank as the surviving entity. The Plan of Merger was approved by the stockholders of both banks in their meetings held on July 18, 2013 and July 19, 2013, respectively. Unity Bank is 99.95% owned by CBC, having acquired the former on November 20, 2012 under the Strengthening Program for Rural Banks (SPRB) Plus of the Bangko Sentral ng Pilipinas (BSP).

On December 10, 2013, the BSP approved the issuance of Certificate of Authority to register the approved Plan of Merger and Articles of Merger of the Bank and Unity Bank.

Thereafter, on January 20, 2014, the SEC formally issued the Certificate of the Filing of Articles and Plan of Merger by and between the Bank (surviving corporation) and Unity Bank (absorbed corporation).

The merger was effected via a share-for-share exchange (Note 28).

Merger between the Bank and Planters Development Bank (PDB)
On June 26, 2014, the BOD of both the Bank and Planters Development Bank (PDB) approved the Plan and Articles of Merger of the Bank and PDB, with the former as the surviving entity. PDB is a 99.85% owned subsidiary of CBC. The stockholders of both PDB and the Bank approved, ratified and confirmed the Plan and Articles of Merger on August 14, 2014. An amended Plan of Merger was approved by the BOD of both banks on January 29, 2015.

On August 19, 2015 and December 17, 2015, the MB of the BSP and the SEC approved the merger, respectively.

The salient provisions of the Articles of Merger are as follows:

a. Upon the effectivity date of the merger, PDB shall be merged with and into the Bank. The separate and distinct existence of PDB shall cease and terminate upon the effective date of merger.
b. The Bank shall be the surviving corporation.
c. As of the effective date, all common and preferred shares of PDB shall be converted into fully paid China Bank Savings common shares totaling to 16.5 million shares (see Note 28).

2. Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis except for financial assets at fair value through profit or loss (FVPL) and financial assets at fair value through other comprehensive income (OCI) that have been measured at fair value and non-current assets held for sale (NCAHS) that have been measured at the lower of their carrying amount and fair value less cost to sell. All values are rounded to the nearest peso unless otherwise stated.

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

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

Presentation of Financial Statements
The Bank presents its statement of financial position in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within twelve (12) months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 17.

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

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

Consolidation
Consolidated financial statements are prepared for the same reporting year as the parent company's using consistent accounting policies. All significant intra-group balances, transactions and income and expenses resulting from intra-group transactions are eliminated in full. Subsidiaries are consolidated from the date on which control is transferred to the parent company.

Principles of control are discussed under the accounting policy on investment in subsidiary. The subsidiaries are immaterial to the financial statements, hence the Bank did not prepare the consolidated financial statements.

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

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

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

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

  The entity is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations.

If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

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

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

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

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

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

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

As of January 1, 2019, the weighted average incremental borrowing rate applied to lease commitments is 7.88%. The reconciliation of the operating lease commitments to the total gross lease payments used in the measurement of the opening lease liabilities follows:

Gross lease payments as of December 31, 2018	₱870,682,762
Gross lease payments pertaining to short-term or low-value leases	(13,908,533)
Total gross lease payments as of December 31, 2018	856,774,229
Weighted average incremental borrowing rate	7.88%
Lease liabilities as of January 1, 2019	**₱751,742,807**

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

a. total assets and total liabilities increased resulting from the recognition of right-of-use assets and lease liabilities in the statement of financial position amounting to ₱751.74 million; and
b. accrued rent payable relating to previous operating leases was recorded as an adjustment to right-of-use assets amounting to ₱37.64 million.

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

The adoption of PFRS 16 did not have an impact on equity on January 1, 2019, since the Bank elected to measure the right-of-use assets at an amount equal to the lease liabilities, 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. The accounting policies adopted in relation to the right-of-use asset and lease liability are disclosed in page 18.

Significant Accounting Policies

Common Control Business Combinations

Where there are business combinations involving entities that are ultimately controlled by the same ultimate parent before and after the business combination and that the control is not transitory ("business combinations under common control"), the Bank accounts for such business combinations using pooling of interest method.

In applying the pooling of interest method, the Bank follows Philippine Interpretations Committee (PIC) Q&A No. 2012-01, *PFRS 3.2 Application of the Pooling of Interest Method for Business Combinations of Entities under Common Control in Consolidated Financial Statements*, which provides the following guidance:

- The assets and liabilities of the combining entities are reflected in the consolidated financial statements at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments that are made are those adjustments to harmonize accounting policies.
- No new goodwill is recognized as a result of the combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is reflected within equity as additional paid-in capital, i.e., either as contribution or distribution of equity.
- An entity has an option for restatement or non-restatement of financial information in the consolidated financial statements for the periods prior to the date of business combination.

In applying the above guidance, the Bank made the accounting policy choice of:

- Recognizing the assets acquired and liabilities assumed from the absorbed entity based on their respective carrying values as reported in the financial statements of the absorbed entity as of merger date and adjusted to harmonize with the accounting recognition and measurement policies of the Bank.
- Not restating the consolidated financial statements of the Bank for presentation of the merged balances for periods prior to the merger date.
- Recognizing equity reserves of the absorbed entity such as those arising from the remeasurement of financial assets at FVOCI, retirement liability and cumulative translation adjustment, based on amounts reflected in the financial statements of the absorbed entity on merger date.

Foreign Currency Translation

The financial statements are presented in Philippine peso, which is the Bank's functional currency.

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

Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities are credited to or charged against operations in the period in which the rates change. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

Fair Value Measurement
The Bank measures financial instruments, such as financial assets at FVPL and financial assets at FVOCI, at fair value at each reporting date. The fair values of financial instruments measured at amortized cost (or cost) and nonfinancial assets are disclosed in Note 4.

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

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

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

If a financial instrument measured at fair value has a bid price and an ask price, the price within bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

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

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

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

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

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

For purposes of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics 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, due from BSP and other banks, and securities purchased under resale agreements (SPURA) that are convertible to known amounts of cash and which have original maturities of three months or less from dates of placements and that are subject to an insignificant risk of changes in value.

Due from BSP includes the statutory reserves required by the BSP which the Bank considers as cash equivalents wherein withdrawals can be made to meet the Bank's cash requirements as allowed by the BSP.

SPURA

The Bank 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 amount of advances made 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 - Initial Recognition and Subsequent Measurement

Date of recognition

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 settlement date. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Bank, 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 Bank. Any change in fair value of unrecognized financial asset is recognized in the statement of income for assets classified as financial assets at FVPL, and in equity for assets classified as financial assets at FVOCI. Deposits, amounts due from banks and customers and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.

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

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

<u>Classification, Reclassification and Impairment of Financial Assets</u>
Classification and measurement
The classification and measurement of financial assets is driven by the entity's contractual cash flow characteristics of the financial assets and business model for managing the financial assets.

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

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies 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 solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:
- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
- the expected frequency, value and timing of sales are also important aspects of the Bank'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 Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The Bank's measurement categories are described below:

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

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

The Bank's investment securities at amortized cost are presented in the statement of financial position as cash and cash equivalents, investment securities at amortized cost, loans and receivables and certain accounts under other assets.

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

Financial assets at FVPL
Debt instruments that neither meet the amortized cost nor the FVOCI criteria, or that meet the criteria but the Bank has chosen to designate as at FVPL at initial recognition, are classified as financial assets at FVPL. Equity investments are classified as financial assets at FVPL, unless the Bank designates an equity investment that is not held for trading as at FVOCI at initial recognition. As of December 31, 2019 and 2018, the Bank does not have financial assets at FVPL.

Financial assets at FVOCI - equity investments
At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Bank for trading. The Bank has designated its unquoted equity instruments as at FVOCI as these are not held for trading purposes.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in net unrealized losses on investment securities in the statement of financial position.

When the asset is disposed of, the cumulative gain or loss previously recognized in the net losses on investment securities account is not reclassified to profit or loss, but is reclassified directly to 'Surplus-free' account. Any dividends earned on holding these equity instruments are recognized in profit or loss under 'Miscellaneous income' account.

Financial assets at FVOCI - debt investments
The Bank applies the category of debt instruments measured at FVOCI when both of the following conditions are met:
- the instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value being recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. The ECL calculation for financial assets at FVOCI is explained in the 'Impairment of Financial Assets' section.

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

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

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

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

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

For credit-impaired financial instruments:

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

Refer to Note 5 for the Bank's ECL methodology.

Impairment of Financial Assets (*Policies applicable prior to January 1, 2018*)
The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost
For financial assets carried at amortized cost, which include 'Due from BSP', 'Due from other banks', 'SPURA', 'Loans and receivables' and financial assets recorded under 'Other assets', the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

If a financial asset carried at amortized cost has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income under 'provision for impairment and credit losses'. Interest income continues to be recognized based on the original EIR of the asset. The financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

If the Bank determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a previous write-off is later recovered, any amount formerly charged is credited to 'Miscellaneous income' in the statement of income.

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

Available-for-sale financial assets
For available-for-sale (AFS) financial assets, the Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity investments classified as AFS financial assets, this would include:
- a 'significant' or 'prolonged' decline in the fair value of the investments below its cost; and /or
- other information about the issuer that may negatively affect an equity issuer's performance

The Bank treats 'significant' generally as 20.00% and 'prolonged' generally as greater than one year. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income, is removed from the statement of comprehensive income and recognized in the statement of income.

Impairment losses on equity securities are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in the statement of comprehensive income.

In the case of debt securities classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss previously recognized in profit or loss. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statement of income. If, in the subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through 'Miscellaneous income' in the statement of income.

Restructured loans
Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for impairment and credit losses' in the statement of income.

If modifications are substantial, the loan is derecognized as explained in the accounting policy for derecognition of financial assets.

<u>Derecognition of Financial Assets and Financial Liabilities</u>
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:
- The rights to receive cash flows from the asset have expired; or
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred control over the asset.

Where the Bank has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognizes an associated liability. The transferred asset and associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

The transfer of risks and rewards is evaluated by comparing the Bank's exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. The Bank has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability in the present value of the future net cash flows from the financial asset does not change significantly as a result of the transfer (e.g., because the entity has sold a financial asset subject to an agreement to buy it back at a fixed price or the sole price plus a lender's return).

The Bank has transferred substantially all the risks and rewards of ownership of a financial asset if its exposure to such variability is no longer significant in relation to the total variability in the present value of the future net cash flows associated with the financial asset (e.g., because the entity has sold a financial asset subject only to an option to buy it back at its fair value at the time of repurchase or has transferred fully proportionate share of the cash flows from a larger financial asset in an agreement).

Whether the Bank has retained control of the transferred asset depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, the entity has not retained control.

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

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

<u>NCAHS</u>
NCAHS include repossessed vehicles acquired in settlement of loans and receivable. The Bank classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

NCAHS are measured at the lower of their carrying amount and fair value less costs to sell and are no longer depreciated or amortized. The criteria for NCAHS classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

If the Bank decides to use an asset as property and equipment, the related asset ceases to qualify as NCAHS and is reclassified to property and equipment.

Upon reclassification, the Bank measures a non-current asset that ceases to be classified as held for sale at the lower of:
- its carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortization or revaluation that would have been recognized had the asset not been classified as held for sale, and
- its recoverable amount at the date of the subsequent reclassification.

<u>Property and Equipment</u>
Land is stated at cost less any impairment in value while depreciable properties including buildings and furniture, fixture and equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value. Such cost includes the cost of replacing part of the property and equipment when that cost is incurred and if the recognition criteria are met, but excluding repairs and maintenance costs. Leasehold rights and improvements are stated at its net carrying amount after directly deducting amortization.

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

Condominium properties, buildings and improvements	20 to 40 years
Furniture, fixtures and equipment	2 to 10 years
Leasehold improvements	5 to 10 years or the related lease terms, whichever is shorter

The depreciation and amortization method and useful life are reviewed periodically to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

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

Investment Properties

Investment properties include real properties acquired in settlement of loans and receivables and investments in real estate.

Real properties acquired in settlement of loans and receivables

Real properties acquired in settlement of loans and receivables are booked under ROPA account as follows:

- upon the date of entry of judgment in case of judicial foreclosure; or
- upon the date of Sheriff's Certificate of Sale in case of extrajudicial foreclosure; or
- upon the date of notarization of the Deed of Dacion in case of dation in payment.

These properties are carried at cost, which is the fair value at acquisition date including certain transaction costs, less accumulated depreciation and impairment in value. 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 cost of the real properties acquired. Investment properties acquired through a nonmonetary asset exchange is measured initially at fair value unless (a) the exchange lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable, where the net carrying value of the related loans and receivables is used. The difference between the fair value of the foreclosed properties and the carrying value of the related receivables given up is recognized in 'Gain (loss) on asset exchange' account in the statement of comprehensive income. Subsequent to initial recognition, real properties acquired in settlement of loans and receivables are stated at cost less accumulated depreciation and any accumulated impairment in value. Depreciation is computed on a straight-line basis over the EUL from the time of acquisition of the investment properties but not to exceed 10 years.

Investments in real estate

Investments in real estate consist of investments in land and building. The Bank applies the cost model in accounting for investments in real estate. Investment in land is carried at cost less impairment in value. Building is 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 between 20 to 40 years.

Subsequent measurement of investment properties
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 of such indication exists and where the carrying values exceed the estimated recoverable amount, the investment property or CGUs it is related to are written down to their recoverable amounts.

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 the retirement or disposal of investment properties are recognized in the statement of income in the year of retirement or disposal under 'Gain (loss) on asset exchange'.

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 sale.

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

Software costs
Costs related to software purchased by the Bank for use in operations are recognized as 'Software costs' in the statement of financial position. Capitalized computer software costs are amortized on a straight-line basis over 3 to 7 years.

Branch licenses
These intangible assets were determined to have indefinite useful lives and are therefore not amortized. The useful life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis. Branch licenses are tested for impairment annually either individually or at the CGU level.

Impairment is determined by assessing the recoverable amount of the individual asset or CGU (or group of CGUs) to which the intangible asset relates. Recoverable amount is the higher of the individual asset's or CGU's fair value less cost to sell and its value in use. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life, or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortization period or methodology, as appropriate, which are then treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is presented as a separate line item in the statement of income.

Investment in a Subsidiary and an Associate

Investment in a subsidiary

A subsidiary pertains to an entity over which the Bank has control. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Investment in a subsidiary is carried at acquisition cost, less any impairment in value.

This policy relates to the Bank's investment in a 100% owned subsidiary recorded in 'Other equity investments' under 'Other assets'.

Investment in an associate

An associate pertains to an entity over which the Bank 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. Investment in an associate is accounted for under the equity method of accounting.

Under the equity method, an investment in an associate is carried in the statement of financial position at cost plus post-acquisition changes in the Bank's share of the net assets of the associates. Goodwill, if any, relating to an associate is included in the carrying value of the investment and is not amortized. When the Bank increases its ownership interest in an associate that continues to be accounted for under the equity method, the cost for the additional interest is added to the existing carrying amount of the associate and the existing interest in the associate is not remeasured.

The Bank's share of its associate's post-acquisition profits or losses is recognized in the statement of income, and its share of post-acquisition movements in the associates' equity reserves is recognized directly in equity. When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Profits and losses resulting from transactions between the Bank and an associate are eliminated to the extent of the interest in the associate. Dividends received, if any, are treated as a reduction in the carrying value of the investment.

In cases where an associate is in a net liability position, the equity method requires the Bank to discontinue recognizing its share of further losses when its cumulative share in the losses of the associate equals or exceeds its interest in the associate, unless the Bank has incurred legal or constructive obligations or made payments on behalf of the associate, in which case a liability is recognized.

This policy relates to the Bank's investment in a 49%-owned investee company recorded in 'Other equity investments' under 'Other assets'.

As of December 31, 2019 and 2018, the investment in an associate, which was acquired as a result of merger with PDB, is fully impaired (Note 13).

Impairment of Nonfinancial Assets

At each reporting date, the Bank assesses whether there is any indication that its nonfinancial assets (i.e., property and equipment, investment properties, investment in a subsidiary and an associate, software cost) may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of recoverable amount.

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is 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 asset's recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to current operations.

After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Accounting Policy on Leases Effective January 1, 2019
The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Bank as a lessee
The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

a. *Right-of-use assets*
   The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized 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 Bank 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. Right-of-use assets are presented under Property and Equipment in the statement of financial position.

b. *Lease liabilities*
At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects the Bank exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Bank uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

c. *Short-term leases and leases of low-value assets*
The Bank applies the short-term lease recognition exemption to its short-term leases of branch 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 branch 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.

Bank as a lessor
Leases in which the Bank 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.

<u>Leases (Prior to January 1, 2019)</u>
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

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

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

Bank 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 and included in the statement of income as 'Occupancy cost'.

Bank as lessor
Leases where the Bank 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>Equity</u>
Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to 'Additional paid-in capital' account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to 'Additional paid-in capital' account. If the 'Additional paid-in capital' is not sufficient, the excess is charged against the 'Surplus (deficit)'. The effect of positive (negative) equity adjustments arising from business combination under common control is included under 'Additional paid-in capital' ('Other equity reserves').

When the Bank issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

<u>Surplus</u>
Surplus represents cumulative balance of periodic net income or loss, dividend declarations, prior period adjustments, effect of changes in accounting policy and other capital adjustments, if any.

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

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

Service fees and commission income
Using an output method, revenue is recognized if the Bank has a right to invoice the customer for services directly corresponding to performance completed to date. These include charges from usage of ATM, charges for returned checks, charges for below minimum maintaining balance and commission income.

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

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

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

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

Gain (loss) on asset exchange
Gain (loss) on asset exchange transaction is recognized upon foreclosure of loan collaterals (see accounting policy on investment properties and NCAHS) or sale of such foreclosed properties. The gain or loss on foreclosure represents the difference between the fair value of the asset received and book value of the asset given up. Income (loss) from sale of foreclosed properties is recognized upon completion of the earnings process, the transfer of risk and rewards over the property to the buyer, and the collectability on the sales price is reasonably assured.

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

Rental income
Rental income arising from leased properties is accounted from on a straight-line basis over the lease terms on ongoing leases and is recorded in the statement of comprehensive income under 'Income from property rentals'

Trading and securities gains (losses) - net
This represents results arising from trading activities and sale of AFS financial assets or FVOCI debt assets.

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

Expense Recognition
Expenses are recognized when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has occurred and the decrease in economic benefits can be measured reliably. Expenses are recognized when incurred.

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.

Operating expenses
Operating expenses constitute costs which arise in the normal business operation and are recognized when incurred.

Taxes and licenses
These include all other taxes, local and national, including gross receipts tax (GRT), real estate taxes and licenses and permit fees which are recognized when incurred.

Retirement Benefits
The net defined benefit asset or liability is the aggregate of the present value of the defined benefit obligation at the reporting date reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The defined benefit obligation is calculated annually by an independent actuary. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on government bonds that have terms to maturity approximating the terms of the related retirement asset or liability. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Defined benefit costs comprise the following:
a. service cost;
b. net interest on the net defined benefit liability or asset; and
c. remeasurements of net defined benefit liability or asset.

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

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on Philippine government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Bank, nor can they be paid directly to the Bank. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Bank's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain. If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Provisions and Contingencies

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

Income Taxes

Current tax

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

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred tax assets and deferred tax liabilities, 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.

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

Deferred tax assets and 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 reporting date.

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

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

Events after the Reporting Date

Post year-end events that provide additional information about the Bank's position at the reporting date (adjusting events) is reflected in the financial statements. Any post-year-end event that is not an adjusting event is disclosed in the notes to the financial statements when material.

Standards Issued but Not Yet Effective

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

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*.
- Amendments to PAS 1, *Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

Deferred effectivity

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

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with PFRS requires the Bank to make 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 they become reasonably determinable.

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

Judgments

In the process of applying the Bank'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:

a. *Fair value of financial instruments*

   Where the fair values of financial assets and financial liabilities recorded on the statement of financial position or disclosed in the notes cannot be derived from active markets, they are determined using discounted cash flow model, incorporating inputs such as current market rates of comparable instruments. The carrying values and corresponding fair values of financial instruments, as well as the manner in which fair values were determined, are discussed in more detail in Note 4.

b. *Classification of NCAHS*

   The Bank classifies NCAHS if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

   The criteria for NCAHS classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition.

c. *Contingencies*

   The Bank is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Bank's defense in these matters and is based upon an analysis of potential results. The Bank currently does not believe that these proceedings will have a material adverse effect on the financial statements. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (Note 25).

d. *Evaluation of business model in managing financial instruments*

   The Bank manages its financial assets based on business models that maintain an adequate level of financial assets to match its expected cash outflows, largely arising from customers' withdrawals and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for investment and trading activities consistent with its risk appetite.

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

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

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

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

In 2019, the Bank sold investment securities at amortized cost amounting to ₱5.29 billion to comply with regulatory limits. The sold investments included securities with carrying amount of ₱1.98 billion that are nearing their maturity dates and where the selling price approximated amortized cost. The disposals resulted in gains amounting to ₱117.95 million.

These disposals in the investment securities at amortized cost are consistent with the portfolios' business models with respect to the conditions and reasons for which the disposals were made as discussed above. Further, these disposals did not result in a change in business model and the remaining portfolio after the sale remains to be accounted for at amortized cost (see Note 7).

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

f. *Leases*
Bank as lessor
The Bank has entered into commercial property leases on its investment properties portfolio and over various items of furniture, fixtures and equipment. The Bank has determined, based on an evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

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

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

Estimates
The key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that have a significant risk of causing material adjustment to the carrying amounts in the statement of financial position within the next financial year are described below:

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

- whether a financial asset has had a significant increase in credit risk since initial recognition;
- whether default has taken place and what comprises a default;
- macro-economic factors that are relevant in measuring a financial asset's probability of default as well as the Bank's forecast of these macro-economic factors;
- probability weights applied over a range of possible outcomes;
- sufficiency and appropriateness of data used and relationships assumed in building the components of the Bank's expected credit loss models;
- measuring the exposure at default for unused commitments on which an expected credit loss should be recognized and the applicable loss rate

The related allowance for credit losses of financial assets are disclosed in Note 14.

b. Impairment of non-financial assets

Investment properties
The Bank assesses impairment on investment properties whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

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

The Bank recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the fair value less cost to sell for real properties. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU which the asset belongs.

The carrying values of the Bank's investment properties are disclosed in Note 11.

Branch licenses
The Bank conducts an annual review for any impairment in the value of branch licenses. Branch licenses are written down for impairment where the recoverable value is insufficient to support their carrying value (Note 12).

c. *Recognition of deferred income taxes*
Deferred tax assets are recognized for all unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The estimates of future taxable income indicate that certain temporary differences will be realized in the future. The recognized net deferred tax assets and unrecognized deferred tax assets are disclosed in Note 22.

d. *Net retirement asset (liability) and retirement expense*
The determination of the Bank's net retirement asset (liability) and annual retirement expense is dependent on the selection of certain assumptions used in calculating such amounts. These assumptions include, among others, discount rates and salary increase.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the reporting date. The salary projection rate was based on the historical trend of salary increase rate of the Company. Refer to Note 20 for the details on the assumptions used in calculating the defined benefit asset (liability).

The present value of the retirement obligation and fair value of plan assets are disclosed in Note 20.

e. *Incremental borrowing rate used for lease liabilities*
If the Bank cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate in measuring its lease liabilities. The incremental borrowing rate is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value in a similar economic environment. The Bank estimates the incremental borrowing rate using observable inputs (prevailing risk-free market rates) adjusted by the credit risk of the Bank (i.e., credit spread).

4. Fair Value Measurement

The methods and assumptions used by the Bank in estimating the fair values of its assets and liabilities are:

Cash and cash equivalents and financial assets recorded under 'Other assets' - The carrying amounts approximate their fair values in view of the relatively short-term maturities of these instruments.

Debt securities - Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity securities - For unquoted equity securities, remeasurement to their fair values is not material to the financial statements.

Loans and receivables and unquoted debt securities - Fair values are estimated using the discounted cash flow methodology, applying the Bank's current incremental lending rates for similar types of receivables or securities. The discount rates used in estimating the fair value of loans and receivables are the incremental lending rates ranging from 4.75% to 28.43% and from 6.43% to 28.43% in 2019 and 2018, respectively.

Deposit liabilities - Fair values of time deposits are estimated using the discounted cash flow methodology, using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. For demand and savings deposits, carrying amounts approximate fair values considering that these are currently due and demandable. The discount rates used in estimating the fair value of time deposits as of December 31, 2019 and 2018 range from 0.25% to 8.00% and from 0.50% to 7.50%, respectively.

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

NCAHS and investment properties - The fair values of the Bank's NCAHS and investment properties have been determined based on valuations made by accredited independent or in-house appraisers on the basis of recent sales of similar properties in the same areas and taking into account the economic conditions prevailing at the time the valuations were made.

As of December 31, 2019 and 2018, the classification under the fair value hierarchy of the Bank's assets and liabilities measured at fair value or with disclosure of fair values are presented below:

	December 31, 2019				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements					
Financial assets at FVOCI					
Government debt securities	**₱928,953,504**	**₱928,953,504**	**₱–**	**₱–**	**₱928,953,504**
Fair values of assets carried at amortized cost					
Investment securities at amortized cost					
Government debt securities	**₱2,424,761,302**	**₱2,414,908,071**	**₱–**	**₱–**	**₱2,414,908,071**
Private debt securities	**1,264,999,022**	**1,263,769,563**	**–**	**–**	**1,263,769,563**
Loans and receivables					
Loans and discounts					
Consumer lending	**41,732,871,126**	**–**	**–**	**46,657,441,926**	**46,657,441,926**
Corporate and commercial lending	**24,280,120,779**	**–**	**–**	**26,600,511,435**	**26,600,511,435**
Others	**9,815,048**	**–**	**–**	**11,594,584**	**11,594,584**
Sales contract receivable	**913,569,204**	**–**	**–**	**976,345,742**	**976,345,742**
	₱70,626,136,481	**₱3,678,677,634**	**₱–**	**₱74,245,893,687**	**₱77,924,571,321**
Nonrecurring fair value measurement					
NCAHS	**₱342,781,398**	**₱–**	**₱–**	**₱342,781,398**	**₱342,781,398**
Fair values of assets carried at cost					
Investment properties					
Land	**₱1,831,342,639**	**₱–**	**₱–**	**₱2,704,978,638**	**₱2,704,978,638**
Condominium properties, buildings and improvements	**772,457,096**	**–**	**–**	**1,377,551,849**	**1,377,551,849**
	₱2,603,799,735	**₱–**	**₱–**	**₱4,082,530,487**	**₱4,082,530,487**
Fair values of liabilities carried at amortized cost					
Deposit liabilities - Time	**₱56,467,993,102**	**₱–**	**₱–**	**₱57,228,131,001**	**₱57,228,131,001**

	December 31, 2018				
	Carrying Value	Level 1	Level 2	Level 3	Total
Recurring fair value measurements					
Financial assets at FVOCI					
Government debt securities	₱1,053,071,928	₱1,053,004,955	₱–	₱–	₱1,053,004,955
Fair values of assets carried at amortized cost					
Investment securities at amortized cost					
Government debt securities	₱7,193,439,895	₱6,975,887,319	₱–	₱–	₱6,975,887,319
Private debt securities	1,519,383,036	1,374,870,799	–	–	1,374,870,799
Loans and receivables					
Loans and discounts					
Consumer lending	34,432,783,942	–	–	38,472,520,026	38,472,520,026
Corporate and commercial lending	29,835,089,657	–	–	32,455,390,920	32,455,390,920
Others	11,716,709	–	–	12,850,022	12,850,022
Sales contract receivable	851,767,167	–	–	923,455,254	923,455,254
	₱73,844,180,406	₱8,350,758,118	₱–	₱71,864,216,222	₱80,214,974,340
Nonrecurring fair value measurement					
NCAHS	₱379,192,579	₱–	₱–	₱379,192,579	₱379,192,579
Fair values of assets carried at cost					
Investment properties					
Land	₱2,241,278,234	₱–	₱–	₱2,865,573,398	₱2,865,573,398
Condominium properties, buildings and improvements	955,813,151	–	–	1,329,810,375	1,329,810,375
	₱3,197,091,385	₱–	₱–	₱4,195,383,773	₱4,195,383,773
Fair values of liabilities carried at amortized cost					
Deposit liabilities - Time	₱55,767,866,280	₱–	₱–	₱55,786,226,503	₱55,786,226,503

As of December 31, 2019 and 2018, there were no transfers into and out of Level 3 fair value measurement.

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

Description of the valuation techniques used in the valuation of the Bank's NCAHS and investment properties are as follows:

Valuation Techniques	
Market Data Approach	A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.
Replacement Cost Approach	It is an estimate of the investment required to duplicate the property in its present condition. It is reached by estimating the value of the land and adding the depreciated cost of the improvement.

Significant unobservable inputs used in the valuation of the Bank's investment properties are as follows:

	Valuation Techniques	**Significant Unobservable Inputs**
Land	Market Data Approach	Price per square meter, size, location, shape, time, element and corner influence
Land and Building	Market Data Approach and Cost Approach	Reproduction cost new - the cost to create a virtual replica of the existing structure, employing the same design and similar building materials

5. **Financial Risk Management Objectives and Policies**

The Bank's activities are principally related to the profitable use of financial instruments. Risks are inherent in these activities but are managed by the Bank through a rigorous, comprehensive and continuous process of identification, measurement, monitoring and mitigation of these risks, partly through the effective use of risk and authority limits, process controls and monitoring, and independent controls. As reflected in its corporate actions and organizational improvements, the Bank has placed due importance to expanding and strengthening its risk management process and considers it as a vital component to the Bank's continuing profitability and financial stability.

Central to the Bank's risk management process is its adoption of a risk management program intended to avoid unnecessary risks, manage and mitigate unavoidable risks and maximize returns from taking acceptable risks necessary to sustain its business viability and good financial position in the market.

The key financial risks that the Bank faces are: credit risk, market risk (i.e., interest rate risk), and liquidity risk. The Bank's risk management objective is primarily focused on controlling and mitigating these risks. The gravity of the risks, the magnitude of the financial instruments involved, and the regulatory requirements are the primary considerations to the scope and extent of the risk management processes put in place for the Bank.

Risk Management Structure
The BOD of the Bank has the primary responsibility for the establishment of a risk management system and is ultimately accountable for all risks taken within the Bank. The BOD has established, among others, the following committees to directly handle the Bank's risk management framework, policies and implementation in their respective risk management areas: the Executive Committee (ExeCom), Audit Committee (AudCom), Credit Committee (CreCom), Corporate Governance Committee (CGC) and the Risk Management Committee (RMC).

All Board committees report regularly to the BOD on their activities as follows:

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank's RMC shall be responsible for the oversight and development of all risk management functions within the Bank. The RMC develops appropriate strategies through a written practical risk management plan for managing the major categories of risk events and minimizing the magnitude of expected losses, giving priority to the risk events with the largest expected losses. The Risk Management Unit assists the RMC with all of its responsibilities.

The Bank's AudCom, on the other hand, focuses on checking whether adequate process and operational controls are in place and functioning as designed, as well as monitoring compliance thereto by the business and support units. The role of the AudCom is very critical in the proper corporate governance and effective risk management because of its independence from the Bank's top and middle level management. The AudCom is comprised of independent directors who neither participate in the Bank's daily activities nor take decision-making responsibilities. The AudCom delegates its daily control and monitoring functions to the Internal Audit Department (IAD).

The IAD is likewise independent from the business and support units and reports exclusively to the AudCom. The IAD undertakes its control function through regular process, operational and financial audits which it conducts all throughout the year. The audit covers all processes and controls in the Head Office and the branches. The audit results and exceptions, including recommendations for their resolution or improvement, are discussed initially with the business units concerned before these are presented to the AudCom on a quarterly basis.

Risk Management Reporting
The RMC discusses risk management issues on a quarterly basis. The RMC discusses key risk indicators and specific risk management issues that would need resolution from top management. The key risk indicators were formulated on the basis of the financial risks faced by the Bank. The key risk indicators contain information from all business units that provide measurements on the level of the risks taken by the Bank with its transactions, products and financial structure. Among others, the report on key risk indicators includes information on the Bank's aggregate credit exposure, credit metric forecasts, market risk analysis, utilization of market and credit limits, liquidity ratios, overall loan loss provisioning and risk profile changes.

The CreCom reviews and resolves credit-related issues such as credit facility approval, credit and collection strategies on a particular account, and credit monitoring. Loan loss provisioning and credit limit utilization are also discussed in more detail in the CreCom. On a weekly basis, the CreCom discusses detailed reporting of industry, customer and geographic risks arising from the Bank's existing loan portfolio. A comprehensive risk report is submitted to the BOD every quarter for an overall assessment of the level of risks taken by the Bank.

Risk Mitigation
The Bank uses financial instruments to manage exposures resulting from changes in interest rates, foreign currencies, credit risks and exposures arising from forecast transactions. However, the nature and extent of use of these financial instruments to mitigate risks are limited to those allowed by the BSP for a thrift bank.

To further mitigate risk throughout its different business and supporting units, the Bank is in the continuous process of improving its existing risk management policies. These policies further serve as the framework and set the guidelines in the creation or revisions of operating policies and manuals for each business unit. In the process design and implementation, process controls are preferred over detection controls. Clear delineation of responsibilities and separation of incompatible duties among officers and staff as well as among business units are reiterated in these policies.

To the extent possible, reporting and accounting responsibilities are segregated from units directly involved in operations and front line activities (i.e., players must not be scorers). This is to improve the credibility and accuracy of management information. Any inconsistencies in the operating policies and manuals with the risk framework established by risk management policies are taken up and resolved in the RMC and ExeCom.

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

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

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

The Bank's AudCom is responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's AudCom is assisted in these functions by IAD. The IAD undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the AudCom.

Credit Risk
Credit Risk and Concentration of Assets and Liabilities and Off-Balance Sheet Items
Credit risk is the risk of financial loss due to one party to a financial product failing to discharge an obligation. The Bank faces potential credit risks every time it extends funds to borrowers, commits funds to counterparties, guarantees the paying performance of its clients, invests funds to issuers (i.e., investment securities issued by either sovereign or corporate entities) and through implied or actual contractual agreements (i.e., on or off-balance sheet exposures). The Bank manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual credit or transaction).

Collateral and other credit enhancements
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented with regard to the acceptability of types of collateral and valuation parameters.

The Bank has risk limits setting for purposes of monitoring and managing credit risk from individual counterparties and groups of counterparties. It also conducts periodic assessment of the creditworthiness of its counterparties. In addition, the Bank obtains collateral where appropriate, enters into master netting agreements and collateral arrangements with counterparties, and limits the duration of exposures. The Bank adopted an internal credit scoring system for the purpose of measuring credit risk for retail borrowers in a consistent manner, as accurately as possible, and thereafter uses the risk information for business and financial decision making.

The details of the composition of the loans and receivable and investment securities portfolios (net of unearned interest and discounts and allowance for impairment and credit losses) and the corresponding information on credit concentration as to industry are disclosed below (in thousands):

	2019						
	Loans and receivables	**%**	**Other financial assets***	**%**	**Off-balance sheet exposures**	**%**	**Total**
Consumer	**₱26,901,762**	**38.67**	**₱332,865**	**1.20**	**₱–**	**–**	**₱27,234,627**
Real estate, renting and business services	**23,815,716**	**34.24**	**294,732**	**1.07**	**–**	**–**	**24,110,448**
Government	**–**	**–**	**23,220,153**	**84.06**	**–**	**–**	**23,220,153**
Wholesale and retail trade	**4,153,074**	**5.97**	**51,389**	**0.19**	**451,552**	**99.96**	**4,656,015**

(Forward)

	2019						
	Loans and receivables	**%**	**Other financial assets***	**%**	**Off-balance sheet exposures**	**%**	**Total**
Financial intermediaries	**₱1,420,092**	**2.04**	**₱2,475,590**	**8.96**	**₱–**	**–**	**₱3,895,682**
Manufacturing	**2,678,502**	**3.85**	**33,140**	**0.12**	**–**	**–**	**2,711,642**
Transportation, storage and communication	**2,342,987**	**3.37**	**29,008**	**0.11**	**–**	**–**	**2,371,995**
Electricity, gas, steam and air-conditioning supply	**1,983,204**	**2.85**	**24,532**	**0.09**	**–**	**–**	**2,007,736**
Agriculture	**1,575,609**	**2.27**	**19,540**	**0.07**	**–**	**–**	**1,595,149**
Hotels and restaurant	**1,240,256**	**1.78**	**15,322**	**0.06**	**–**	**–**	**1,255,578**
Construction	**1,158,499**	**1.67**	**14,375**	**0.05**	**–**	**–**	**1,172,874**
Health and social work	**785,857**	**1.13**	**9,727**	**0.04**	**–**	**–**	**795,584**
Education	**661,320**	**0.95**	**8,177**	**0.03**	**–**	**–**	**669,497**
Other community, social and personal services	**542,422**	**0.78**	**6,714**	**0.02**	**–**	**–**	**549,136**
Others	**300,777**	**0.43**	**1,088,685**	**3.93**	**162**	**0.04**	**1,389,624**
Total	**69,560,077**	**100.00**	**27,623,949**	**100.00**	**451,714**	**100.00**	**97,635,740**
Allowance for impairment and credit losses	**(2,564,515)**		**(557,945)**		**–**		**(3,122,460)**
Unearned interest and discount	**(59,186)**		**–**		**–**		**(59,186)**
Net	**₱66,936,376**		**₱27,066,004**		**₱451,714**		**₱94,454,094**

* *Other financial assets include the following: due from BSP, due from other banks, SPURA, financial assets at FVOCI, investments securities at amortized cost and other financial assets.*

	2018						
	Loans and receivables	%	Other financial assets*	%	Off-balance sheet exposures	%	Total
Consumer	₱20,145,151	29.77	₱244,341	1.06	₱–	–	₱20,389,492
Real estate, renting and business services	24,446,653	36.13	1,699,869	7.38	–	–	26,146,522
Government	–	–	18,053,581	78.33	–	–	18,053,581
Wholesale and retail trade	6,048,506	8.94	73,362	0.32	628,102	93.29	6,749,970
Financial intermediaries	1,610,678	2.38	1,953,985	8.48	34,462	5.11	3,599,125
Manufacturing	3,201,156	4.73	38,823	0.17	9,237	1.37	3,249,216
Transportation, storage and communication	2,793,739	4.13	33,882	0.15	171	0.03	2,827,792
Electricity, gas, steam and air-conditioning supply	1,675,457	2.48	20,323	0.09	–	–	1,695,780
Agriculture	1,836,052	2.71	22,268	0.10	1,179	0.18	1,859,499
Hotels and restaurant	1,338,171	1.98	16,227	0.07	–	–	1,354,398
Construction	2,090,991	3.09	25,362	0.11	–	–	2,116,353
Health and social work	496,811	0.73	6,025	0.03	–	–	502,836
Education	855,637	1.26	128,375	0.56	–	–	984,012
Other community, social and personal services	599,795	0.89	7,272	0.03	–	–	607,067
Others	531,794	0.78	724,460	3.14	151	0.02	1,256,405
Total	67,670,591	100.00	23,048,155	100.00	673,302	100.00	91,392,048
Allowance for impairment and credit losses	(2,492,075)		(567,825)		–	–	(3,059,900)
Unearned interest and discount	(47,159)		–		–	–	(47,159)
Net	₱65,131,357		₱22,480,330		₱673,302		₱88,284,989

* *Other financial assets include the following: due from BSP, due from other banks, SPURA, financial assets at FVOCI, investments securities at amortized cost and other financial assets.*

Real estate, renting and business services include exposure to consumer housing loans amounting to ₱6.36 billion and ₱5.44 billion as of December 31, 2019 and 2018, respectively, which are mostly covered with retail loan guaranty from Home Guaranty Corporation (HGC). HGC guaranteed loans are considered as non-risk item for regulatory reporting purposes.

Maximum exposure to credit risk
The tables below provide the analysis of the maximum exposure to credit risk of the Bank's financial instruments.

	December 31, 2019		
	Gross maximum exposure	**Net exposure**	**Financial effect of collateral or credit enhancement**
Credit risk exposure relating to on-balance sheet items are as follows:			
SPURA	**₱7,008,850,610**	**₱–**	**₱7,008,850,610**
Loans and receivables			
Loans and discounts			
Consumer lending	**41,732,871,126**	**20,628,988,502**	**21,103,882,624**
Corporate and commercial lending	**24,280,120,779**	**9,130,214,957**	**15,149,905,822**
Others	**9,815,048**	**9,815,048**	**–**
Sales contract receivable	**913,569,204**	**–**	**913,569,204**
	₱73,945,226,767	**₱29,769,018,507**	**₱44,176,208,260**

	December 31, 2018		
	Gross maximum exposure	Net exposure	Financial effect of collateral or credit enhancement
Credit risk exposure relating to on-balance sheet items are as follows:			
SPURA	₱3,000,000,000	₱–	₱3,000,000,000
Loans and receivables			
Loans and discounts			
Consumer lending	34,432,783,942	16,332,914,803	18,099,869,139
Corporate and commercial lending	29,835,089,657	9,715,385,878	20,119,703,779
Others	11,716,709	11,716,709	–
Sales contract receivable	851,767,167	–	851,767,167
	₱68,131,357,475	₱26,060,017,390	₱42,071,340,085

The maximum exposure to credit risks for the other financial assets is limited to the carrying value as of December 31, 2019 and 2018. The fair values of financial assets at FVOCI represent the credit risk exposure as of the reporting date but not the maximum risk exposure that could arise in the future as a result of changes in fair value of the said instruments.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions - cash or securities
- For consumer lending - real estate and chattel over vehicle
- For corporate and commercial lending - real estate, chattel over properties, assignment of deposits, shares of stocks, bonds, and guarantees

Foreclosed collateral
The Bank's policy is to determine whether a foreclosed collateral is best used for its internal operations or should be sold. Foreclosed collateral determined to be useful for the internal operations are transferred to their relevant asset category at lower of their repossessed value or the carrying value of the original secured asset. Foreclosed collaterals that are determined better to be sold are immediately transferred to assets held for sale at fair value or fair value less cost to sell for non-financial assets at the repossession date in line with the Bank's policy. Foreclosed collaterals that pertain to real estate properties are accounted for as investment properties.

Collateral valuation
The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The Bank collateral comes in various forms such as cash, securities, letter of credits/guarantees, real estate, receivables and other non-financial assets and credit enhancements. The fair value of collateral is generally assessed, at a minimum, at inception. To the extent possible, the Bank use active market data for valuing financial assets held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate and chattel, is valued based on data provided by third parties such as independent appraisers.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment and credit losses.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In most cases, the Bank does not occupy repossessed properties for business use. Collaterals (i.e., NCAHS and ROPA) foreclosed in 2019 and 2018 that are still held by the Bank as of December 31, 2019 and 2018 amounted to ₱531.98 million and ₱703.46 million, respectively. These collaterals consist of real properties and vehicles.

Credit quality per class of financial assets
The credit quality of financial assets is managed by the Bank using the BSP guidelines in identifying and monitoring problematic loans and other risk assets particularly Appendix 15 of the Manual of Regulations for Banks.

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

The rating categories are further described below.

<u>Loans and receivable</u>

High Grade
This includes unclassified loans which may include technical past-due accounts, which under BSP regulations are not considered as outright past-due.

Standard Grade
This is comprised of loans that have loan classification of miscellaneous exception and loans especially mentioned. Standard grade may also include matured loans subject to renewal.

Substandard Grade
These are accounts that are watch listed based on internal credit assessment and accounts that have the tendency to turn past due or non-performing.

Loans with classification of doubtful and loss are included under past-due or individually impaired.

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

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

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

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

The following tables illustrate the Bank's credit exposures.

Loans and receivables

	2019			
	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	
Consumer lending	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
High grade	**₱40,252,843,096**	**₱–**	**₱–**	**₱40,252,843,096**
Standard grade	**29,682,060**	**–**	**–**	**29,682,060**
Substandard grade	**4,994,346**	**977,016,783**	**–**	**982,011,129**
Past due and impaired	**–**	**–**	**1,206,669,597**	**1,206,669,597**
Gross carrying amount	**₱40,287,519,502**	**₱977,016,783**	**₱1,206,669,597**	**₱42,471,205,882**

	2019			
	ECL Staging			
Corporate and commercial lending	**Stage 1**	**Stage 2**	**Stage 3**	
	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
High grade	**₱21,179,535,450**	**₱–**	**₱–**	**₱21,179,535,450**
Standard grade	**743,390,362**	**–**	**–**	**743,390,362**
Substandard grade	**14,992,370**	**1,250,231,784**	**–**	**1,265,224,154**
Past due and impaired	**–**	**–**	**2,785,490,246**	**2,785,490,246**
Gross carrying amount	**₱21,937,918,182**	**₱1,250,231,784**	**₱2,785,490,246**	**₱25,973,640,212**

	2019			
	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	
Others	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
High grade	**₱7,938,525**	**₱–**	**₱–**	**₱7,938,525**
Substandard grade	**–**	**5,794**	**–**	**5,794**
Past due and impaired	**–**	**–**	**4,676,065**	**4,676,065**
Gross carrying amount	**₱7,938,525**	**₱5,794**	**₱4,676,065**	**₱12,620,384**

	2019			
	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	
Unquoted debt securities	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
Past due and impaired	**₱–**	**₱–**	**₱151,836,309**	**₱151,836,309**

	2019			
	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	
Sales contract receivable	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
High grade	**₱733,369,908**	**₱–**	**₱–**	**₱733,369,908**
Substandard grade	**–**	**122,078,548**	**–**	**122,078,548**
Past due and impaired	**–**	**–**	**95,325,751**	**95,325,751**
Gross carrying amount	**₱733,369,908**	**₱122,078,548**	**₱95,325,751**	**₱950,774,207**

Other financial assets

	2019			
	ECL Staging			
Accounts receivable and	**Stage 1**	**Stage 2**	**Stage 3**	
accrued interest receivable	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
High grade	**₱1,213,862,787**	**₱–**	**₱–**	**₱1,213,862,787**
Standard grade	**15,273,421**	**–**	**–**	**15,273,421**
Substandard grade	**394,873**	**89,500,782**	**–**	**89,895,655**
Past due and impaired	**–**	**–**	**626,734,695**	**626,734,695**
Gross carrying amount	**₱1,229,531,081**	**₱89,500,782**	**₱626,734,695**	**₱1,945,766,558**

Loans and receivables

	2018			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Consumer lending	12-month ECL	Lifetime ECL	Lifetime ECL	Total
High grade	₱33,577,866,070	₱–	₱–	₱33,577,866,070
Standard grade	142,321,826	–	–	142,321,826
Substandard grade	3,058,947	315,392,099	–	318,451,046
Past due and impaired	–	–	1,104,932,295	1,104,932,295
Gross carrying amount	₱33,723,246,843	₱315,392,099	₱1,104,932,295	₱35,143,571,237

	2018			
	ECL Staging			
Corporate and commercial	Stage 1	Stage 2	Stage 3	
lending	12-month ECL	Lifetime ECL	Lifetime ECL	Total
High grade	₱27,756,341,121	₱–	₱–	₱27,756,341,121
Standard grade	–	–	–	–
Substandard grade	59,538,157	962,623,337	–	1,022,161,494
Past due and impaired	–	–	2,659,001,473	2,659,001,473
Gross carrying amount	₱27,815,879,278	₱962,623,337	₱2,659,001,473	₱31,437,504,088

	2018			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Others	12-month ECL	Lifetime ECL	Lifetime ECL	Total
High grade	₱12,221,107	₱–	₱–	₱12,221,107
Substandard grade	–	82,048	–	82,048
Past due and impaired	–	–	4,659,984	4,659,984
Gross carrying amount	₱12,221,107	₱82,048	₱4,659,984	₱16,963,139

	2018			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Unquoted debt securities	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Past due and impaired	₱–	₱–	₱151,836,309	₱151,836,309

Sales contract receivable	2018 ECL Staging Stage 1 12-month ECL	 Stage 2 Lifetime ECL	 Stage 3 Lifetime ECL	 Total
High grade	₱643,741,133	₱–	₱–	₱643,741,133
Substandard grade	–	165,321,214	–	165,321,214
Past due and impaired	–	–	111,654,373	111,654,373
Gross carrying amount	₱643,741,133	₱165,321,214	₱111,654,373	₱920,716,720

Other financial assets

Accounts receivable and accrued interest receivable	2018 ECL Staging Stage 1 12-month ECL	 Stage 2 Lifetime ECL	 Stage 3 Lifetime ECL	 Total
High grade	₱770,815,442	₱–	₱–	₱770,815,442
Standard grade	1,788,624	–	–	1,788,624
Substandard grade	786,687	39,897,268	–	40,683,955
Past due and impaired	–	–	744,717,882	744,717,882
Gross carrying amount	₱773,390,753	₱39,897,268	₱744,717,882	₱1,558,005,903

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

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

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

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

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

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

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

BBB and below:

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

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

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

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

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

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

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

Due from other banks and government securities

The external risk rating of the Bank’s depository accounts with counterparty banks, trading and investment securities, is grouped as follows (aligned with the Philippine Ratings System):

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

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

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

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

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

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

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

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

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

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

The succeeding tables show the credit exposure of the Bank related to these financial assets.

	2019			
	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	
Financial assets at FVOCI - debt	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
High grade	**₱928,953,504**	**₱–**	**₱–**	**₱928,953,504**

	2019			
	ECL Staging			
Investment securities at	**Stage 1**	**Stage 2**	**Stage 3**	
amortized cost	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
High grade	**₱3,695,053,242**	**₱–**	**₱–**	**₱3,695,053,242**

	2018			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Financial assets at FVOCI - debt	12-month ECL	Lifetime ECL	Lifetime ECL	Total
High grade	₱1,053,071,928	₱–	₱–	₱1,053,071,928

	2018			
	ECL Staging			
Investment securities at	Stage 1	Stage 2	Stage 3	
amortized cost	12-month ECL	Lifetime ECL	Lifetime ECL	Total
High grade	₱8,721,031,740	₱–	₱–	₱8,721,031,740

	2019				
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**	**Total**
Due from BSP	**₱11,587,295,196**	**₱–**	**₱–**	**₱–**	**₱11,587,295,196**
Due from other banks	**2,458,029,762**	**–**	**–**	**–**	**2,458,029,762**
SPURA	**7,008,850,610**	**–**	**–**	**–**	**7,008,850,610**
	₱21,054,175,568	**₱–**	**₱–**	**₱–**	**₱21,054,175,568**

	2018				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Due from BSP	₱6,800,827,709	₱–	₱–	₱–	₱6,800,827,709
Due from other banks	1,934,450,369	–	–	–	1,934,450,369
SPURA	3,000,000,000	–	–	–	3,000,000,000
	₱11,735,278,078	₱–	₱–	₱–	₱11,735,278,078

Impairment assessment

The Bank measures a credit loss allowance on a financial asset based on whether it has had a significant increase in credit risk since initial recognition. Accordingly, the Bank categorizes its financial assets into three categories:

- stage 1 - financial asset that has not had a significant increase in credit risk;
- stage 2 - financial asset that has had a significant increase in credit risk; and
- stage 3 - financial asset in default.

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

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

Default and Cure

As a part of a qualitative assessment of whether a customer is in default, the Bank considers a variety of instances that may indicate unlikeliness to pay. The Bank's definition of default is aligned with the non-performing loan criteria as prescribed in BSP Circular No. 941. Defaults refer to loans, investments, receivables, or any financial asset, even without missed contractual payments, that satisfy any of the following conditions (1) impaired under existing accounting standards, (2) classified as doubtful or loss, (3) in litigation, (4) and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any.

All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are (5) unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement. (6) Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due. (7) Restructured loans shall be considered nonperforming. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Defaults are characterized by financial assets that have objective evidence of impairment at the reporting date and as such classified under Stage 3 ECL treatment.

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

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

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

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

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

Probability of default (PD)
The Bank uses forward-looking PD estimates that are unbiased and probability-weighted using a range of possible outcomes. The PD for each individual instrument is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Bank segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio. The Bank's PDs are mainly categorized into the following: (a) corporate and commercial loans; (b) small and medium-size enterprise financing; (c) auto and housing loans; and (d) personal and consumption loans.

Loss given default (LGD)
The Bank's LGD model considers certain factors such as the historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate. Generally, the model utilizes the Bank's existing loan exposure rating system which is designed to capture these factors as well as the characteristics of collaterals related to an exposure. In cases wherein this does not apply, the Bank looks into the standard characteristics of collaterals (e.g., auto and housing loans) in order to estimate an LGD factor.

Economic Overlays
The Bank's incorporates economic overlays into the measurement of ECL to add a forward-looking risk measure parallel to the expected future macroeconomic atmosphere. A broad range of economic indicators were considered for the economic inputs. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements.

To address this, quantitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. The Bank's loans and receivables consist of different portfolios, such as corporate and commercial loans and consumer loans, as well as other receivables (e.g., sales contract receivables). In compliance with PFRS 9, the Bank developed ECL parameters and methodologies for each portfolio, using historical data as well as forward-looking inputs and assumptions.

Credit Review
In accordance with BSP Circular No. 855, credit reviews are conducted on loan accounts to evaluate whether loans are granted in accordance with the Bank's policies, to assess loan quality and appropriateness of classification and adequacy of loan loss provisioning. Results of credit reviews are promptly reported to management to apprise them of any significant findings for proper corrective actions.

Market Risk
Market risk is the risk of loss that may result from changes in the price of a financial product. The value of a financial product may change as a result of changes in interest rates, foreign exchange rates, equity prices and other market changes. The Bank's market risk originates from its holdings of foreign exchange instruments, debt securities, and loans and receivables.

a. *Interest rate risk*
   The Bank's interest rate risk originates from its holdings of interest rate sensitive assets and interest rate sensitive liabilities. The Bank follows prudent policies in managing its exposures to interest rate fluctuations, and constantly monitors its assets and liabilities.

   The table below presents the interest rate sensitive loans' composition as to maturity as of December 31, 2019 and 2018:

	2019	2018
Long-term retail loans with monthly amortization	**49.97%**	52.68%
Commercial loans with monthly or quarterly amortization	**32.11%**	32.71%
Commercial loans payable at maturity (mostly maturing for less than 6 months)	**17.92%**	14.61%
	100.00%	100.00%

The table below represents the percentage of interest bearing demand, savings and time deposit accounts over total deposit liabilities for the year ended December 31, 2019 and 2018:

	2019	2018
Demand	**19.59%**	18.96%
Savings	**17.10%**	15.13%
Time	**63.31%**	65.92%
	100.00%	100.00%

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

The Bank is likewise exposed to fair value interest rate risk due to its holdings of fixed rate government bonds as part of its financial assets at FVOCI, FVPL and AFS portfolio. Market values of these investments are sensitive to fluctuations in interest rates.

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

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

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

The following table sets forth the repricing gap position of the Bank as of December 31, 2019 and 2018 (in millions):

	December 31, 2019					
	Up to 1 Month	**>1 to 3 Months**	**>3 to 6 Months**	**>6 to 12 Months**	**>12 Months**	**Total**
Financial Assets						
Loans and receivables	**₱5,910**	**₱7,598**	**₱8,520**	**₱13,883**	**₱26,792**	**₱62,703**
Investment securities	**–**	**–**	**89**	**531**	**4,024**	**4,644**
Total financial assets	**5,910**	**7,598**	**8,609**	**14,414**	**30,816**	**67,347**
Financial Liabilities						
Deposit liabilities	**25,881**	**18,617**	**1,421**	**725**	**42,524**	**89,168**
Repricing gap	**(₱19,971)**	**(₱11,019)**	**₱7,188**	**₱13,689**	**(₱11,708)**	**(₱21,821)**

	December 31, 2018					
	Up to 1 Month	>1 to 3 Months	>3 to 6 Months	>6 to 12 Months	>12 Months	Total
Financial Assets						
Loans and receivables	₱8,881	₱6,758	₱6,899	₱9,098	₱33,428	₱65,064
Investment securities	105	1	930	2,160	6,607	9,803
Total financial assets	8,986	6,759	7,829	11,258	40,035	74,867
Financial Liabilities						
Deposit liabilities	29,370	16,499	1,648	741	36,358	84,616
Repricing gap	(₱20,384)	(₱9,740)	₱6,181	₱10,517	₱3,677	(₱9,749)

The Bank also monitors its exposure to fluctuations in interest rates by using scenario analysis to estimate the impact of interest rate movements on its interest income. This is done by modeling the impact to the Bank's interest income and interest expenses of different parallel changes in the interest rate curve, assuming the parallel change only occurs once and the interest rate curve after the parallel change does not change again for the next twelve months.

The following table sets forth the estimated change in the Bank's annualized net interest income due to a parallel change in the interest rate curve as of December 31, 2019 and 2018 (amounts in thousands):

	December 31, 2019			
	Change in interest rates (in basis points)			
	100bp rise	**50bp rise**	**50bp fall**	**100bp fall**
Change in annualized net interest income	**(₱39,155)**	**(₱19,578)**	**₱19,578**	**₱39,155**
As a percentage of the Bank's net interest income	**(1.21%)**	**(0.60%)**	**0.60%**	**1.21%**

	December 31, 2018			
	Change in interest rates (in basis points)			
	100bp rise	50bp rise	50bp fall	100bp fall
Change in annualized net interest income	(₱220,550)	(₱110,275)	₱110,275	₱220,550
As a percentage of the Bank's net interest income	(6.76%)	(3.38%)	3.38%	6.76%

The table below demonstrates the sensitivity, to a reasonably possible change in interest rates with all other variables held constant, of the Bank's equity through the impact on unrealized gain/loss on financial assets at FVOCI in fixed rate debt securities (amounts in thousands).

	December 31, 2019			
	Change in interest rates (in basis points)			
	25bp rise	**10bp rise**	**10bp fall**	**25bp fall**
Change in equity	**(₱10,949)**	**(₱5,057)**	**₱2,904**	**₱8,955**

	December 31, 2018			
	Change in interest rates (in basis points)			
	25bp rise	10bp rise	10bp fall	25bp fall
Change in equity	(₱11,081)	(₱4,458)	₱4,493	₱11,299

b. *Foreign currency risk*
The Bank's foreign exchange risk originates from its holdings of foreign currency-denominated assets and liabilities (foreign exchange assets and liabilities). Foreign currency risk is the risk to earnings or capital arising from changes in the foreign exchange rates.

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

The monetary assets and liabilities carried in the RBU and FCDU books are all denominated in their respective functional currencies, except for small non-recurring other monetary items. Thus, risk is minimal.

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

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

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow report, as well as an analysis of available liquid assets. Furthermore, monthly internal liquidity ratio equivalent to the ratio of volatile deposits has been set to determine sufficiency of liquid assets over deposit liabilities.

Liquidity is managed by the Bank on a daily basis, while scenario stress tests are conducted monthly. The tables below show the maturity profile of the Bank's financial assets and financial liabilities, based on contractual undiscounted cash flows:

	December 31, 2019			
	On demand	**Within 1 year**	**Over 1 year**	**Total**
Financial Assets				
Cash and cash equivalents				
Cash and other cash items	**₱1,618,723,770**	**₱–**	**₱–**	**₱1,618,723,770**
Due from BSP	**11,587,295,196**	–	–	**11,587,295,196**
Due from other banks	**2,458,029,762**	–	–	**2,458,029,762**
SPURA	–	**7,012,588,664**	–	**7,012,588,664**
Financial assets at FVOCI	–	**211,454,683**	**781,315,123**	**992,769,806**
Investment securities at amortized cost	–	**809,597,813**	**3,688,024,591**	**4,497,622,404**
Loans and receivables	–	**22,368,179,854**	**75,502,144,714**	**97,870,324,568**
Other assets				
Accounts receivable	–	**1,085,581,244**	–	**1,085,581,244**
Accrued interest receivable	–	**860,783,128**	–	**860,783,128**
Returned checks and other cash items	**24,957,774**	–	–	**24,957,774**
Total financial assets	**₱15,689,006,502**	**₱32,348,185,386**	**₱79,971,484,428**	**₱128,008,676,316**

(Forward)

	December 31, 2019			
	On demand	**Within 1 year**	**Over 1 year**	**Total**
Financial Liabilities				
Deposit liabilities				
Demand	**₱17,477,968,724**	**₱–**	**₱–**	**₱17,477,968,724**
Savings	**15,254,976,507**	**–**	**–**	**15,254,976,507**
Time	**–**	**48,790,394,873**	**10,790,901,537**	**59,581,296,410**
Manager's checks	**462,742,405**	**–**	**–**	**462,742,405**
Accrued interest and other expenses	**–**	**394,922,923**	**–**	**394,922,923**
Other liabilities				
Accounts payable	**–**	**962,017,646**	**–**	**962,017,646**
Other credits - dormant	**–**	**–**	**106,978,835**	**106,978,835**
Security deposit	**–**	**–**	**5,754,431**	**5,754,431**
Bills purchased	**–**	**747,923**	**–**	**747,923**
Other payable	**–**	**6,992,482**	**–**	**6,992,482**
Total financial liabilities	**₱33,195,687,636**	**₱50,155,075,847**	**₱10,903,634,803**	**₱94,254,398,286**

	December 31, 2018			
	On demand	Within 1 year	Over 1 year	Total
Financial Assets				
Cash and cash equivalents				
Cash and other cash items	₱1,815,975,245	₱–	₱–	₱1,815,975,245
Due from BSP	6,800,827,709	–	–	6,800,827,709
Due from other banks	1,713,256,002	236,108,791	–	1,949,364,793
SPURA	–	3,001,979,167	–	3,001,979,167
Financial assets at FVOCI	–	195,341,090	1,080,161,835	1,275,502,925
Investment securities at amortized cost	–	3,515,965,067	6,761,274,377	10,277,239,444
Loans and receivables	–	36,601,023,742	56,183,457,675	92,784,481,417
Other assets				
Accounts receivable	–	737,214,619	–	737,214,619
Accrued interest receivable	–	820,791,284	–	820,791,284
Returned checks and other cash items	11,914,478	–	–	11,914,478
Total financial assets	₱10,341,973,434	₱45,108,423,760	₱64,024,893,887	₱119,475,291,081
Financial Liabilities				
Deposit liabilities				
Demand	₱16,036,991,323	₱–	₱–	₱16,036,991,323
Savings	12,796,615,183	–	–	12,796,615,183
Time	–	51,261,339,329	7,752,380,727	59,013,720,056
Manager's checks	484,179,921	–	–	484,179,921
Accrued interest and other expenses	–	418,850,987	–	418,850,987
Other liabilities				
Accounts payable	–	836,030,557	–	836,030,557
Other credits - dormant	–	–	95,167,204	95,167,204
Security deposit	–	–	3,885,646	3,885,646
Bills purchased	–	1,297,783	–	1,297,783
Other payable	–	6,224,905	–	6,224,905
Total financial liabilities	₱29,317,786,427	₱52,523,743,561	₱7,851,433,577	₱89,692,963,565

The Bank started monitoring and reporting to the BSP the Liquidity Coverage Ratio and the Net Stable Funding Ratio in 2018. Liquidity is managed by the Bank on a daily basis, while scenario stress tests and sensitivity analysis are conducted periodically.

6. Cash and Cash Equivalents

	2019	2018
Cash and other cash items	**₱1,618,723,770**	₱1,815,975,245
Due from BSP (Note 15)	**11,587,295,196**	6,800,827,709
Due from other banks (Notes 24 and 28)	**2,458,029,762**	1,934,450,369
SPURA (Note 27)	**7,008,850,610**	3,000,000,000
	₱22,672,899,338	₱13,551,253,323

Due from BSP
Due from BSP represents the Bank's placements in the term deposit facilities (TDF) of the BSP that have original maturity of one (1) to seven (7) days and the demand deposits maintained by the Bank in compliance with the BSP's reserve requirement (Note 15).

As of December 31, 2019 and 2018, the Bank's demand deposits with the BSP amounted to ₱3.99 billion and ₱6.80 billion, respectively. TDF deposit accounts earn annual interest rates ranging from 4.20% to 5.20% in 2019, from 2.50% to 4.25% in 2018 and 2.50% in 2017.

Due from other banks
Due from other banks represent savings and demand deposits. USD-denominated deposits amounted to USD20.36 million (₱1,030.84 million) and USD3.95 million (₱207.68 million) as of December 31, 2019 and 2018, respectively.

Peso denominated deposits earn interest at annual rates ranging from 0.13% to 1.75% in 2019 and from 0.10% to 1.25% in 2018 and 2017. USD-denominated deposits earn interest at an annual rate of 0.25% in 2019 and 2018 and from 0.25% to 1.63% in 2017.

SPURA
Deposits in reverse repurchase facility, classified as SPURA, earn interest at annual rates ranging from 4.00% to 4.75% in 2019, from 3.00% to 4.75% in 2018 and 3.00% in 2017 with tenor of five (5) days.

7. Investment Securities

Financial Assets at FVOCI
This account consists of:

	2019	2018
Quoted government debt securities	**₱928,953,504**	₱1,053,071,928
Unquoted securities	**19,379,381**	28,792,519
	₱948,332,885	₱1,081,864,447

Unquoted equity securities
This account comprises of shares of stocks of various unlisted private corporations. The Bank has designated these equity securities as at FVOCI because they will not be sold in the foreseeable future. The carrying amount of these investments is presented net of unrealized market valuation loss of ₱41.64 million and ₱47.25 million as of December 31, 2019 and 2018, respectively.

Net unrealized losses
Financial assets at FVOCI include fair value losses of ₱12.56 million and ₱85.31 million as of December 31, 2019 and 2018, respectively. The fair value gains (losses) are recognized under OCI. Impairment loss on debt financial assets at FVOCI amounted to ₱0.97 million and ₱0.90 million in 2019 and 2018, respectively.

Effective interest rates for peso-denominated financial assets at FVOCI range from 2.73% to 4.25% in 2019 and 2018 and from 2.73% to 4.50% in 2017. Effective interest rates for foreign currency-denominated financial assets at FVOCI range from 2.81% to 7.02% in 2019 and from 2.20% to 7.02% in 2018 and 2017.

Investment Securities at Amortized Cost
This account consists of:

	2019	2018
Quoted		
Government debt securities (Note 24)	**₱2,427,303,242**	₱7,199,681,740
Private debt securities	**1,267,750,000**	1,521,350,000
	3,695,053,242	8,721,031,740
Allowance for credit losses (Note 14)	**(5,292,918)**	(8,208,809)
	₱3,689,760,324	₱8,712,822,931

Peso-denominated government securities and private bonds carry a yield-to-maturity ranging from 3.25% to 6.71% in 2019, from 3.19% to 6.88% in 2018 and from 2.40% to 4.62% in 2017, with maturities ranging from 1 to 12 years in 2019 and from 1 to 20 years in 2018 and 2017.

USD-denominated government securities and private bonds carry a yield-to-maturity ranging from 2.16% to 3.01% in 2019, from 2.80% to 3.88% in 2018 and from 3.01% to 4.62% in 2017, with maturities ranging from 4 to 15 years in 2019, from 11 to 25 years in 2018 and from 3 to 20 years in 2017.

Gain on Disposal of Investment Securities at Amortized Cost
The Bank sold the following investment securities at amortized cost in 2019 for ₱5,410.27 million to comply with regulatory limits:

	Carrying amount	Gain on sale
Quoted		
Government debt securities	₱5,034,477,659	₱113,700,078
Private debt securities	257,847,935	4,247,935
	₱5,292,325,594	₱117,948,013

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

Interest Income on Investment Securities
Interest income on investment securities follows:

	2019	2018	2017
Investment securities at amortized cost	**₱372,160,598**	₱248,255,449	₱–
Financial assets at FVOCI	**31,157,147**	33,839,212	–
HTM financial assets	**–**	–	147,744,287
AFS financial assets	**–**	–	102,951,714
Financial assets at FVPL	**–**	–	12,112,361
	₱403,317,745	₱282,094,661	₱262,808,362

Trading and Securities Gains (Losses) - Net
Details of trading and securities gains (losses) - net are as follows:

	2019	2018	2017
Net realized gain (loss) on sale of:			
Financial assets at FVOCI	**₱–**	(₱866,221)	₱–
Financial assets at FVPL	**–**	–	7,163,595
AFS financial assets	**–**	–	63,355,179
Net unrealized loss on changes in fair value of financial assets at FVPL	**–**	–	(1,646,852)
	₱–	(₱866,221)	₱68,871,922

8. **Loans and Receivables**

This account consists of:

	2019	2018
Loans and discounts		
Consumer lending	**₱42,471,205,882**	₱35,143,571,237
Corporate and commercial lending	**25,973,640,212**	31,437,504,088
Others	**12,620,384**	16,963,138
	68,457,466,478	66,598,038,463
Unearned interest and discounts	**(59,186,296)**	(47,159,148)
	68,398,280,182	66,550,879,315
Unquoted debt securities	**151,836,309**	151,836,309
Sales contract receivable	**950,774,207**	920,716,720
	69,500,890,698	67,623,432,344
Allowance for credit losses (Note 14)	**(2,564,514,541)**	(2,492,074,869)
	₱66,936,376,157	₱65,131,357,475

As of December 31, 2019 and 2018, 49.50% and 38.13% of the total loans and receivables, respectively, are subject to periodic interest repricing. In 2019, 2018 and 2017, the remaining loans and receivables bear annual fixed interest rates ranging from 2.25% to 39.43%, from 2.50% to 39.43% and from 2.00% to 39.43%, respectively.

Unquoted debt securities
Included in unquoted debt securities are notes issued by First Sovereign Asset Management Inc. (FSAMI) as part of the payment it made to the Bank in exchange for its selected investment properties, non-performing loans, investment securities and other assets as identified in the Omnibus Agreement. As of December 31, 2019 and 2018, these securities amounting to ₱151.84 million are fully provided with allowance for credit losses.

Interest Income on Loans and Receivables
Interest income on loans and receivables consist of interest income on:

	2019	2018	2017
Loans and discounts			
Consumer lending	**₱3,171,404,614**	₱2,561,785,861	₱2,237,979,198
Corporate and commercial lending	**2,068,628,429**	2,103,068,999	1,945,444,015
Others	**490,806**	803,012	2,011,277
Unquoted debt securities	–	724,297	6,076,951
Sales contract receivable	**57,427,372**	57,480,670	78,011,889
	₱5,297,951,221	₱4,723,862,839	₱4,269,523,330

9. Non-current Assets Held for Sale

Non-current assets held for sale consist of vehicles foreclosed in settlement of loans receivable which are expected to be sold within one year from the reporting date.

	2019	2018
Balance at beginning of year	**₱379,192,579**	₱212,031,191
Additions	**574,794,541**	565,676,547
Disposals	**(611,205,722)**	(398,515,159)
Balance at end of year	**₱342,781,398**	₱379,192,579

Gain (loss) on Asset Exchange
Gain (loss) on foreclosure of NCAHS amounted to (₱74.65 million), ₱9.73 million and (₱45.21 million) in 2019, 2018 and 2017, respectively.

The Bank realized gain (loss) on sale of NCAHS amounting to (₱97.01 million), ₱16.17 million and (₱85.18 million) in 2019, 2018 and 2017, respectively.

10. **Property and Equipment**

The composition of and movements in this account follow:

	December 31, 2019					
	Land	**Condominium Properties, Buildings and Improvements**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Right-of-use Assets**	**Total**
Cost						
Balance at beginning of period, as previously reported	**₱392,716,334**	**₱874,623,747**	**₱1,225,815,965**	**₱471,279,747**	**₱–**	**₱2,964,435,793**
Effect of PFRS 16 (Note 2)	**–**	**–**	**–**	**–**	**714,097,822**	**714,097,822**
Balance at beginning of the period, as restated	**392,716,334**	**874,623,747**	**1,225,815,965**	**471,279,747**	**714,097,822**	**3,678,533,615**
Additions	**–**	**44,304,896**	**87,135,586**	**28,641,090**	**61,761,756**	**221,843,328**
Disposals	**–**	**–**	**(51,548,572)**	**–**	**–**	**(51,548,572)**
Balance at end of year	**392,716,334**	**918,928,643**	**1,261,402,979**	**499,920,837**	**775,859,578**	**3,848,828,371**
Accumulated Depreciation						
Balance at beginning of year	**–**	**572,586,294**	**937,350,959**	**226,197,436**	**–**	**1,736,134,689**
Depreciation and amortization	**–**	**44,179,261**	**118,094,451**	**66,737,300**	**166,305,682**	**395,316,694**
Disposals	**–**	**–**	**(46,156,543)**	**–**	**–**	**(46,156,543)**
Balance at end of year	**–**	**616,765,555**	**1,009,288,867**	**292,934,736**	**166,305,682**	**2,085,294,840**
Net Book Value at End of Year	**₱392,716,334**	**₱302,163,088**	**₱252,114,112**	**₱206,986,101**	**₱609,553,896**	**₱1,763,533,531**

	December 31, 2018				
	Land	Condominium Properties, Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
Balance at beginning of year	₱390,937,334	₱871,847,116	₱1,163,373,363	₱378,879,099	₱2,805,036,912
Additions	1,779,000	2,776,631	124,544,933	92,400,648	221,501,212
Disposals	–	–	(62,102,331)	–	(62,102,331)
Balance at end of year	392,716,334	874,623,747	1,225,815,965	471,279,747	2,964,435,793
Accumulated Depreciation					
Balance at beginning of year	–	529,760,229	863,137,433	163,388,184	1,556,285,846
Depreciation and amortization	–	42,826,065	128,638,750	62,809,252	234,274,067
Disposals	–	–	(54,425,224)	–	(54,425,224)
Balance at end of year	–	572,586,294	937,350,959	226,197,436	1,736,134,689
Net Book Value at End of Year	₱392,716,334	₱302,037,453	₱288,465,006	₱245,082,311	₱1,228,301,104

The details of depreciation and amortization under the statements of income follow:

	2019	2018	2017
Property and equipment	**₱395,316,694**	₱234,274,067	₱237,378,088
Investment properties (Note 11)	**68,905,396**	75,248,497	88,305,477
Software costs (Note 12)	**23,034,724**	22,844,640	20,140,452
	₱487,256,814	₱332,367,204	₱345,824,017

As of December 31, 2019 and 2018, the gross carrying amount of fully depreciated building and furniture, fixtures and equipment still in use amounted to ₱740.38 million and ₱677.95 million, respectively.

There are no restrictions on titles on property and equipment and the Bank does not have any contractual commitments for acquisition of property and equipment as of December 31, 2019 and 2018.

11. Investment Properties

The composition of and movements in this account follow:

	December 31, 2019		
	Land	**Condominium Properties, Buildings and Improvements**	**Total**
Cost			
Balance at beginning of year	**₱2,387,053,301**	**₱1,598,965,625**	**₱3,986,018,926**
Additions	**231,385,460**	**130,348,943**	**361,734,403**
Disposals	**(641,321,055)**	**(350,697,238)**	**(992,018,293)**
Balance at end of year	**1,977,117,706**	**1,378,617,330**	**3,355,735,036**
Accumulated Depreciation			
Balance at beginning of year	–	**490,758,546**	**490,758,546**
Depreciation (Note 10)	–	**68,905,396**	**68,905,396**
Disposals	–	**(105,897,636)**	**(105,897,636)**
Balance at end of year	–	**453,766,306**	**453,766,306**
Accumulated Impairment Losses (Note 14)			
Balance at beginning of and end of year	**145,775,067**	**152,393,928**	**298,168,995**
Net Book Value at End of Year	**₱1,831,342,639**	**₱772,457,096**	**₱2,603,799,735**

	December 31, 2018		
	Land	Condominium Properties, Buildings and Improvements	Total
Cost			
Balance at beginning of year	₱2,483,564,130	₱1,586,297,361	₱4,069,861,491
Additions	137,769,870	146,378,264	284,148,134
Disposals	(234,280,699)	(133,710,000)	(367,990,699)
Balance at end of year	2,387,053,301	1,598,965,625	3,986,018,926
Accumulated Depreciation			
Balance at beginning of year	–	423,692,870	423,692,870
Depreciation (Note 10)	–	75,248,497	75,248,497
Disposals	–	(8,182,821)	(8,182,821)
Balance at end of year	–	490,758,546	490,758,546
Accumulated Impairment Losses (Note 14)			
Balance at beginning of year	145,775,067	343,248,016	489,023,083
Reclassification	–	(190,854,088)	(190,854,088)
Balance at end of year	145,775,067	152,393,928	298,168,995
Net Book Value at End of Year	₱2,241,278,234	₱955,813,151	₱3,197,091,385

Gain on Asset Exchange

Gain on foreclosure of investment properties amounted to ₱127.92 million, ₱97.98 million and ₱112.23 million in 2019, 2018 and 2017, respectively.

The Bank realized gain on sale of investment properties amounting to ₱490.09 million, ₱146.25 million and ₱138.69 million in 2019, 2018 and 2017, respectively.

Details of rent income earned and direct operating expense incurred on investment properties of the Bank follow:

	2019	2018	2017
Rent income on investment properties (included under income from property rentals)	**₱25,334,155**	₱24,328,731	₱28,015,994
Direct operating expenses on investment properties not generating rent income (included under miscellaneous expenses)	**34,921,518**	36,426,409	18,624,718

Expenses on investment properties generating rent income are shouldered by the lessee.

12. Intangible Assets

Branch Licenses
This pertains to branch licenses recognized by the Bank in connection with its merger with PDB (Note 28). The recoverable amounts of these branch licenses have been determined using value in use in 2019 and fair market value less cost to sell approach. The fair market value is based on special licensing fee of BSP for branches operating in restricted areas. As of December 31, 2019 and 2018, the branch licenses are not impaired.

Software Costs
Movements in software costs are as follows:

	2019	2018
Cost		
Balance at beginning of year	**₱161,121,797**	₱155,264,618
Additions	**15,561,541**	12,739,815
Balance at end of year	**176,683,338**	168,004,433
Accumulated amortization		
Balance at beginning of year	**97,788,630**	81,826,626
Amortization (Note 10)	**23,034,724**	22,844,640
Balance at end of year	**120,823,354**	104,671,266
Net Book Value at End of Year	**₱55,859,984**	₱63,333,167

13. Other Assets

This account consists of:

	2019	2018
Financial		
Accounts receivable (Note 24)	**₱1,084,983,430**	₱737,214,619
Accrued interest receivable	**860,783,128**	820,791,284
Returned checks and other cash items (RCOCI)	**24,957,774**	11,914,478
	1,970,724,332	1,569,920,381

(Forward)

	2019	2018
Nonfinancial		
Non-performing Asset Pool (NPAP)	**₱1,241,219,929**	₱1,241,290,224
Creditable withholding taxes (CWT)	**313,306,060**	316,892,344
Documentary stamp tax	**82,345,998**	66,617,968
Advance rental deposits	**67,878,679**	62,068,783
Prepaid expenses	**36,027,814**	42,473,897
Stationery and supplies	**35,006,163**	36,810,771
Other equity investments	**21,792,208**	21,792,208
Retirement asset (Note 20)	–	6,095,512
Miscellaneous	**94,568,414**	240,489,403
	1,892,145,265	2,034,531,110
	3,862,869,597	3,604,451,491
Allowance for impairment and credit losses (Note 14)	**(1,829,894,466)**	(1,857,839,782)
	₱2,032,975,131	₱1,746,611,709

Non-Performing Asset Pool (NPAP)
As of December 31, 2019 and 2018, miscellaneous assets include NPAP which was acquired as a result of the merger with PDB. The NPAP represents the non-performing assets of PDB which were purchased by PDIC under a buy-back arrangement following the terms and conditions of the Financial Assistance Agreement dated June 28, 2002 between PDIC and PDB. This consists of the following (in thousands):

	2019	2018
Loans and receivables	**₱991,443**	₱991,513
Investment properties	**175,763**	175,763
Other assets*	**74,014**	74,014
	₱1,241,220	₱1,241,290

* *Other assets include various property and equipment, various rental deposits of PDB's branches and other miscellaneous assets.*

As of December 31, 2019 and 2018, the above NPAP are fully provided with allowance for impairment losses.

Other Equity Investments
This account comprises of investments acquired by the Bank from its merger with PDB. The investments include the 100% owned subsidiary, Filrice Inc. (Filrice), with investment cost of ₱2.19 million, and 49% owned investee, PDB SME Solutions, Inc. (PDB SME), with investment cost of ₱19.60 million. Filrice was established for the business of rice milling and warehousing but ceased operations in 2011 and has not begun formal winding up process. Its principal place of business is in Bulacan, Philippines.

Investment in Filrice is classified under prudential regulations as a nonfinancial allied undertaking. Accordingly, for prudential reporting purposes, such investments are accounted for under the equity method of accounting instead of consolidated on a line-by-line basis.

PDB SME (SME.com.ph) provides web-based solutions to help SME-entrepreneurs to manage businesses better and to expand to new markets. Its principal place of business is in Makati City, Philippines. In 2013, PDB SME was dissolved and is currently under liquidation.

Filrice and PDB SME are non-operating private companies and as such, have no available quoted market prices. As of December 31, 2019 and 2018, investment in PDB SME is fully provided with ₱19.60 million allowance for impairment losses while investment in Filrice is carried at original acquisition cost of ₱2.19 million where majority of its assets represent cash that is deposited with the Bank.

Miscellaneous Assets
As of December 31, 2019 and 2018, miscellaneous assets include prepayments to contractors for construction of leasehold improvements, security deposits and postage stamps.

Allowance for Impairment and Credit Losses
Allowance for impairment and credit losses includes provision against impaired accrued interest receivable (AIR) and long-outstanding advances amounting to ₱547.16 million and ₱559.62 million as of December 31, 2019 and 2018, respectively (Note 14).

14. Allowance for Impairment and Credit Losses

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

	2019	2018
Balance at beginning of year		
Loans and receivables (Note 8)	**₱2,492,074,869**	₱2,639,146,845
Investment properties (Note 11)	**298,168,995**	489,023,083
Investment securities at amortized cost (Note 7)	**8,208,809**	5,725,840
Other assets (Note 13)	**1,857,839,782**	1,835,272,691
	4,656,292,455	4,969,168,459
Provisions charged to operations	**250,582,037**	104,649,096
Accounts charged off and others	**(209,003,572)**	(417,525,098)
	41,578,465	(312,876,002)
Balance at end of year		
Loans and receivables (Note 8)	**2,564,514,541**	2,492,074,869
Investment properties (Note 11)	**298,168,995**	298,168,995
Investment securities at amortized cost (Note 7)	**5,292,918**	8,208,809
Other assets (Note 13)	**1,829,894,466**	1,857,839,782
	₱4,697,870,920	₱4,656,292,455

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

Below is the breakdown of provision for (reversal of) impairment and credit losses:

	2019	2018	2017
Loans and receivables	**₱281,443,244**	₱79,357,501	₱287,706,251
Investment securities at amortized cost	**(2,915,891)**	2,482,969	–
Financial assets at FVOCI	**65,030**	241,535	–
Other assets	**(28,010,346)**	22,567,091	7,974,062
	₱250,582,037	₱104,649,096	₱295,680,313

The tables below illustrate the movements of the allowance for impairment and credit losses of the financial assets for the year ended December 31, 2019 and 2018 (effect of movements in ECL due to transfers between stages are shown in the total column):

Loans and receivables

	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	
Consumer lending	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
Loss allowance at January 1, 2019	**₱139,860,515**	**₱11,077,918**	**₱559,848,862**	**₱710,787,295**
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	**(2,931,630)**	**2,931,630**	**–**	**–**
Transfer from Stage 1 to Stage 3	**(811,775)**	**–**	**811,775**	**–**
Transfer from Stage 2 to Stage 1	**2,169,823**	**(2,169,823)**	**–**	**–**
Transfer from Stage 2 to Stage 3	**–**	**(1,412,531)**	**1,412,531**	**–**
Transfer from Stage 3 to Stage 1	**9,797,318**	**–**	**(9,797,318)**	**–**
Transfer from Stage 3 to Stage 2	**–**	**4,923,537**	**(4,923,537)**	**–**
New financial assets originated or purchased	**89,900,948**	**–**	**–**	**89,900,948**
Changes in PDs/LGDs/EADs	**(12,140,900)**	**5,408,836**	**261,551,754**	**254,819,690**
Financial assets derecognized during the period	**(16,002,583)**	**(2,756,246)**	**(74,754,493)**	**(93,513,322)**
Total net P&L charge during the period	**69,981,201**	**6,925,403**	**174,300,712**	**251,207,316**
Other movements without P&L impact				
Write-offs, foreclosures and other movements	**(16,158,935)**	**459,935**	**(207,960,855)**	**(223,659,855)**
Loss allowance at December 31, 2019	**₱193,682,781**	**₱18,463,256**	**₱526,188,719**	**₱738,334,756**

	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	
Corporate and commercial lending	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
Loss allowance at January 1, 2019	**₱73,552,515**	**₱3,737,063**	**₱1,477,965,705**	**₱1,555,255,283**
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	**(3,900,986)**	**3,900,986**	**–**	**–**
Transfer from Stage 1 to Stage 3	**(120,354,360)**	**–**	**120,354,360**	**–**
Transfer from Stage 2 to Stage 1	**815,729**	**(815,729)**	**–**	**–**
Transfer from Stage 2 to Stage 3	**–**	**(3,113,970)**	**3,113,970**	**–**
Transfer from Stage 3 to Stage 1	**30,009,075**	**–**	**(30,009,075)**	**–**
Transfer from Stage 3 to Stage 2	**–**	**869,730**	**(869,730)**	**–**
New financial assets originated or purchased	**179,156,127**	**–**	**–**	**179,156,127**
Changes in PDs/LGDs/EADs	**(31,508,153)**	**(2,101,201)**	**194,809,689**	**161,200,335**
Financial assets derecognized during the period	**(33,147,691)**	**(750,760)**	**(242,036,440)**	**(275,934,891)**
Total net P&L charge during the period	**21,069,741**	**(2,010,944)**	**45,362,774**	**64,421,571**
Other movements without P&L impact				
Write-offs, foreclosures and other movements	**41,212,644**	**8,523,185**	**(35,079,546)**	**14,656,283**
Loss allowance at December 31, 2019	**₱135,834,900**	**₱10,249,304**	**₱1,488,248,933**	**₱1,634,333,137**

	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	
Others	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
Loss allowance at January 1, 2019	**₱1,717,851**	**₱82,048**	**₱3,446,530**	**₱5,246,429**
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	**(9)**	**9**	**–**	**–**
Transfer from Stage 1 to Stage 3	**(601)**		**601**	**–**
New financial assets originated or purchased	**2,826**	**–**	**–**	**2,826**
Changes in PDs/LGDs/EADs	**(1,272,235)**	**(81,731)**	**(407,265)**	**(1,761,231)**

(Forward)

Others	ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Financial assets derecognized during the period	(₱435,885)	₱–	(₱246,803)	(₱682,688)
Total net P&L charge during the period	(1,705,904)	(81,722)	(653,467)	(2,441,093)
Loss allowance at December 31, 2019	₱11,947	₱326	₱2,793,063	₱2,805,336

Unquoted debt securities	ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance at January 1, 2019	₱–	₱–	₱151,836,309	₱151,836,309
Total net P&L charge during the period	–	–	–	–
Loss allowance at December 31, 2019	₱–	₱–	₱151,836,309	₱151,836,309

Sales contract receivable	ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance at January 1, 2019	₱6,399,813	₱1,653,212	₱60,896,528	₱68,949,553
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(656,195)	656,195	–	–
Transfer from Stage 1 to Stage 3	(384,718)	–	384,718	–
Transfer from Stage 2 to Stage 1	523,112	(523,112)	–	–
Transfer from Stage 2 to Stage 3	–	(54,470)	54,470	–
Transfer from Stage 3 to Stage 1	8,494,031	–	(8,494,031)	–
Transfer from Stage 3 to Stage 2	–	956,834	(956,834)	–
New financial assets originated or purchased	3,396,526	–	–	3,396,526
Changes in PDs/LGDs/EADs	(8,936,761)	(1,097,808)	(14,314,696)	(24,349,265)
Financial assets derecognized during the period	(1,496,749)	(370,066)	(8,924,996)	(10,791,811)
Total net P&L charge during the period	939,246	(432,427)	(32,251,369)	(31,744,550)
Loss allowance at December 31, 2019	₱7,339,059	₱1,220,785	₱28,645,159	₱37,205,003

Investment securities at amortized cost

Debt securities	ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance at January 1, 2019	₱8,208,809	₱–	₱–	₱8,208,809
Movements with P&L impact				
New financial assets originated or purchased	1,320,612	–	–	1,320,612
Changes in PDs/LGDs/EADs	1,356,805	–	–	1,356,805
Financial assets derecognized during the period	(5,593,308)	–	–	(5,593,308)
Total net P&L charge during the period	(2,915,891)	–	–	(2,915,891)
Loss allowance at December 31, 2019	₱5,292,918	₱–	₱–	₱5,292,918

Financial assets at FVOCI

Debt securities	ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance at January 1, 2019	₱902,548	₱–	₱–	₱902,548
Movements with P&L impact				
Changes in PDs/LGDs/EADs	194,659	–	–	194,659
Financial assets derecognized during the period	(129,629)	–	–	(129,629)
Total net P&L charge during the period	65,030	–	–	65,030
Loss allowance at December 31, 2019	₱967,578	₱–	₱–	₱967,578

Other financial assets

Accounts receivable and accrued interest receivable	ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance at January 1, 2019	**₱5,431,931**	**₱7,418,010**	**₱546,766,049**	**₱559,615,990**
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	**(118,289)**	**118,289**	**–**	**–**
Transfer from Stage 1 to Stage 3	**(416,124)**	**–**	**416,124**	**–**
Transfer from Stage 2 to Stage 1	**446,414**	**(446,414)**	**–**	**–**
Transfer from Stage 2 to Stage 3	**–**	**(1,307,560)**	**1,307,560**	**–**
Transfer from Stage 3 to Stage 1	**839,010**	**–**	**(839,010)**	**–**
Transfer from Stage 3 to Stage 2	**–**	**82,631**	**(82,631)**	**–**
New financial assets originated or purchased	**580,931**	**–**	**–**	**580,931**
Changes in PDs/LGDs/EADs	**(1,542,325)**	**(249,728)**	**(25,914,013)**	**(27,706,066)**
Financial assets derecognized during the period	**(173,611)**	**(73,599)**	**(638,001)**	**(885,211)**
Total net P&L charge during the period	**(383,994)**	**(1,876,381)**	**(25,749,971)**	**(28,010,346)**
Other movements without P&L impact				
Write-offs, foreclosures and other movements	**3,131,776**	**(4,613,604)**	**17,034,803**	**15,552,975**
Total movements without P&L impact	**3,131,776**	**(4,613,604)**	**17,034,803**	**15,552,975**
Loss allowance at December 31, 2019	**₱8,179,713**	**₱928,025**	**₱538,050,881**	**₱547,158,619**

Loans and receivables

Consumer lending	ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance at January 1, 2018	₱149,361,693	₱118,306,184	₱899,633,679	₱1,167,301,556
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(14,459,333)	14,459,333	–	–
Transfer from Stage 1 to Stage 3	(216,914,353)	–	216,914,353	–
Transfer from Stage 2 to Stage 1	37,039,174	(37,039,174)	–	–
Transfer from Stage 2 to Stage 3	–	(2,597,274)	2,597,274	–
Transfer from Stage 3 to Stage 1	64,282,697	–	(64,282,697)	–
Transfer from Stage 3 to Stage 2	–	6,440,653	(6,440,653)	–
New financial assets originated or purchased	281,588,922	–	–	281,588,922
Changes in PDs/LGDs/EADs	(148,957,045)	(45,418,782)	54,948,856	(139,426,971)
Financial assets derecognized during the period	(12,081,240)	(14,284,498)	(377,093,332)	(403,459,070)
Total net P&L charge during the period	(9,501,178)	(78,439,742)	(173,356,199)	(261,297,119)
Other movements without P&L impact				
Write-offs, foreclosures and other movements	–	(28,788,524)	(166,428,618)	(195,217,142)
Loss allowance at December 31, 2018	₱139,860,515	₱11,077,918	₱559,848,862	₱710,787,295

Corporate and commercial lending	ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance at January 1, 2018	₱57,938,016	₱15,490,662	₱1,161,763,604	₱1,235,192,282
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(1,672,805)	1,672,805	–	–
Transfer from Stage 1 to Stage 3	(6,344,988)	–	6,344,988	–
Transfer from Stage 2 to Stage 1	1,514,191	(1,514,191)	–	–
Transfer from Stage 2 to Stage 3	–	(2,275,714)	2,275,714	–
Transfer from Stage 3 to Stage 1	10,275,856	–	(10,275,856)	–
Transfer from Stage 3 to Stage 2	–	40,780,318	(40,780,318)	–

(Forward)

Corporate and commercial lending	ECL Staging Stage 1 12-month ECL	 Stage 2 Lifetime ECL	 Stage 3 Lifetime ECL	Total
New financial assets originated or purchased	₱20,107,069	₱–	₱–	₱20,107,069
Changes in PDs/LGDs/EADs	5,701,788	(47,740,741)	447,300,713	405,261,760
Financial assets derecognized during the period	(13,966,612)	(1,924,253)	(63,753,918)	(79,644,783)
Total net P&L charge during the period	15,614,499	(11,001,776)	341,111,323	345,724,046
Other movements without P&L impact				
Write-offs, foreclosures and other movements	–	(751,823)	(24,909,222)	(25,661,045)
Loss allowance at December 31, 2018	₱73,552,515	₱3,737,063	₱1,477,965,705	₱1,555,255,283

Others	ECL Staging Stage 1 12-month ECL	 Stage 2 Lifetime ECL	 Stage 3 Lifetime ECL	Total
Loss allowance at January 1, 2018	₱3,865,729	₱4,638,772	₱8,638,680	₱17,143,181
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(231,065)	231,065	–	–
Transfer from Stage 1 to Stage 3	(318,259)	–	318,259	–
Transfer from Stage 2 to Stage 1	1,244,663	(1,244,663)	–	–
Transfer from Stage 2 to Stage 3	–	(764,873)	764,873	–
New financial assets originated or purchased	727,697	–	–	727,697
Changes in PDs/LGDs/EADs	(1,067,320)	225,991	(680,544)	(1,521,873)
Financial assets derecognized during the period	(1,251,797)	(1,502,122)	(2,797,369)	(5,551,288)
Total net P&L charge during the period	(896,081)	(3,054,602)	(2,394,781)	(6,345,464)
Other movements without P&L impact				
Foreclosures and other movements	(1,251,797)	(1,502,122)	(2,797,369)	(5,551,288)
Loss allowance at December 31, 2018	₱1,717,851	₱82,048	₱3,446,530	₱5,246,429

Unquoted debt securities	ECL Staging Stage 1 12-month ECL	 Stage 2 Lifetime ECL	 Stage 3 Lifetime ECL	Total
Loss allowance at January 1, 2018	₱92,510	₱–	₱151,836,309	₱151,928,819
Movements with P&L impact				
Financial assets derecognized during the period	(92,510)	–	–	(92,510)
Total net P&L charge during the period	(92,510)	–	–	(92,510)
Loss allowance at December 31, 2018	₱–	₱–	₱151,836,309	₱151,836,309

Sales contract receivable	ECL Staging Stage 1 12-month ECL	 Stage 2 Lifetime ECL	 Stage 3 Lifetime ECL	Total
Loss allowance at January 1, 2018	₱5,827,343	₱383,965	₱61,369,697	₱67,581,005
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(693,215)	693,215	–	–
Transfer from Stage 1 to Stage 3	(27,014,844)	–	27,014,844	–
Transfer from Stage 3 to Stage 2	–	25,377,564	(25,377,564)	–
New financial assets originated or purchased	29,135,242	–	–	29,135,242
Changes in PDs/LGDs/EADs	(463,670)	(24,775,766)	2,007,751	(23,231,685)
Financial assets derecognized during the period	(391,043)	(25,766)	(4,118,200)	(4,535,009)
Total net P&L charge during the period	572,470	1,269,247	(473,169)	1,368,548
Loss allowance at December 31, 2018	₱6,399,813	₱1,653,212	₱60,896,528	₱68,949,553

Investment securities at amortized cost

Debt securities	ECL Staging Stage 1 12-month ECL	 Stage 2 Lifetime ECL	 Stage 3 Lifetime ECL	Total
Loss allowance at January 1, 2018	₱5,725,840	₱–	₱–	₱5,725,840
Movements with P&L impact				
New financial assets originated or purchased	3,249,456	–	–	3,249,456
Changes in PDs/LGDs/EADs	(717,945)	–	–	(717,945)
Financial assets derecognized during the period	(48,542)	–	–	(48,542)
Total net P&L charge during the period	2,482,969	–	–	2,482,969
Loss allowance at December 31, 2018	₱8,208,809	₱–	₱–	₱8,208,809

Financial assets at FVOCI

Debt securities	ECL Staging Stage 1 12-month ECL	 Stage 2 Lifetime ECL	 Stage 3 Lifetime ECL	Total
Loss allowance at January 1, 2018	₱661,013	₱–	₱–	₱661,013
Movements with P&L impact				
New financial assets originated or purchased	329,862	–	–	329,862
Changes in PDs/LGDs/EADs	(46,024)	–	–	(46,024)
Financial assets derecognized during the period	(42,303)	–	–	(42,303)
Total net P&L charge during the period	241,535	–	–	241,535
Loss allowance at December 31, 2018	₱902,548	₱–	₱–	₱902,548

Other financial assets

Accounts receivable and accrued interest receivable	ECL Staging Stage 1 12-month ECL	 Stage 2 Lifetime ECL	 Stage 3 Lifetime ECL	Total
Loss allowance at January 1, 2018	₱60,289,523	₱51,893,547	₱426,063,314	₱538,246,384
Movements with P&L impact				
Transfers:				
Transfer from Stage 1 to Stage 2	(51,856,125)	51,856,125	–	–
Transfer from Stage 1 to Stage 3	(268,117,199)	-	268,117,199	–
Transfer from Stage 2 to Stage 1	15,228,650	(15,228,650)	–	–
Transfer from Stage 2 to Stage 3	–	(63,576,669)	63,576,669	–
Transfer from Stage 3 to Stage 1	4,275,070	–	(4,275,070)	–
Transfer from Stage 3 to Stage 2	–	29,669,112	(29,669,112)	–
New financial assets originated or purchased	310,298,807	–	–	310,298,807
Changes in PDs/LGDs/EADs	(59,609,927)	(26,243,831)	(150,228,147)	(236,081,905)
Financial assets derecognized during the period	(5,076,868)	(21,429,180)	(25,143,763)	(51,649,811)
Total net P&L charge during the period	(54,857,592)	(44,953,093)	122,377,776	22,567,091
Other movements without P&L impact				
Write-offs, foreclosures and other movements	–	477,556	(1,675,041)	(1,197,485)
Total movements without P&L impact	–	477,556	(1,675,041)	(1,197,485)
Loss allowance at December 31, 2018	₱5,431,931	₱7,418,010	₱546,766,049	₱559,615,990

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

Loans and receivables

Consumer lending	ECL Staging Stage 1 12-month ECL	 Stage 2 Lifetime ECL	 Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2019	**₱33,723,246,843**	**₱315,392,099**	**₱1,104,932,295**	**₱35,143,571,237**
Transfers:				
Transfer from Stage 1 to Stage 2	**(905,198,536)**	**905,198,536**	**–**	**–**
Transfer from Stage 1 to Stage 3	**(217,649,798)**	**–**	**217,649,798**	**–**
Transfer from Stage 2 to Stage 1	**87,974,686**	**(87,974,686)**	**–**	**–**
Transfer from Stage 2 to Stage 3	**–**	**(57,270,536)**	**57,270,536**	**–**
Transfer from Stage 3 to Stage 1	**21,904,203**	**–**	**(21,904,203)**	**–**
Transfer from Stage 3 to Stage 2	**–**	**11,007,723**	**(11,007,723)**	**–**
Movements in outstanding balance	**(5,152,338,112)**	**117,090,354**	**285,444,095**	**(4,749,803,663)**
Financial assets derecognized during the period	**(3,858,551,797)**	**(78,471,266)**	**(147,537,414)**	**(4,084,560,477)**
New financial assets purchased or originated	**16,588,132,013**	**–**	**–**	**16,588,132,013**
Foreclosures	**–**	**(147,955,441)**	**(278,177,787)**	**(426,133,228)**
Gross carrying amount as at December 31, 2019	**₱40,287,519,502**	**₱977,016,783**	**₱1,206,669,597**	**₱42,471,205,882**

Corporate and commercial lending	ECL Staging Stage 1 12-month ECL	 Stage 2 Lifetime ECL	 Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2019	**₱27,815,879,278**	**₱962,623,337**	**₱2,659,001,473**	**₱31,437,504,088**
Transfers:				
Transfer from Stage 1 to Stage 2	**(590,040,014)**	**590,040,014**	**–**	**–**
Transfer from Stage 1 to Stage 3	**(706,619,111)**	**–**	**706,619,111**	**–**
Transfer from Stage 2 to Stage 1	**99,504,342**	**(99,504,342)**	**–**	**–**
Transfer from Stage 2 to Stage 3	**–**	**(379,848,666)**	**379,848,666**	**–**
Transfer from Stage 3 to Stage 1	**56,166,670**	**–**	**(56,166,670)**	**–**
Transfer from Stage 3 to Stage 2	**–**	**1,627,836**	**(1,627,836)**	**–**
Movements in outstanding balance	**(2,364,644,958)**	**440,586,050**	**(304,828,811)**	**(2,228,887,719)**
Financial assets derecognized during the period	**(12,535,698,697)**	**(193,386,813)**	**(435,446,674)**	**(13,164,532,184)**
New financial assets purchased or originated	**10,163,370,672**	**–**	**–**	**10,163,370,672**
Foreclosures	**–**	**(71,905,632)**	**(161,909,013)**	**(233,814,645)**
Gross carrying amount as at December 31, 2019	**₱21,937,918,182**	**₱1,250,231,784**	**₱2,785,490,246**	**₱25,973,640,212**

Others	ECL Staging Stage 1 12-month ECL	 Stage 2 Lifetime ECL	 Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2019	**₱12,221,107**	**₱82,048**	**₱4,659,983**	**₱16,963,138**
Transfers:				
Transfer from Stage 1 to Stage 2	**(5,794)**	**5,794**	**–**	**–**
Transfer from Stage 1 to Stage 3	**(399,676)**	**–**	**399,676**	**–**
Movements in outstanding balance	**(2,653,885)**	**(82,048)**	**(49,897)**	**(2,785,830)**
Financial assets derecognized during the period	**(3,100,968)**	**–**	**(333,697)**	**(3,434,665)**
New financial assets purchased or originated	**1,877,741**	**–**	**–**	**1,877,741**
Gross carrying amount as at December 31, 2019	**₱7,938,525**	**₱5,794**	**₱4,676,065**	**₱12,620,384**

Unquoted debt securities	ECL Staging Stage 1 12-month ECL	 Stage 2 Lifetime ECL	 Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2019	**₱–**	**₱–**	**₱151,836,309**	**₱151,836,309**
Financial assets derecognized during the period	**–**	**–**	**–**	**–**
Gross carrying amount as at December 31, 2019	**₱–**	**₱–**	**₱151,836,309**	**₱151,836,309**

Sales contract receivable	ECL Staging Stage 1 12-month ECL	 Stage 2 Lifetime ECL	 Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2019	**₱643,741,133**	**₱165,321,214**	**₱111,654,373**	**₱920,716,720**
Transfers:				
Transfer from Stage 1 to Stage 2	**(65,571,623)**	**65,571,623**	**–**	**–**
Transfer from Stage 1 to Stage 3	**(38,443,740)**	**–**	**38,443,740**	**–**
Transfer from Stage 2 to Stage 1	**52,311,206**	**(52,311,206)**	**–**	**–**
Transfer from Stage 2 to Stage 3	**–**	**(5,447,019)**	**5,447,019**	**–**
Transfer from Stage 3 to Stage 1	**28,266,552**	**–**	**(28,266,552)**	**–**
Transfer from Stage 3 to Stage 2	**–**	**3,184,166**	**(3,184,166)**	**–**

(Forward)

Sales contract receivable	ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Movements in outstanding balance	**(₱75,783,933)**	**(₱17,233,647)**	**(₱12,404,596)**	**(₱105,422,176)**
Financial assets derecognized during the period	**(150,554,264)**	**(37,006,583)**	**(16,364,067)**	**(203,924,914)**
New financial assets purchased or originated	**339,404,577**	**–**	**–**	**339,404,577**
Gross carrying amount as at December 31, 2019	**₱733,369,908**	**₱122,078,548**	**₱95,325,751**	**₱950,774,207**

Investment securities at amortized cost

Debt securities	ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2019	**₱8,721,031,740**	**₱–**	**₱–**	**₱8,721,031,740**
Movements in outstanding balance	**(5,588,564)**	**–**	**–**	**(5,588,564)**
Financial assets derecognized during the period	**(5,942,325,594)**	**–**	**–**	**(5,942,325,594)**
New financial assets purchased or originated	**921,935,660**	**–**	**–**	**921,935,660**
Gross carrying amount as at December 31, 2019	**₱3,695,053,242**	**₱–**	**₱–**	**₱3,695,053,242**

Financial assets at FVOCI

Debt securities	ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2019	**₱1,053,071,928**	**₱–**	**₱–**	**₱1,053,071,928**
Movements in outstanding balance	**27,130,005**	**–**	**–**	**27,130,005**
Financial assets derecognized during the period	**(151,248,429)**	**–**	**–**	**(151,248,429)**
Gross carrying amount as at December 31, 2019	**₱928,953,504**	**₱–**	**₱–**	**₱928,953,504**

Other financial assets

Accounts receivable and accrued interest receivable	ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2019	**₱773,390,753**	**₱39,897,268**	**₱744,717,882**	**₱1,558,005,903**
Transfers:				
Transfer from Stage 1 to Stage 2	**(13,671,807)**	**13,671,807**	**–**	**–**
Transfer from Stage 1 to Stage 3	**(10,293,593)**	**–**	**10,293,593**	**–**
Transfer from Stage 2 to Stage 1	**2,401,010**	**(2,401,010)**	**–**	**–**
Transfer from Stage 2 to Stage 3	**–**	**(7,032,625)**	**7,032,625**	**–**
Transfer from Stage 3 to Stage 1	**1,142,766**	**–**	**(1,142,766)**	**–**
Transfer from Stage 3 to Stage 2	**–**	**112,547**	**(112,547)**	**–**
Movements in outstanding balance	**470,933,041**	**48,311,712**	**(127,714,365)**	**391,530,388**
Financial assets derecognized during the period	**(24,716,269)**	**(395,802)**	**(868,899)**	**(25,980,970)**
New financial assets purchased or originated	**30,345,180**	**–**	**–**	**30,345,180**
Foreclosures	**–**	**(2,663,115)**	**(5,470,828)**	**(8,133,943)**
Gross carrying amount as at December 31, 2019	**₱1,229,531,081**	**₱89,500,782**	**₱626,734,695**	**₱1,945,766,558**

Loans and receivables

Consumer lending	ECL Staging Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount as at January 1, 2018	₱26,939,692,080	₱1,421,176,638	₱1,480,812,632	₱29,841,681,350
Transfers:				
Transfer from Stage 1 to Stage 2	(545,009,445)	545,009,445	–	–
Transfer from Stage 1 to Stage 3	(523,597,335)	–	523,597,335	–
Transfer from Stage 2 to Stage 1	1,054,517,901	(1,054,517,901)	–	–
Transfer from Stage 2 to Stage 3	–	(73,945,277)	73,945,277	–
Transfer from Stage 3 to Stage 1	126,870,005	–	(126,870,005)	–
Transfer from Stage 3 to Stage 2	–	12,711,440	(12,711,440)	–
Movements in outstanding balance	(4,326,720,778)	(17,618,981)	(43,707,560)	(4,388,047,319)
Financial assets derecognized during the period	(2,179,038,467)	(171,595,378)	(227,119,207)	(2,577,753,052)
New financial assets purchased or originated	13,176,532,882	–	–	13,176,532,882
Write-offs	–	–	(219,895,034)	(219,895,034)
Foreclosures	–	(345,827,887)	(343,119,703)	(688,947,590)
Gross carrying amount as at December 31, 2018	₱33,723,246,843	₱315,392,099	₱1,104,932,295	₱35,143,571,237

	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Corporate and commercial lending	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Gross carrying amount as at January 1, 2018	₱30,874,616,669	₱1,562,602,556	₱2,148,500,654	₱34,585,719,879
Transfers:				
Transfer from Stage 1 to Stage 2	(618,958,382)	618,958,382	–	–
Transfer from Stage 1 to Stage 3	(246,730,098)	–	246,730,098	–
Transfer from Stage 2 to Stage 1	390,037,749	(390,037,749)	–	–
Transfer from Stage 2 to Stage 3	–	(586,197,153)	586,197,153	–
Transfer from Stage 3 to Stage 1	18,487,247	–	(18,487,247)	–
Transfer from Stage 3 to Stage 2	–	73,367,687	(73,367,687)	–
Movements in outstanding balance	(596,475,641)	(46,124,321)	(66,602,842)	(709,202,804)
Financial assets derecognized during the period	(7,442,674,551)	(194,106,806)	(117,902,931)	(7,754,684,288)
New financial assets purchased or originated	5,437,576,285	–	–	5,437,576,285
Foreclosures	–	(75,839,259)	(46,065,725)	(121,904,984)
Gross carrying amount as at December 31, 2018	₱27,815,879,278	₱962,623,337	₱2,659,001,473	₱31,437,504,088

	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Others	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Gross carrying amount as at January 1, 2018	₱25,475,321	₱4,638,772	₱8,638,680	₱38,752,773
Transfers:				
Transfer from Stage 1 to Stage 2	(231,065)	231,065	–	–
Transfer from Stage 1 to Stage 3	(430,310)	–	430,310	–
Transfer from Stage 2 to Stage 1	1,244,663	(1,244,663)	–	–
Transfer from Stage 2 to Stage 3	–	(764,873)	764,873	–
Movements in outstanding balance	(7,518,460)	(1,276,131)	(2,376,511)	(11,171,102)
Financial assets derecognized during the period	(8,249,393)	(1,502,122)	(2,797,369)	(12,548,884)
New financial assets purchased or originated	1,930,351	–	–	1,930,351
Gross carrying amount as at December 31, 2018	₱12,221,107	₱82,048	₱4,659,983	₱16,963,138

	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Unquoted debt securities	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Gross carrying amount as at January 1, 2018	₱102,911,415	₱–	₱151,836,309	₱254,747,724
Financial assets derecognized during the period	(102,911,415)	–	–	(102,911,415)
Gross carrying amount as at December 31, 2018	₱–	₱–	₱151,836,309	₱151,836,309

	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Sales contract receivable	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Gross carrying amount as at January 1, 2018	₱606,136,479	₱38,396,511	₱149,734,353	₱794,267,343
Transfers:				
Transfer from Stage 1 to Stage 2	(71,595,340)	71,595,340	–	–
Transfer from Stage 1 to Stage 3	(49,531,977)	–	49,531,977	–
Transfer from Stage 3 to Stage 2	–	61,918,069	(61,918,069)	–
Movements in outstanding balance	(63,336,236)	(4,012,117)	(15,645,998)	(82,994,351)
Financial assets derecognized during the period	(40,674,650)	(2,576,589)	(10,047,890)	(53,299,129)
New financial assets purchased or originated	262,742,857	–	–	262,742,857
Gross carrying amount as at December 31, 2018	₱643,741,133	₱165,321,214	₱111,654,373	₱920,716,720

Investment securities at amortized cost

	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Debt securities	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Gross carrying amount as at January 1, 2018	₱5,201,830,514	₱–	₱–	₱5,201,830,514
Movements in outstanding balance	111,082,189	–	–	111,082,189
Financial assets derecognized during the period	(44,100,000)	–	–	(44,100,000)
New financial assets purchased or originated	3,452,219,037	–	–	3,452,219,037
Gross carrying amount as at December 31, 2018	₱8,721,031,740	₱–	₱–	₱8,721,031,740

Financial assets at FVOCI

	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Debt securities	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Gross carrying amount as at January 1, 2018	₱735,290,352	₱–	₱–	₱735,290,352
Movements in outstanding balance	(20,036,683)	–	–	(20,036,683)
Financial assets derecognized during the period	(47,056,935)	–	–	(47,056,935)
New financial assets purchased or originated	384,875,194	–	–	384,875,194
Gross carrying amount as at December 31, 2018	₱1,053,071,928	₱–	₱–	₱1,053,071,928

Other financial assets

	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Accounts receivable and accrued interest receivable	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Gross carrying amount as at January 1, 2018	₱889,752,026	₱74,133,639	₱434,758,483	₱1,398,644,148
Transfers:				
Transfer from Stage 1 to Stage 2	(5,198,892)	5,198,892	–	–
Transfer from Stage 1 to Stage 3	(3,310,421)	–	3,310,421	–
Transfer from Stage 2 to Stage 1	21,755,214	(21,755,214)	–	–
Transfer from Stage 2 to Stage 3	–	(90,823,813)	90,823,813	–
Transfer from Stage 3 to Stage 1	4,362,316	–	(4,362,316)	–
Transfer from Stage 3 to Stage 2	–	30,274,604	(30,274,604)	–
Movements in outstanding balance	(74,328,640)	73,387,621	278,877,885	277,936,866
Financial assets derecognized during the period	(74,924,360)	(30,613,115)	(25,656,901)	(131,194,376)
New financial assets purchased or originated	15,283,510	776,877	8,688,107	24,748,494
Write-offs	–	–	(4,470,824)	(4,470,824)
Foreclosures	–	(682,223)	(6,976,182)	(7,658,405)
Gross carrying amount as at December 31, 2018	₱773,390,753	₱39,897,268	₱744,717,882	₱1,558,005,903

15. Deposit Liabilities

BSP Circular No. 832 provides for an 8.00% reserve requirement for deposit liabilities of thrift banks. On December 3, 2019, the BSP issued Circular No. 1063 reducing the reserve requirement for deposit liabilities of thrift banks to 4.00%. As of December 31, 2019 and 2018, due from BSP amounting to ₱11.52 billion and ₱6.80 billion, respectively, was set aside as reserves for deposit liabilities to comply with the reserve requirement (Note 6).

Foreign currency-denominated deposit liabilities bear annual fixed interest rates ranging from 0.13% to 3.12% in 2019, from 0.50% to 3.00% in 2018 and from 0.25% to 1.50% in, while peso-denominated deposit liabilities bear interest rates ranging from 0.25% to 7.50% in 2019 and in 2018 and from 0.50% to 4.75% in 2017.

16. Accruals and Other Liabilities

Accrued Interest and Other Expenses
This account consists of:

	2019	2018
Accrued interest payable	**₱187,192,889**	₱224,511,939
Accrued other expenses	**207,031,581**	194,339,048
	₱394,224,470	₱418,850,987

Accrued other expenses include accrual for employee benefits, utilities, janitorial and security services.

Other Liabilities
This account consists of:

	2019	2018
Financial		
Accounts payable (Note 24)	**₱962,017,646**	₱836,030,557
Other deferred credits	**153,316,167**	81,216,978
Other credits - dormant	**106,978,835**	95,167,204
Due to the Treasurer of the Philippines	**18,843,101**	8,059,717
Security deposit (Note 24)	**5,754,431**	3,885,646
Bills purchased	**747,923**	1,297,783
Other payable	**6,992,482**	6,224,905
	1,254,650,585	1,031,882,790
Nonfinancial		
Lease liabilities (Note 21)	**675,401,158**	–
Retirement liability (Note 20)	**114,364,419**	–
Accrued gross receipts tax	**46,187,271**	56,228,058
Taxes payable	**35,882,841**	49,041,011
Miscellaneous	**46,273,291**	48,485,999
	918,108,980	153,755,068
	₱2,172,759,565	₱1,185,637,858

Accounts payable consists mainly of mortgage and vehicle registration fees held for the account of loan borrowers which will be remitted to various government agencies, liability to automated tellering machine interbank network service provider, registration fees, insurance premium, documentary stamps and notarial fee.

Bills purchased pertains to credit accommodation where check payments in the form of manager's check, demand draft and cashier's check are purchased by the Bank and will be paid after the credit period. Other payable consists of SSS, medicare and employee compensation premium.

Miscellaneous includes sundry credits, inter-office float items, dormant deposit accounts and deposit for keys on safety deposit boxes.

17. Maturity Analysis of Assets and Liabilities

The table below presents the Bank's assets and liabilities as of December 31, 2019 and 2018 analyzed according to when they are expected to be recovered or settled within one year and beyond one year from the respective reporting dates (in thousands):

	December 31, 2019			December 31, 2018		
	Within twelve months	**Over twelve months**	**Total**	Within twelve months	Over twelve months	Total
Financial assets						
Cash and cash equivalents	**₱22,672,899**	**₱–**	**₱22,672,899**	₱13,551,253	₱–	₱13,551,253
Financial assets at FVOCI	**212,690**	**735,643**	**948,333**	49,592	1,032,272	1,081,864
Investment securities at amortized cost	**426,000**	**3,269,053**	**3,695,053**	3,041,187	5,679,845	8,721,032
Loans and receivables	**12,870,932**	**56,689,145**	**69,560,077**	23,870,264	43,800,327	67,670,591

(Forward)

	December 31, 2019			December 31, 2018		
	Within twelve months	**Over twelve months**	**Total**	Within twelve months	Over twelve months	Total
Other assets						
Accounts receivable	**₱1,084,983**	**₱–**	**₱1,084,983**	₱737,215	₱–	₱737,215
AIR	**860,783**	**–**	**860,783**	820,791	–	820,791
RCOCI	**24,958**	**–**	**24,958**	11,915	–	11,915
	38,153,245	**60,693,841**	**98,847,086**	42,082,217	50,512,444	92,594,661
Nonfinancial assets						
NCAHS	**342,781**	**–**	**342,781**	379,193	–	379,193
Property and equipment	**–**	**3,848,828**	**3,848,828**	–	2,968,385	2,968,385
Investment properties	**–**	**3,355,735**	**3,355,735**	–	3,986,019	3,986,019
Branch licenses	**–**	**74,480**	**74,480**	–	74,480	74,480
Software costs	**–**	**176,683**	**176,683**	–	168,004	168,004
Deferred tax asset	**–**	**863,876**	**863,876**	–	613,401	613,401
Other assets						
NPAP	**–**	**1,241,220**	**1,241,220**	–	1,241,290	1,241,290
CWT	**313,306**	**–**	**313,306**	316,892	–	316,892
Documentary stamp tax	**82,346**	**–**	**82,346**	66,618	–	66,618
Advance rental deposits	**67,879**	**–**	**67,879**	62,069	–	62,069
Prepaid expenses	**36,028**	**–**	**36,028**	36,811	–	36,811
Stationery and supplies	**–**	**35,006**	**35,006**	–	21,792	21,792
Other equity investments	**21,792**	**–**	**21,792**	42,474	–	42,474
Retirement asset	**–**	**–**	**–**	6,096	–	6,096
Miscellaneous	**94,571**	**–**	**94,571**	240,489	–	240,489
	958,703	**9,595,828**	**10,554,531**	1,150,642	9,073,371	10,224,013
	39,111,948	**70,289,669**	**109,401,617**	43,232,859	59,585,815	102,818,674
Allowances for impairment and credit losses (Note 14)			**(4,697,871)**			(4,656,292)
Unearned interest and discounts (Note 8)			**(59,186)**			(47,159)
Accumulated depreciation and amortization (Notes 10, 11 and 12)			**(2,659,885)**			(2,335,514)
			(7,416,942)			(7,038,965)
			₱101,984,675			₱95,779,709
Financial liabilities						
Deposit liabilities	**₱32,965,950**	**₱56,234,988**	**₱89,200,938**	₱77,082,720	₱7,518,752	₱84,601,472
Manager's checks	**462,742**	**–**	**462,742**	484,180	–	484,180
Accrued interest and other expenses	**394,224**	**–**	**394,224**	418,851	–	418,851
Other liabilities						
Accounts payable	**962,018**	**–**	**962,018**	836,031	–	836,031
Other deferred credits	**–**	**153,316**	**153,316**	–	81,217	81,217
Other credits - dormant	**–**	**106,979**	**106,979**	–	95,167	95,167
Security deposit	**–**	**5,754**	**5,754**	–	3,886	3,886
Due to the Treasurer of the Philippines	**18,843**	**–**	**18,843**	8,060	–	8,060
Bills purchased	**748**	**–**	**748**	1,298	–	1,298
Other payable	**6,992**	**–**	**6,992**	6,225	–	6,225
	34,811,517	**56,501,037**	**91,312,554**	78,837,365	7,699,022	86,536,387
Nonfinancial liabilities						
Lease liabilities	**₱157,087**	**518,314**	**675,401**	–	–	–
Income tax payable	**24,307**	**–**	**24,307**	345		345
Retirement liability	**114,364**	**–**	**114,364**	–	–	–
Other liabilities	**128,346**	**–**	**128,346**	153,755	–	153,755
	424,104	**518,314**	**942,418**	154,100	–	154,100
	₱35,235,621	**₱57,019,351**	**₱92,254,972**	₱78,991,465	₱7,699,022	₱86,690,487

18. Equity

The Bank's authorized common shares amounted to 134.00 million in 2019, 2018 and 2017. The Bank's authorized preferred shares amounted to 6.00 million in 2019, 2018 and 2017.

As of December 31, 2019, 2018 and 2017, the Bank's capital stock consists of:

	2019		2018		2017	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Preferred stock - ₱100 par value						
Balance at beginning and end of year	**21,642**	**₱2,164,200**	21,642	₱2,164,200	21,642	₱2,164,200
Common stock - ₱100 par value						
Balance at beginning of year	**105,414,149**	**10,541,414,900**	100,414,149	10,041,414,900	74,000,000	7,400,000,000
Issuance of capital stock	**–**	**–**	5,000,000	500,000,000	–	–
Application of DFFS to issued stock	**–**	**–**	–	–	26,414,149	2,641,414,900
Balance at end of year	**105,414,149**	**10,541,414,900**	105,414,149	10,541,414,900	100,414,149	10,041,414,900
	105,435,791	**₱10,543,579,100**	105,435,791	₱10,543,579,100	100,435,791	₱10,043,579,100

The Bank's Amended Articles of Incorporation disclosed the following features of its preferred stock:

a. Non-voting and non-participating;
b. Preference at liquidation, including declared dividends which have not been distributed;
c. Non-cumulative dividend rate as determined by the BOD, provided not to exceed twice the current ninety-day Treasury bill rate at date of approval by the BOD;
d. Convertible to common shares, at the option of the stockholder, if no dividends are declared for three consecutive years, at book value of common shares at the time of the conversion; and
e. Re-issuable.

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

Date of SEC Approval	Type/Class	Authorized Shares	Par Value
December 7, 2017	Common	134,000,000	₱100
	Preferred	6,000,000	100
December 17, 2015	Common	74,000,000	100
	Preferred	6,000,000	100
March 1, 1973	Common	24,000,000	100
	Preferred	6,000,000	100

As of December 31, 2019 and 2018, the total number of stockholders is 1,545.

Capital Infusions

Details of the Parent Bank's capital infusions to the Bank in support of the Bank's planned business growth and expansion follow:

Date	Amount
June 6, 2018	₱500,000,000
December 31, 2016	1,500,000,000
September 29, 2016	1,000,000,000
December 16, 2015	2,000,000,000

The capital infusion to the Bank in 2018 amounting to ₱500.00 million was approved by the Parent Bank's BOD on June 6, 2018.

Amendment to the Articles of Incorporation
On June 26, 2014, the BOD of the Bank approved the increase in its authorized capital stock from ₱3.00 billion to ₱8.00 billion. The increase in capitalization aims to enable the Bank in meeting the minimum capital requirement under Basel III and the planned merger with PDB then. The SEC approved the increase in authorized capital stock on December 17, 2015.

On July 21, 2016, the BOD and two-thirds (2/3) of the stockholders of the Bank approved a further increase in the Bank's authorized capital stock from ₱8.00 billion to ₱14.00 billion. The increase was approved by the BSP and the SEC on August 10, 2017 and December 7, 2017, respectively.

Surplus and Surplus Reserves
Surplus
As of December 31, 2019 and 2018, surplus included the amount of ₱5.86 million and ₱5.68 million, respectively, representing the transfer of revaluation increment on condominium properties, net of deferred tax liability, which was carried at deemed cost when the Bank transitioned to PFRS in 2005. This amount will be available to be declared as dividends upon sale of the underlying condominium properties.

Surplus reserves
In compliance with BSP regulations, 10.00% of the Bank's profit from trust business is appropriated to surplus reserve as of December 31, 2017. In 2018, with the surrender of the its trust license, the Bank transferred surplus reserves of ₱22.76 million to free surplus.

In addition, in compliance with BSP Circular 1011under Section 11 (c), in cases when the computed allowance for credit losses on Stage 1 accounts is less than the required one percent (1%) general provision, the deficiency shall be recognized by appropriating the surplus reserves. As of December 31, 2019, the Bank appropriated ₱352.23 million from its free surplus to comply with the general loan loss provision required BSP.

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

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made to the Bank's capital management objectives, policies and processes as of December 31, 2019 and 2018.

Capital Allocation
The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risks associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken by the ExeCom.

Although maximization of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision-making. Also taken into account are synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the BOD.

The issuance of BSP Circular No. 639 covering the ICAAP in 2009 supplements the BSP's risk-based capital adequacy framework under Circular No. 538. In compliance with this Circular, the Parent Bank has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Parent Bank. The level and structure of capital are assessed and determined in light of the Parent Bank's business environment, plans, performance, risks and budget, as well as regulatory edicts. The BSP requires submission of an ICAAP document every March 31. The Group has complied with this requirement.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory capital) as reported to the BSP. This is determined on the basis of regulatory accounting policies which differ from PFRS in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00%. Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by deposit hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the MB of the BSP.

On August 4, 2006, the BSP, under Circular No. 538, issued the prescribed guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to Basel II capital adequacy framework. The new BSP guidelines took effect on July 1, 2007. Thereafter, banks were required to compute their capital adequacy ratio (CAR) using these guidelines.

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

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The Circular took effect on January 1, 2014.

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

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the Circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

The Bank has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

The CAR of the Bank as reported to the BSP as of December 31, 2019 and 2018 are shown in the tables below (amounts in thousands).

	2019	2018
CET 1 capital	**₱8,189,239**	₱7,598,013
Additional Tier 1 capital	**2,164**	2,164
Tier 1 capital	**8,191,403**	7,600,177
Tier 2 capital	**631,308**	678,978
Total qualifying capital	**₱8,822,711**	₱8,279,155
Risk weighted assets	**₱74,404,717**	₱73,010,289
CET 1 capital ratio	**11.01%**	10.41%
Tier 1 capital ratio	**11.01%**	10.41%
Capital adequacy ratio	**11.86%**	11.34%

The regulatory qualifying capital of the Bank consists of Tier 1 (core) capital, which comprises of paid-up common stock, DFFS, hybrid capital securities, deficit including results of current year operations, surplus reserves and non-controlling interest less required deductions such as unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI), deferred income tax, and goodwill. Certain adjustments are made to PFRS-based results and reserves, as prescribed by the BSP. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes general loan loss provision and appraisal increment authorized by the MB.

On October 9, 2014, the BSP issued BSP Circular No. 854 which amends the provisions of the Manual of Regulations for Banks on the minimum capitalization of banks and on the prerequisites for the grant of authority to establish a branch. Based on this Circular, the Bank is required to maintain a minimum capitalization of ₱2.00 billion.

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

The BLR of the Bank as of December 31, 2019 and 2018 as reported to the BSP are shown in the table below (amounts in thousands).

	2019	2018
Tier 1 Capital	**₱8,191,403**	₱7,600,177
Exposure Measure	**100,983,574**	95,371,173
Leverage Ratio	**8.11%**	7.97%

Liquidity Coverage Ratio
On February 18, 2016, the BSP issued Circular No. 905 which approved the attached liquidity standards, which include guidelines on liquidity coverage ratio (LCR), and LCR disclosure standards that are consistent with the Basel III framework. Banks are required to adopt Basel III's Liquidity Coverage Ratio (LCR) aimed at strengthening the short-term liquidity position of banks. This requires banks to have available High Quality Liquid Assets (HQLA) to meet anticipated net cash outflow for a 30-day period under stress conditions. The standard prescribes that, under a normal situation, the value of the liquidity ratio be no lower than 100% on a daily basis because the stock of unencumbered HQLA is intended to serve as a defense against potential onset of liquidity stress. As of December 31, 2019 and 2018, the LCR of the Bank as reported to the BSP, in single currency is 131.84% and 98.54%, respectively.

Net Stable Funding Ratio
On May 24, 2018, the BSP issued Circular No. 1007 which approved the implementing guidelines on the adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio (NSFR). Banks are required to adopt Basel III's NSFR aimed to promote long-term resilience of banks against liquidity risk. Banks shall maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. The NSFR complements the LCR, which promotes short-term resilience of a Bank's liquidity profile. As of December 31, 2019 and 2018, the NSFR of the Bank as reported to the BSP is 125.00% and 122.46%, respectively.

19. Miscellaneous Income and Expenses

Miscellaneous income comprise the following:

	2019	2018	2017
Bancassurance activities (Note 24)	**₱31,987,799**	₱45,535,304	₱26,605,451
Recovery on charged off assets	**25,891,378**	44,407,274	14,741,456
Net foreign exchange gain (loss)	**(441,906)**	2,264,729	728,740
Dividends	**–**	1,262,000	3,786,000
Trust fee income	**–**	415,381	4,365,005
Others (Notes 11 and 24)	**29,919,775**	6,861,823	40,327,931
	₱87,357,046	₱100,746,511	₱90,554,583

On April 11, 2017, the Bureau of Treasury paid the Bank the final tax withheld from the proceeds of the Poverty Eradication and Alleviation Certificates (PEACe) bonds last October 18, 2011, plus 4.00% interest per annum from October 19, 2011 to April 10, 2017. Total settlement amount were paid in the form of 3-year Retail Treasury Bonds with interest of 4.25% per annum. The settlement resulted in gain amounting to ₱24.88 million which is presented under 'Miscellaneous income' in 2017.

Others include income from issuance of letters of credits and various non-recurring income transactions.

Miscellaneous expenses consist of:

	2019	2018	2017
Supervision and administrative expenses	**₱46,599,587**	₱45,298,605	₱52,380,309
Repairs and maintenance fees	**34,667,807**	27,177,731	33,935,818
Advertising	**11,154,552**	12,774,411	20,922,480
Clearing and processing fees	**3,959,753**	4,668,605	4,932,604
Others	**129,663,930**	104,702,501	52,977,630
	₱226,045,629	₱194,621,853	₱165,148,841

Supervision and administrative fees include BSP supervision and PDIC fees, and support operation service expenses.

Others pertain mainly to membership fees and dues, internal meeting expenses, printing and various non-recurring expenses.

20. Retirement Liability

The Bank has two separate funded noncontributory defined benefit retirement plans, which is being managed by the trust department of CBC (Note 24). These retirement plans cover all the Bank's officers and regular employees who are entitled to cash benefits after satisfying certain age and service requirements.

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

The latest actuarial valuation study of the retirement plans was made as of December 31, 2019. The principal actuarial assumptions as of December 31, 2019 and 2018 used in determining the retirement obligation for the Bank's retirement plans are shown below:

	2019	2018
Discount rate	**4.47%**	7.27%
Salary increase rate	**6.00%**	6.00%

As of December 31, 2019 and 2018, retirement asset (liability) comprised the following:

	2019	2018
Fair value of plan assets	**₱296,345,216**	₱293,708,323
Present value of defined benefit obligation	**410,709,635**	287,612,811
Net defined benefit asset (liability) (Note 16)	**(₱114,364,419)**	₱6,095,512

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

	2019												
		Net benefit cost					**Remeasurements in other comprehensive income**						
	January 1, 2019	**Current service cost**	**Net interest**	**Gain/Loss due to settlement**	**Net pension expense***	**Benefits paid**	**Return on plan assets (excluding amount included in net interest)**	**Actuarial changes arising from experience adjustments**	**Actuarial changes arising from changes in financial assumptions**	**Actuarial changes arising from changes in demographic assumptions**	**Changes in remeasurement gains**	**Contribution by employer**	**December 31, 2019**
	(a)	**(b)**	**(c)**	**(d)**	**(e) = b + c + d**	**(f)**	**(g)**	**(h)**	**(i)**	**(j)**	**(k) = g + h + i + j**	**(l)**	**(m) = a + e + f + k + l**
Fair value of plan assets	**₱293,708,323**	**₱–**	**₱21,352,595**	**₱–**	**₱21,352,595**	**(₱19,407,862)**	**₱692,160**	**₱–**	**₱–**	**₱–**	**₱692,160**	**₱–**	**₱296,345,216**
Present value of defined benefit obligation	**287,612,811**	**73,223,400**	**20,909,450**	**–**	**94,132,850**	**(19,407,862)**	**–**	**(19,808,230)**	**156,130,603**	**(87,950,537)**	**48,371,836**	**–**	**410,709,635**
Net defined benefit asset (liability)	**₱6,095,512**	**(₱73,223,400)**	**₱443,145**	**₱–**	**(₱72,780,255)**	**₱–**	**₱692,160**	**₱19,808,230**	**(₱156,130,603)**	**₱87,950,537**	**(₱47,679,676)**	**₱–**	**(₱114,364,419)**

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

	2018												
		Net benefit cost					Remeasurements in other comprehensive income						
	January 1, 2018	Current service cost	Net interest	Gain/Loss due to settlement	Net pension expense*	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Actuarial changes arising from changes in demographic assumptions	Changes in remeasurement gains	Contribution by employer	December 31, 2018
	(a)	(b)	(c)	(d)	(e) = b + c + d	(f)	(g)	(h)	(i)	(j)	(k) = g + h + i + j	(l)	(m) = a + e + f + k + l
Fair value of plan assets	₱210,827,701	₱–	₱11,869,600	₱–	₱11,869,600	(₱20,759,123)	(₱17,817,755)	₱–	₱–	₱–	(₱17,817,755)	₱109,587,900	₱293,708,323
Present value of defined benefit obligation	316,874,414	88,207,080	17,840,029	–	106,047,109	(₱20,759,123)	–	(46,522,338)	(68,027,251)	–	(114,549,589)	–	287,612,811
Net defined benefit asset (liability)	(₱106,046,713)	(₱88,207,080)	(₱5,970,429)	₱–	(₱94,177,509)	₱–	(₱17,817,755)	₱46,522,338	₱68,027,251	₱–	₱96,731,834	₱109,587,900	₱6,095,512

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

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions. On January 7, 2020, the Bank contributed ₱135.57 million to its defined retirement plan.

On January 7, 2020, the Bank contributed ₱135.57 million. The Bank expects to contribute additional ₱96.76 million to its defined retirement plan in 2020.

The carrying values of total plan assets which approximate their fair values as of the end of the reporting periods are as follows (in thousands):

	2019	2018
Cash and cash equivalents (Note 24)	**₱9,290**	₱141,011
Government and corporate debt instruments	**285,557**	154,301
Accrued interest receivable	**2,677**	1,822
Other accountabilities	**(1,179)**	(3,426)
	₱296,345	₱293,708

The sensitivity analysis below has been determined based on the impact of reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2019 and 2018, assuming if all other assumptions were held constant (in thousands):

	2019	2018
Discount rate		
1.00%	**(₱45,326)**	(₱28,746)
(1.00%)	**58,726**	37,942
Salary increase rate		
1.00%	**55,151**	36,802
(1.00%)	**(43,755)**	(28,456)

Shown below is the maturity analysis of the undiscounted benefit payments (in thousands):

	2019	2018
Less than five years	**₱80,870**	₱90,920
More than five years to ten years	**305,122**	210,666
More than ten years to fifteen years	**726,316**	715,067
More than fifteen years to twenty years	**896,080**	972,734
More than twenty years	**10,967,702**	11,606,160

The average duration of the defined benefit obligation as at December 31, 2019 and 2018 is 11 and 17 years, respectively.

21. Lease Contracts

Bank as lessee

The Bank leases the premises occupied by its branches. The lease contracts are for periods ranging from one (1) to forty (40) years from the dates of contracts and are renewable under certain terms and conditions. Various lease contracts include escalation clauses, which generally bear an annual rent increase ranging from 5.00% to 15.00%.

The following are the amounts recognized in the statement of income for 2019:

Depreciation expense of right-of-use assets included in property and equipment and investment properties	₱166,305,682
Interest expense on lease liabilities	57,763,561
Expenses relating to short-term leases (included in occupancy costs)	23,420,820
Total amount recognized in statement of income	₱247,490,063

The rollforward analysis of lease liabilities as of December 31, 2019 follows:

Balance at beginning of year	₱751,742,807
Additions	61,761,756
Interest expense	57,763,561
Payments	(195,866,966)
Balance at end of year	₱675,401,158

Prior to adoption of PFRS 16, rentals charged against profit or loss under these lease contracts (included in 'Occupancy costs') amounted to ₱194.87 million and ₱167.11 million in 2018 and 2017, respectively.

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

	2019	2018
Within one year	**₱204,665,305**	₱13,908,533
After one year but not more than five years	**546,320,526**	451,281,010
After more than five years	**70,501,491**	405,493,219
	₱821,487,322	₱870,682,762

Bank as lessor
The Bank has also entered into commercial property leases on its investment properties, most of which are with related parties (Note 24). These non-cancelable leases have remaining lease terms of between one to ten years.

Future minimum rentals receivable under non-cancelable operating leases follow:

	2019	2018
Within one year	**₱–**	₱1,838,685
After one year but not more than five years	**4,542,514**	6,485,653
After more than five years	**13,517,561**	15,465,672
	₱18,060,075	₱23,790,010

22. Income and Other Taxes

Income taxes include corporate income tax and FCDU final taxes, as discussed below, and final tax paid at the rate of 20.00% on gross interest income from government securities and other deposit substitutes. These income taxes, as well as the deferred tax benefits and provisions, are presented as 'Provision for (benefit from) income tax' in the statements of income.

Republic Act (RA) No. 9337, *An Act Amending National Internal Revenue Code*, provides that RCIT rate shall be 30.00% while interest expense allowed as a deductible expense is reduced to 33.00% of interest income subject to final tax.

An MCIT of 2.00% on modified gross income is computed and compared with the RCIT. Any excess MCIT over RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, the NOLCO is allowed as a deduction from taxable income in the next three years from the year of inception.

Effective in May 2004, RA No. 9294 restored the tax exemption of FCDUs and offshore banking units (OBUs). Under such law, the income derived by the FCDU from foreign currency transactions with nonresidents, OBUs, local commercial banks including branches of foreign banks is tax−exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% gross income tax.

Interest income on deposit placements with other FCDUs and OBUs is taxed at 7.50% (now 15.00% effective January 1, 2018), while all other income of the FCDU is subject to the 30.00% corporate tax.

Relevant Tax Updates
RA No. 10963, *The Tax Reform for Acceleration and Inclusion (TRAIN)*, is the first package of the comprehensive tax reform program of the government. The bill was signed into law on December 19, 2017 and took effect on January 1, 2018, amending some provisions of the old Philippine tax system.

Except for resident foreign corporations, which is still subject to the existing rate of 7.50%, tax on interest income of foreign currency deposit was increased to 15.00% under TRAIN. Documentary stamp tax on bank checks, drafts, certificate of deposit not bearing interest, all debt instruments, bills of exchange, letters of credit, mortgages, deeds and others are now subjected to a higher rate.

Revenue Regulations No. 4-2011
On March 15, 2011, the Bureau of Internal Revenue (BIR) issued Revenue Regulations (RR) No. 4−2011 which prescribed the attribution and allocation of expenses between FCDUs/EFCDUs or OBU and RBU and within RBU.

On April 6, 2015, the Parent Bank and other member banks of the Bankers Association of the Philippines (BAP), filed a Petition for Declaratory Relief with Application for Temporary Restraining Order (TRO) and/or Writ of Preliminary Injunction with the Regional Trial Court of Makati (Makati Trial Court). Further, in Civil Case No. 15-287, the Bank and other BAP member banks assailed the validity of RR 4-2011 on the ground, among others, that (a) the RR violates the petitioner-banks substantive due process rights; (b) it is not only illegal but also unfair; (c) that it serves as a deterrent to banks to invest in capital market transactions to the prejudice of the economy; (d) it sets a dangerous precedent for the disallowance of full deductions due to the prescribes method of allocation; and (e) it violates the equal protection clause of the Constitution.

On April 8, 2015, the Makati Trial Court issued a TRO enjoining the BIR from enforcing RR 4-2011. Also, on April 25, 2015, Makati Trial Court issued a Writ of Preliminary Injunction enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR 4-2011 against the Bank and other BAP member banks, including issuing Preliminary Assessment Notice or Final Assessment Notice against them during the pendency of the litigation, unless sooner dissolved.

On June 10, 2015, the Makati Trial Court issued a Confirmatory Order stating that the TRO and Writ of Preliminary Injunction also prohibits the BIR from ruling or deciding on any administrative matter pending before it in relation to the subject revenue regulations and insofar as the Bank and other BAP member banks are concerned.

On May 25, 2018, the Makati Trial Court issued a decision annulling RR 4-2011 and making the Writ of Preliminary Injunction permanent.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulations, EAR expense allowed as a deductible expense is limited to the actual EAR paid or incurred but not to exceed 1.00% of the Bank's net revenue.

Benefit from income tax consists of:

	2019	2018	2017
Current			
RCIT	**₱37,336,286**	₱–	₱48,389,561
Final tax	**113,892,110**	66,770,216	58,912,148
Excess MCIT over RCIT	**25,704,214**	46,643,385	–
	176,932,610	113,413,601	107,301,709
Deferred*	**(250,475,311)**	(307,637,017)	(357,535,678)
	(₱73,542,701)	(₱194,223,416)	(₱250,233,969)

* *Includes effect of tax benefit of prior years' MCIT of ₱48.37 million against 2017 tax liability.*

Components of net deferred tax asset are as follows:

	2019	2018
Deferred tax asset on		
Allowance for impairment and credit losses	**₱849,216,736**	₱597,500,029
Difference between book base and tax base of investment property	**181,024,539**	182,366,247
	1,030,241,275	779,866,276
Deferred tax liability on		
Fair value adjustment on investment property	**(161,385,785)**	(160,070,026)
Accrued lease receivable	**(4,979,007)**	(2,130,478)
Revaluation increment on condominium properties credited to surplus free	–	(2,435,946)
Retirement asset	–	(1,828,654)
	(166,364,792)	(166,465,104)
	₱863,876,483	₱613,401,172

The Bank did not set up deferred tax assets on the following temporary differences as it believes that it is highly probable that these temporary differences will not be realized in the near foreseeable future:

	2019	2018
Tax effects of		
Allowance for impairment and credit losses	**₱1,544,086,550**	₱2,338,647,887
NOLCO	–	288,559,350
Deferred service fee	**196,556,609**	87,237,324
Retirement liability	**114,364,419**	–
Excess MCIT over RCIT	**72,347,599**	46,643,385
Lease liabilities net of ROU assets	**65,847,262**	–
Unamortized past service cost	**3,810,498**	4,879,741
Accrued lease expense	–	37,644,985
	₱1,997,012,937	₱2,803,612,672

Details of the Bank's NOLCO are as follows:

Inception year	Original amount	Used	Expired	Balance	Expiry year
2018	₱288,559,350	₱288,559,350	₱–	₱–	2021

Details of the Bank's excess MCIT over RCIT are as follows:

Inception year	CBS pre-merger	PDB pre-merger	CBS post-merger	Used*	Balance	Expiry year
2015	₱11,908,638	₱23,505,563	N/A	₱35,414,201	₱–	2018
2018	N/A	N/A	46,643,385	–	46,643,385	2021
2019	N/A	N/A	25,704,214	–	25,704,214	2022
	₱11,908,638	₱23,505,563	₱72,347,599	₱35,414,201	₱72,347,599	

* *Utilization and balances include unexpired MCIT of PDB pursuant to the merger.*

The reconciliation between the statutory income tax and effective income tax follows:

	2019	2018	2017
Statutory income tax	**₱164,416,880**	₱52,692,059	₱75,392,474
Tax effects of			
Movement in unrecognized deferred tax assets	**(124,524,659)**	(193,685,105)	(370,953,625)
Nontaxable and tax-paid income	**(168,563,344)**	(118,015,818)	(95,886,205)
Nondeductible expenses	**69,309,625**	63,161,866	146,459,332
FCDU loss (income)	**(14,181,203)**	1,623,582	(5,245,945)
Effective income tax	**(₱73,542,701)**	(₱194,223,416)	(₱250,233,969)

23. **Trust Operations**

On December 11, 2014, the BOD of the Bank approved the winding down of the Bank's Trust business.

Under BSP Circular Letter No. CL-2019-001 dated January 8, 2019, the BSP approved the Bank's request to surrender its license to conduct trust and other fiduciary business effective immediately in accordance with MB Resolution No. 2050 dated December 6, 2018.

24. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Bank's related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members;
- significant investors;
- associates; and
- post-employment benefit plans for the benefit of the Bank's employees.

Generally, the related party transactions are settled in cash. There are no provisions for credit losses in 2019 and 2018 in relation to amounts due from related parties.

Transactions with Retirement Plans
The Bank has a business relationship with its retirement plan pursuant to which it provides trust and management services. The total fair value of the retirement fund as of December 31, 2019 and 2018 amounted to ₱296.35 million and ₱293.71 million, respectively. The details of the assets of the fund as of December 31, 2019 and 2018 are disclosed in Note 20.

Significant transactions of the retirement fund, particularly with related parties, are approved by the Retirement Committee (RC) of the Bank. The members of the RC are directors and key management personnel of the Bank.

As of December 31, 2019 and 2018, cash and cash equivalents of the retirement plan amounting to nil and ₱75.85 million, respectively, are held by the Bank and earn interest ranging from 6.00% to 6.50% in 2018.

As of December 31, 2019 and 2018, cash and cash equivalents of the retirement plan amounting to ₱9.29 million and ₱65.16 million, respectively, are held by the Parent Bank and earn interest ranging from 0.75% to 3.70% and from 5.60% to 6.75% in 2019 and 2018, respectively.

Interest income on the retirement plan's cash and cash equivalents amounted to ₱2.26 million and ₱3.08 million in 2019 and 2018, respectively.

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

The compensation of key management personnel included under 'Compensation and benefits' in the statement of income are as follows (in thousands):

	2019	2018	2017
Short-term employee benefits	**₱45,534**	₱38,055	₱40,392
Post-employment benefits	**1,498**	2,835	3,223
	₱47,032	₱40,890	₱43,615

In 2019, 2018 and 2017, no remunerations were given to the directors of the Bank who are also occupying key management positions with the ultimate parent bank.

The Bank also provides banking services to key management personnel and persons connected to them. These transactions are presented in the tables below.

	December 31, 2019		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Key Management Personnel			
Loans and receivables		**₱6,367,776**	These are loans with interest rates ranging from 6.00% to 8.00% and maturities of 1 to 15 years, secured by real estate and chattel mortgages and deposit hold out and unimpaired.
Issuances	**₱2,504,442**		
Repayments	**(1,276,398)**		
Deposit liabilities		**51,754,527**	These are savings and time deposit accounts with annual interest rates ranging from 0.41% to 3.75%.
Deposits	**26,338,897**		
Withdrawals	**(39,256,162)**		
Other Related Party			
Deposit liabilities		**221,629,435**	These deposit accounts earns annual interest ranging from 0.13% to 3.15%.
Deposits	**103,749,565**		
Withdrawals	**(7,198,002)**		

	December 31, 2018		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Key Management Personnel			
Loans		₱5,139,732	These are loans with interest rates ranging from 6.00% to 8.00% and maturities of 1 to 15 years, secured by real estate and chattel mortgages and deposit hold out and unimpaired.
Issuances	₱5,139,732		
Repayments	(38,360)		
Deposit liabilities		64,671,792	These are savings and time deposit accounts with annual interest rates ranging from 0.50% to 0.99%.
Deposits	40,988,805		
Withdrawals	(19,318,496)		
Other Related Party			
Deposit liabilities		125,077,872	These deposit accounts earns annual interest ranging from 0.50% to 2.63%.
Deposits	107,654,784		
Withdrawals	(2,340,198)		

As of December 31, 2019 and 2018, all loans to related parties are secured and no provision for credit losses was recorded.

Interest income earned and interest expense incurred from the above loans and deposit liabilities, respectively, for the years ended December 31, 2019, 2018 and 2017 are as follows:

	2019	2018	2017
Interest income	**₱8,251**	₱7,910	₱9,701
Interest expense	**4,083,696**	4,100,222	1,230,828

Related party transactions of the Bank with the Parent Bank and affiliates are as follows:

	Parent Bank		
	2019	2018	**Nature, Terms and Conditions**
Statements of Financial Position			
Due from other banks	**₱794,252,907**	₱309,861,476	This pertains to cash in bank deposited with CBC that bears annual interest rates ranging from 0.10% to 0.25% in 2019 and 2018.
Net movements	**484,391,431**	28,668,257	
Loans and receivables	**13,303,443**	5,341,350	These are loans with interest rates ranging from 6.50% to 9.00% and maturities of 10 to 20 years, secured by real estate mortgage and unimpaired.
Net movements	**7,962,093**	5,341,350	
Accounts receivable	**15,170,480**	4,857,682	This pertains to receivable from CBC for unpaid rental.
Security deposit	**2,269,687**	2,269,687	This pertains to the rental deposits for office space leased out to CBC presented under 'Other liabilities' (Note 16).

	Parent Bank			
	2019	2018	2017	**Nature, Terms and Conditions**
Statements of Income				
Interest income	**₱1,042,072**	₱747,418	₱473,729	This pertains to interest income earned from cash in bank deposited with CBC and loans and receivable
Gain on asset exchange	**87,729,803**	–	–	The Bank sold its investment property to CBC for a total cash selling price of ₱138.67 million.
Gain on disposal of investment securities at amortized cost	**5,226,225**	–	–	The Bank earned investment securities gain from its outright sale of securities to CBC.
Trading and securities gains	**–**	–	3,548,612	The Bank earned investment securities gain from its outright sale of securities to CBC.
Income from property rentals	**21,150,093**	19,937,200	24,209,412	Certain units of the condominium owned by the Bank are being leased to CBC for a term ranging from 5 to 10 years, with an escalation rate of 5%.

	Other Related Party		
	2019	2018	**Nature, Terms and Conditions**
Statements of Financial Position			
Accounts receivable	**₱2,255,284**	₱2,209,145	This pertains to receivable from China Bank Insurance Brokers (CIBI), a subsidiary of CBC, for unpaid rental.
Accounts payable	**31,606,822**	32,303,681	These are non-interest bearing insurance premiums held on behalf of loan borrowers to be subsequently remitted to CIBI.
Security deposit	**291,347**	291,347	These pertain to rental deposits for office space leased out to CIBI presented under 'Other liabilities' (Note 16).

	Other Related Party			
	2019	2018	2017	**Nature, Terms and Conditions**
Statements of Income				
Income from property rentals	**₱4,184,062**	₱4,391,532	₱3,806,582	Certain units of the condominium owned by the Bank are being leased to CIBI for a term of 5 years, with 10.00% escalation clause.
Miscellaneous income	**31,987,799**	45,535,304	26,605,451	Bancassurance fees earned based on successful referrals.

Outright purchases and outright sale of debt securities of the Bank with CBC are as follows:

	2019	2018	2017
Outright purchase	**₱816,641,583**	₱3,455,943,314	₱347,588,893
Outright sale	**3,730,200,245**	–	430,145,157

As of December 31, 2019 and 2018, government securities with face of ₱260.00 million and ₱250.00 million, respectively, and carrying value of ₱256.31 million and ₱251.19 million, respectively, are pledged to CBC in compliance with DOSRI rules.

As of December 31, 2019 and 2018, the number of common shares held by the Parent Bank is 105.00 million. The Parent Bank does not hold preferred shares of the Bank in 2019 and 2018.

25. Commitments and Contingencies

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. Management does not anticipate any material losses as a result of these transactions.

The Bank has several 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 having a material effect on the financial statements.

26. Notes to Statements of Cash Flows

The following is a summary of non-cash activities:

	2019	2018	2017
Non-cash operating activities			
Recognition of investment properties from foreclosure of real estate mortgage on loans and receivables (Notes 9 and 11)	**₱361,734,403**	₱284,148,134	₱452,437,284
Recognition of NCAHS arising from foreclosure of chattel mortgage on loans and receivables (Note 9)	**574,794,541**	565,676,547	556,689,819
Payment of current tax expense using excess MCIT over RCIT (Note 22)	**–**	–	(48,367,048)
Non-cash investing activities			
Fair value losses on financial assets at FVOCI (Note 7)	**(2,887,792)**	(7,230,338)	–
Fair value gains on AFS financial assets (Note 7)	**–**	–	85,284,684
Remeasurement losses (gains) on retirement liability (Note 20)	**(47,679,676)**	96,731,834	(19,294,655)
Non-cash financing activities			
Utilization of prepaid documentary stamps for additional DFFS	**–**	–	(12,121,010)
Utilization of prepaid documentary stamps for capital infusion	**–**	5,000,000	–

27. **Offsetting of Financial Assets and Liabilities**

The amendments to PFRS 7 require the Bank to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding table (amounts in thousands).

	December 31, 2019				
Financial assets recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statements of financial position [a-b]**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria**	**Net exposure [c-d]**
	[a]	**[b]**	**[c]**	**[d]**	**[e]**
Financial assets					
SPURA (Note 6)	**₱7,008,851**	**₱–**	**₱–**	**₱7,008,851**	**₱–**

	December 31, 2018				
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria	Net exposure [c-d]
	[a]	[b]	[c]	[d]	[e]
Financial assets					
SPURA (Note 6)	₱3,000,000	₱–	₱–	₱3,000,000	₱–

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. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

28. **Business Combination**

In accordance with PIC Q&A 2012-01, the Bank elected to use the ‘pooling of interest’ method in accounting for its merger with PDB and Unity Bank in 2015 and 2014, respectively.

Merger with PDB
On June 26, 2014, the BOD approved the merger of the Bank with PDB. The terms of the Plan and Articles of Merger were approved by the Bank’s stockholders in their meeting held on August 14, 2014 with the Bank as the surviving entity.

On June 25, 2015, the MB, in its Resolution Nos. 789 and 1559, approved the Plan and Articles of Merger of the Bank and PDB subject to certain conditions. On December 17, 2015, the Bank obtained approval from the SEC for the merger to be effective. The actual merger took place on December 31, 2015. As of the effective date of merger, all common and preferred shares of PDB have been converted into fully paid China Bank Savings common shares totaling to 16,501,093 shares. The Bank recognized ‘Other equity reserves’ amounting to ₱1.94 billion as a result of the merger with PDB.

Merger with Unity Bank
On June 6, 2013, the BOD approved the merger of the Bank with Unity Bank. The terms of the Plan of Merger were approved by the Bank's stockholders in their meeting held on July 18, 2013 with the Bank as the surviving entity. On November 22, 2013, the MB, in its Resolution No. 1949, approved the Plan of Merger and Articles of Merger of the Bank and Unity Bank subject to certain conditions. On January 20, 2014, the Bank obtained approval from the SEC for the merger to be effective. Under the approved plan of merger, all the issued and outstanding common stocks of Unity Bank ("Unity shares"), as well as shares that have been subscribed but have not been issued or covered by Stock Purchase Agreement, shall be convertible into fully-paid and non-assessable common stock of CBS at the approximate ratio of 1.144 Unity Bank common shares for every CBS common share (the "Exchange Ratio"). The actual merger took place on January 31, 2014. The Bank issued 5,173,881 common shares and recognized 'Other equity reserves' amounting to ₱303.96 million as a result of the merger with Unity Bank.

30. Approval of the Release of Financial Statements

The accompanying financial statements were authorized for issue by the Bank's BOD on March 20, 2020.

31. Events After Reporting Date

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 enhanced community quarantine (ECQ) 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 businesses continue to evolve.

In accordance with the Bank's Business Continuity Plan, series of actions have been taken in response to the spread of COVID-19 and ECQ imposed by the government to ensure continuity of banking services. A central task force was established to closely monitor the operations of the branches, lending centers, automatic teller machines (ATMs) and regional cash centers, among others. A skeletal workforce is also maintained at the Head Office to perform key functions in support of its banking operations. When necessary, operations will be reduced in affected regions.

The Bank considers the events surrounding the outbreak as non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended December 31, 2019. However, the outbreak could have a material impact on its 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Bank cannot determine at this time the impact to its financial position, performance and cash flows. The Bank will continue to monitor the situation.

32. Supplementary Information Required Under BSP Circular No. 1074

Presented below is the supplementary information required by BSP under Appendix 55 of BSP Circular No. 1074 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

Basic quantitative indicators of financial performance
The following basic ratios measure the financial performance of the Bank:

	2019	2018	2017
Return on average equity (ROE)	**6.61%**	4.24%	6.19%
Return on average asset (ROA)	**0.63%**	0.40%	0.60%
Net interest margin over average earning assets (NIM)*	**3.84%**	4.30%	4.76%

**Had the Bank excluded the interest expense on lease liabilities, NIM is 3.91% for the year ended December 31, 2019.*

Description of capital instruments issued
As of December 31, 2019 and 2018, the Bank has two classes of capital stock, preferred and common stocks.

Significant credit exposures
The BSP considers that loan concentration exists when total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio. Identified concentration of credit risks are managed and controlled.

	2019						
	Loans and receivables	**%**	**Other financial assets***	**%**	**Off-balance sheet exposures**	**%**	**Total**
Consumer	**₱26,901,762**	**38.67**	**₱332,865**	**1.20**	**₱–**	**–**	**₱27,234,627**
Real estate, renting and business services	**23,815,716**	**34.24**	**294,732**	**1.07**	**–**	**–**	**24,110,448**
Government	**–**	**–**	**23,220,153**	**84.06**	**–**	**–**	**23,220,153**
Wholesale and retail trade	**4,153,074**	**5.97**	**51,389**	**0.19**	**451,552**	**99.96**	**4,656,015**
Financial intermediaries	**1,420,092**	**2.04**	**2,475,590**	**8.96**	**–**	**–**	**3,895,682**
Manufacturing	**2,678,502**	**3.85**	**33,140**	**0.12**	**–**	**–**	**2,711,642**
Transportation, storage and communication	**2,342,987**	**3.37**	**29,008**	**0.11**	**–**	**–**	**2,371,995**
Electricity, gas, steam and air-conditioning supply	**1,983,204**	**2.85**	**24,532**	**0.09**	**–**	**–**	**2,007,736**
Agriculture	**1,575,609**	**2.27**	**19,540**	**0.07**	**–**	**–**	**1,595,149**
Hotels and restaurant	**1,240,256**	**1.78**	**15,322**	**0.06**	**–**	**–**	**1,255,578**
Construction	**1,158,499**	**1.67**	**14,375**	**0.05**	**–**	**–**	**1,172,874**
Health and social work	**785,857**	**1.13**	**9,727**	**0.04**	**–**	**–**	**795,584**
Education	**661,320**	**0.95**	**8,177**	**0.03**	**–**	**–**	**669,497**
Other community, social and personal services	**542,422**	**0.78**	**6,714**	**0.02**	**–**	**–**	**549,136**
Others	**300,777**	**0.43**	**1,088,685**	**3.93**	**162**	**0.04**	**1,389,624**
Total	**69,560,077**	**100.00**	**27,623,949**	**100.00**	**451,714**	**100.00**	**97,635,740**
Allowance for impairment and credit losses	**(2,564,515)**		**(557,945)**		**–**		**(3,122,460)**
Unearned interest and discount	**(59,186)**		**–**		**–**		**(59,186)**
Net	**₱66,936,376**		**₱27,066,004**		**₱451,714**		**₱94,454,094**

* *Other financial assets include the following: due from BSP, due from other banks, SPURA, financial assets at FVOCI, investments securities at amortized cost and other financial assets.*

	2018						
	Loans and receivables	%	Other financial assets*	%	Off-balance sheet exposures	%	Total
Consumer	₱20,145,151	29.77	₱244,341	1.06	₱–	–	₱20,389,492
Real estate, renting and business services	24,446,653	36.13	1,699,869	7.38	–	–	26,146,522
Government	–	–	18,053,581	78.33	–	–	18,053,581
Wholesale and retail trade	6,048,506	8.94	73,362	0.32	628,102	93.29	6,749,970
Financial intermediaries	1,610,678	2.38	1,953,985	8.48	34,462	5.11	3,599,125
Manufacturing	3,201,156	4.73	38,823	0.17	9,237	1.37	3,249,216
Transportation, storage and communication	2,793,739	4.13	33,882	0.15	171	0.03	2,827,792
Electricity, gas, steam and air-conditioning supply	1,675,457	2.48	20,323	0.09	–	–	1,695,780
Agriculture	1,836,052	2.71	22,268	0.10	1,179	0.18	1,859,499
Hotels and restaurant	1,338,171	1.98	16,227	0.07	–	–	1,354,398
Construction	2,090,991	3.09	25,362	0.11	–	–	2,116,353
Health and social work	496,811	0.73	6,025	0.03	–	–	502,836
Education	855,637	1.26	128,375	0.56	–	–	984,012
Other community, social and personal services	599,795	0.89	7,272	0.03	–	–	607,067
Others	531,794	0.78	724,460	3.14	151	0.02	1,256,405
Total	67,670,591	100.00	23,048,155	100.00	673,302	100.00	91,392,048
Allowance for impairment and credit losses	(2,492,075)		(567,825)		–	–	(3,059,900)
Unearned interest and discount	(47,159)		–		–	–	(47,159)
Net	₱65,131,357		₱22,480,330		₱673,302		₱88,284,989

* *Other financial assets include the following: due from BSP, due from other banks, SPURA, financial assets at FVOCI, investments securities at amortized cost and other financial assets.*

Status of loans

Information on the amounts of performing and non-performing loans (NPLs) and receivables (gross of allowance for impairment and credit losses) of the Bank are as follows:

	2019			2018		
	Performing	**Non-Performing**	**Total**	Performing	Non-Performing	Total
Loans and discounts						
Consumer lending	**₱41,107,332,556**	**₱1,363,873,326**	**₱42,471,205,882**	₱34,009,271,757	₱1,134,299,480	₱35,143,571,237
Corporate and commercial lending	**23,265,738,723**	**2,648,715,193**	**25,914,453,916**	29,041,795,967	2,348,548,973	31,390,344,940
Others	**8,150,148**	**4,470,236**	**12,620,384**	12,533,038	4,430,100	16,963,138
	₱64,381,221,427	**₱4,017,058,755**	**₱68,398,280,182**	₱63,063,600,762	₱3,487,278,553	₱66,550,879,315

Loans per security

Information on the amounts of secured and unsecured loans and receivables (gross of unearned interests and discounts and allowance for credit losses) follows:

	2019		2018	
	Amounts	**%**	Amounts	%
Loans secured by				
Real estate	**₱26,800,221,832**	**38.53**	₱27,945,631,337	41.30
Chattel mortgage	**16,034,009,686**	**23.05**	14,956,028,340	22.10
Deposit hold out and others	**1,219,623,186**	**1.75**	1,768,850,516	2.61
	44,053,854,704	**63.33**	44,670,510,193	66.01
Unsecured loans	**25,506,222,290**	**36.67**	23,000,081,299	33.99
	₱69,560,076,994	**100.00**	₱67,670,591,492	100.00

As of December 31, 2019 and 2018, secured and unsecured NPLs of the Bank follow:

	2019	2018
Secured	**₱2,350,709,568**	₱2,380,831,069
Unsecured	**1,666,349,187**	1,106,447,484
	₱4,017,058,755	₱3,487,278,553

Restructured loans as of December 31, 2019 and 2018 amounted to ₱484.81 million and ₱713.68 million, respectively. The Bank's loan portfolio includes non-risk loans as defined under BSP regulations totaling ₱7.24 billion and ₱6.85 billion as of December 31, 2019 and 2018, respectively.

According to BSP Circular 941 *Amendments to the Regulations on Past Due and Non-Performing Loans* effective January 1, 2018, loans shall be considered non−performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any.

All other loans, even if not considered impaired, shall be considered non−performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

Secured liability and assets pledged as security
As of December 31, 2019 and 2018, the Bank has no liability that is secured by pledged assets.

Related party loans
As required by the BSP, the Bank discloses loan transactions with its and affiliates and investees and with certain DOSRI. Under existing banking regulations, the limit on the amount of individual loans to DOSRI, of which 70.00% must be secured, should not exceed the regulatory capital or 15.00% of the total loan portfolio, whichever is lower. These limits do not apply to loans secured by assets considered as non-risk as defined in the regulations.

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

	2019		2018	
	DOSRI Loans	**Related Party Loans (inclusive of DOSRI Loans)**	DOSRI Loans	Related Party Loans (inclusive of DOSRI Loans)
Total outstanding DOSRI loans*	**₱818,046,448**	**₱831,349,891**	₱322,068,035	₱327,409,385
Percent of DOSRI/Related Party loans to total loan portfolio**	**1.09%**	**1.11%**	0.47%	0.48%
Percent of unsecured DOSRI/Related Party loans to total loan portfolio	**2.19%**	**2.15%**	2.35%	2.32%

(Forward)

	2019		2018	
	DOSRI Loans	**Related Party Loans (inclusive of DOSRI Loans)**	DOSRI Loans	Related Party Loans (inclusive of DOSRI Loans)
Percent past due DOSRI/Related Party loans to total loan portfolio	–	–	–	–
Percent of non–performing DOSRI/Related Party loans to total loan portfolio	–	–	–	–

** Includes deposits with CBC*
*** Total loan portfolio includes deposits with Parent Bank*

The amounts of loans disclosed for related parties above differ with the amounts disclosed for key management personnel since the composition of DOSRI is more expansive than that of key management personnel.

BSP Circular No. 560 provides that the total outstanding loans, other credit accommodation and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi–bank; and the subsidiaries and affiliates of the lending bank/quasi–bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank.

On May 12, 2009, BSP issued Circular No. 654 allowing a separate individual limit of twenty-five (25.00%) of the net worth of the lending bank/quasi-bank to loans of banks/quasi-banks to their subsidiaries and affiliates engaged in energy and power generation.

Commitments and contingencies
The following is a summary of contingencies and commitments of the Bank with the equivalent peso contractual amounts:

	2019	2018
Credit lines	**₱334,215,969**	₱524,162,035
Standby domestic letters of credit	**117,335,956**	148,988,582
Late deposits/payments received	**33,355,747**	36,672,003
Outward bills for collection	**1,852,979**	1,924,156
Others	**162,462**	151,625
	₱486,923,113	₱711,898,401

33. Supplementary Information Required Under Revenue Regulations 15-2010

In compliance with the requirements set forth by Revenue Regulations 15-2010, hereunder are the details of percentage and other taxes paid or accrued by the Bank in 2019.

Taxes and Licenses

Gross receipts tax	₱316,260,752
Local taxes	24,753,940
Others	5,577,851
	₱346,592,543

Withholding Taxes
Details of total remittances of withholding taxes in 2019 and amounts outstanding as of December 31, 2019 are as follows:

	Total Remittances	Amounts Outstanding
Final withholding taxes	₱411,627,158	₱20,795,116
Withholding taxes on compensation and benefits	112,684,143	7,110,028
Expanded withholding taxes	49,656,304	4,139,282
	₱573,967,605	₱32,044,426

SGV
Building a better working world

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

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
China Bank Savings, Inc.
CBS Building, 314 Sen. Gil Puyat Avenue
Makati City

We have audited in accordance with Philippine Standards on Auditing the financial statements of China Bank Savings, Inc. (the Bank), a majority-owned subsidiary of China Banking Corporation as at December 31, 2019, and have issued our report thereon dated March 20, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Bank's management. These schedules are presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011) 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

March 20, 2020

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November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
China Bank Savings, Inc.
CBS Building, 314 Sen. Gil Puyat Avenue
Makati City

We have audited the financial statements of China Bank Savings, Inc. (the Bank), a majority-owned subsidiary of China Banking Corporation as at and for the year ended December 31, 2019, on which we have rendered the attached report, dated March 20, 2020.

In compliance with Securities Regulation Code Rule 68, we are stating that the Bank has a total of four hundred seventeen (417) stockholders owning one hundred (100) or more shares each.

SYCIP GORRES VELAYO & CO.

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
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February 14, 2018, valid until February 13, 2021
PTR No. 8125208, January 7, 2020, Makati City

March 20, 2020

CHINA BANK SAVINGS, INC.
INDEX TO THE FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2019

Schedules Required under Securities Regulation Code Rule 68

Schedule	Content	Page No.
A	Financial Assets *(Part II 6D, Annex 68-E, A)*	1
B	Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties) *(Part II 6D, Annex 68-E, B)*	2
C	Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements *(Part II 6D, Annex 68-E, C)*	3
D	Intangible Assets - Other Assets *(Part II 6D, Annex 68-E, D)*	4
E	Long-Term Debt *(Part II 6D, Annex 68-E, E)*	5
F	Indebtedness to Related Parties (included in the consolidated statement of financial position) *(Part II 6D, Annex 68-E, F)*	6
G	Guarantees of Securities of Other Issuers *(Part II 6D, Annex 68-E, G)*	7
H	Capital Stock *(Part II 6D, Annex 68-E, H)*	8

CHINA BANK SAVINGS, INC.
Schedule A – Financial Assets
December 31, 2019

Name of issuing entity and association of each issue (i)	Number of shares or principal amount of bonds or notes	Amount shown in the Balance Sheet (ii)	Valued based on market quotation at end of reporting period (iii)	Income received and accrued
Financial assets at fair value through other comprehensive income				
Government bonds	₱829,026,045	₱928,953,504	₱928,953,504	
Unquoted securities	32,102,753 shares	19,379,381	19,379,381	
		₱948,332,885	₱948,332,885	₱31,157,147
Investment securities at amortized cost				
Government bonds	₱2,179,438,580	₱2,424,761,302	₱2,414,908,071	
Private debt securities	1,267,750,000	1,264,999,022	1,263,769,563	
	₱3,447,188,580	₱3,689,760,324	₱3,678,677,634	₱372,160,598

CHINA BANK SAVINGS, INC.
Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
December 31, 2019

Name of Debtor	Balance at beginning of period	Additions	Amounts Collected	Amounts Written-off	Current	Non- Current	Balance at end of period

None to report.

Receivables from Directors, Officers, Employees, Related Parties and Principal Stockholders are subject to usual terms in the normal course of business.

CHINA BANK SAVINGS, INC.
Schedule C – Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements
December 31, 2019

Name of Debtor	Balance at beginning of period	Additions	Amounts Collected (i)	Amounts Written-off (ii)	Current	Non-Current	Balance at end of period

None to Report.

(i) If collected was other than in cash, explain.
(ii) Give reasons to write-off.

CHINA BANK SAVINGS, INC.
Schedule D – Intangible Assets – Other Assets
December 31, 2019

Description [i]	Beginning Balance	Additions at Cost [ii]	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions) [iii]	Ending Balance
Branch Licenses	₱74,480,000	₱–	₱–	₱–	₱–	₱74,480,000
Software	63,333,167	15,561,541	23,034,724	–	–	55,859,984

(i) The information required shall be grouped into (a) intangibles shown under the caption intangible assets and (b) deferrals shown under the caption Other Assets in the related balance sheet. Show by major classifications.
(ii) For each change representing other than an acquisition, clearly state the nature of the change and the other accounts affected. Describe cost of additions representing other than cash expenditures.
(iii) If provision for amortization of intangible assets is credited in the books directly to the intangible asset account, the amounts shall be stated with explanations, including the accounts charged. Clearly state the nature of deductions if these represent anything other than regular amortization.

CHINA BANK SAVINGS, INC.
Schedule E - Long-Term Debt
December 31, 2019

Title of issue and type of obligation [i]	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt' in related balance sheet [ii]	Amount shown under caption "Long-Term Debt" in related balance sheet [iii]	Interest Rate %	Maturity Date

None to Report.

(i) Include in this column each type of obligation authorized.
(ii) This column is to be totaled to correspond to the related balance sheet caption.
(iii) Include in this column details as to interest rates, amounts or numbers of periodic instalments, and maturity dates.

CHINA BANK SAVINGS, INC.
Schedule F - Indebtedness to Related Parties
(Long Term Loans from Related Companies)
December 31, 2019

Name of Related Parties (i)	Balance at beginning of period	Balance at end of period (ii)

None to Report.

(i) The related parties named shall be grouped as in Schedule C. The information called for shall be stated for any persons whose investments shown separately in such related schedule.
(ii) For each affiliate named in the first column, explain in a note hereto the nature and purpose of any material increase during the period that is in excess of 10 percent of the related balance at either the beginning or end of the period.

CHINA BANK SAVINGS, INC.
Schedule G - Guarantees of Securities of Other Issuers
December 31, 2019

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount of guaranteed and outstanding (i)	Amount owned by person of which statement is filed	Nature of guarantee (ii)

None to Report.

(i) Indicate in a note any significant changes since the date of the last balance sheet file. If this schedule is filed in support of consolidated financial statements, there shall be set forth guarantees by any person included in the consolidation except such guarantees of securities which are included in the consolidated balance sheet.
(ii) There must be a brief statement of the nature of the guarantee, such as “Guarantee of principal and interest”, “Guarantee of Interest”, or “Guarantee of Dividends”. If the guarantee is of interest, dividends, or both, state the annual aggregate amount of interest or dividends so guaranteed.

CHINA BANK SAVINGS, INC.
Schedule H - Capital Stock
December 31, 2019

Title of Issue [i]	Number of shares authorized	Number of shares issued and outstanding as shown under the related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties [ii]	Directors, officers and employees	Others [iii]
Common stock - ₱100 par value	134,000,000 shares	105,414,149	–	104,995,882	16	418,267
Preferred stock - ₱100 par value	6,000,000 shares	21,642	–	–	–	21,642

(i) Include in this column each type of issue authorized
(ii) Related parties referred to include persons for which separate financial statements are filed and those included in the consolidated financial statements, other than the issuer of the particular security.
Indicate in a note any significant changes since the date of the last balance sheet filed

CHINA BANK SAVINGS, INC.
Financial Indicators
December 31, 2019

	2019	2018
Profitability ratios		
Net income	**621,598,964**	369,863,612
Total average assets	**98,882,192,130**	91,478,822,735
Return on average asset	**0.63%**	0.40%
Net income	**621,598,964**	369,863,612
Total average equity	**9,409,462,763**	8,727,643,094
Return on average equity	**6.61%**	4.24%
Net interest income	**3,236,655,249**	3,263,990,156
Interest earning-assets	**84,250,922,480**	75,994,371,769
Net interest margin*	**3.84%**	4.30%

* *Had the Bank excluded the interest expense on lease liabilities, NIM is 3.91% for the year ended December 31, 2019.*

	2019	2018
Operating expense	**4,225,431,913**	3,757,592,363
Operating income	**4,773,488,177**	3,933,232,556
Cost to income ratio	**88.52%**	95.53%
Liquidity ratios		
Total liquid assets	**23,601,852,842**	14,604,325,251
Total assets	**101,984,674,968**	95,779,709,292
Liquid Assets to Total Assets	**23.14%**	15.25%
Total loans and receivables	**66,936,376,157**	**65,131,357,475**
Total deposit liabilities	**89,200,938,333**	**84,601,472,786**
Loans (net) to Deposit Ratio	**75.04%**	**76.99%**
Asset quality ratios		
Total NPL	**4,017,058,755**	3,487,278,553
Total loans and receivable, net of UID and gross of ECL	**69,500,890,698**	67,623,432,344
Gross Non-Performing Loans Ratio	**5.78%**	5.16%
Total allowance for credit losses on receivables	**2,564,514,541**	2,492,074,869
Total NPL	**4,017,058,755**	3,487,278,553
Non-performing Loan (NPL) Cover	**63.84%**	71.46%
Solvency ratios		
Total liability	**92,254,971,704**	86,690,487,030
Total equity	**9,729,703,264**	9,089,222,262
Debt to Equity Ratio	**948.18%**	953.77%
Total assets	**101,984,674,968**	95,779,709,292
Total equity	**9,729,703,264**	9,089,222,262
Asset to Equity Ratio	**1,048.18%**	1,053.77%

CHINA BANK SAVINGS, INC.
Financial Indicators
December 31, 2019

	2019	2018
Net income before tax and interest expense	**3,265,929,688**	2,062,304,827
Interest expense	**2,717,873,422**	1,886,664,631
Interest Rate Coverage Ratio	**120.16%**	109.31%
Capitalization ratios		
CET 1 / Tier 1	**11.01%**	10.41%
Total Capital Adequacy Ratio	**11.86%**	11.34%

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