PRIVATE DEVELOPMENT BANK

2019 ANNUAL REPORT

HINDI BASTA BANGKO, KABAYAN PA!

Table Of Contents

Corporate Policy

OUR VISION

With a God-centered united workforce, we will be the preferred financial institution of MSMEs in Region 4, delivering relevant financial services with excellence.

OUR MISSION

Bangko Kabayan is committed to become the region's partner in economic development by providing quality financial products and services to MSMEs and individuals in the communities we serve. Through continuous growth, we will provide optimum returns to our shareholders as well as opportunities for our employees to develop themselves as fulfilled and holistic individuals, aware of the important role they play in the lives of others.

OUR CORE VALUES

B - Belief in Divine Providence
Inspiration of Bangko Kabayan as an ECONOMY of COMMUNION (EOC) Enterprise which is based on the Culture of giving.

I - Integrity
Respect and adherence to ethical values.

S - Service Excellence
Reciprocity.

U - Unity
Relationship building.

C - Committment to Community Development
Resource sharing.

Business Model

Bangko Kabayan positioned itself as a bank that will support the economic growth of the country side by establishing strong market presence in Region 4 by providing product and services that add value to businesses and households while helping them improve their standard of living.

BK lend loans to microfinance borrowers by assessing their capacity to pay through cash flows to avoid excessive borrowings than what the business needs. The bank builds its microfinance portfolio at the same time increase its deposits by teaching the microfinance borrowers to put part of their income as savings in their individual deposit accounts.

BK recognized the high cost of labor in the region and adapted a Microfinance model that would not entail additional cost for collecting voluminous loan payments on the necessarily frequent payment modes for micro loans. Instead, it invested on training the loan account officers as community development specialists (CDS), giving them the skills of organizing the largely women groups as Microfinance centers who would, in time, run their own affairs, requiring less and less of the presence of the CDS during their weekly meetings. BK sought to empower the micro clients so that they would learn to frequently transact with the bank as any other client such as signing loan documents as a group, receiving their proceeds within the bank premises and engaging the officers of the groups to come and bring the weekly payments of their members. Pursuing this strategy has empowered the clients and removed the mystic or resistance in becoming part of the formal banking sector for the hitherto unbanked barrio folk.

Because of a business model that also adopted TRUST as one of its identifying traits, albeit without losing any form of dual control that would ensure the integrity of transactions, the strategy of asking the clients to come to the bank to sign loan documents and deposit their weekly payments and deposits, the clients gained confidence in doing bank transactions as well as added stature in the barangay which had formerly looked at women as good only for the household chores.

Brand Positioning

Thus this empowerment of the clients, along with managing costs of bank loan officers who gradually decrease their costly handholding / visits to the clients, were the result of this unique brand of delivery of microfinance in the formal banking sector.

By building an expertise in determining the cash flow of each entrepreneur applicant and with deeper understanding of the capacity to pay of its clients, Bangko Kabayan was able to adopt flexible terms for small and medium enterprises that are successful in the business but still lack hard collateral to offer as security for their much needed working capital and asset acquisition loans. This model entails greater cost in backroom procedures, nevertheless allowed BK to access an underserved but growing sector and to do so minus the great risks often feared by bigger institutions. A thorough credit assessment process based on cash flow and collateral plus a deeper knowledge of the client, his reputation in the community as a businessman, allowed BK to lend even bigger loans that have performed better than expected, considering past due rate within the bank's risk appetite on the over-all portfolio.

BK's business model and strategies have succeeded in penetrating the Micro Small and Medium Enterprise sector in its area of operations.

Through the past decades, BK had portrayed the concept of personalized service to be given to all its clients no matter how big or small they are. This personal service has been inculcated to each personnel of BK, we listen to the clients and let them feel valued regardless if they are microfinance client or large account client.

Attending to the needs of rural clients have always been in the nature of BK personnel to, from assisting them in the opening of their accounts, to teaching them how to fill up the forms and receive their loan proceeds from the bank, to meeting the credit needs of micro business. It means we do even simple cash flow analysis so not only the bank but the clients understand how much they can borrow and still remain comfortable in repaying the loan, while accumulating savings without them feeling it.

This personalized service is also exhibited in the flexibility of terms offered to borrowers, especially SMEs whose cash flow needs vary. We have credit advisers whose job is to not only help reconstruct financials for SMEs who largely don't have audited financial statements, but to determine cash flows and help clients make 5-year projections - for the mutual benefit of the bank and the clients.

Bangko Kabayan's commitment of becoming the regions partner in economic development and providing relevant and quality financial products and services to MSMEs and individuals differentiates BK from other banks as expressed in its tagline "HINDI BASTA BANGKO, KABAYAN PA!"

History and Timeline

FOUNDING FATHERS

BIENVENIDO MEDRANO
Former President of Philippine Chamber of Commerce and Industry,Co-founder of Far East Bank

MANUEL AGREGADO
Retired Auditor General

ROMAN OZAETA
Retired Supreme Court Justice

1957

BK was established on August 19, 1957 and was first known as Ibaan Rural Bank, Inc. (IRB)

1968

Introduced checking account services and participated in various Rediscounting Programs offered by BSP and LBP.

1980

ENTRY OF 2ND GENERATION

Through the leadership of Atty. Francis S. Ganzon and Mrs. Teresa M. Ganzon, IRB was placed in a premier position in the rural banking industry.

In 1980, the Human Resource Department was formally established and the first Vision and Mission Statements of IRB were crafted.

1990-1996

EXPANSION

The bank became an Economy of Communion (EoC) Enterprise. Eight (8) branches were established in various municipalities of Batangas – Calaca, Cuenca, Mabini, Nasugbu, Rosario, San Jose, San Juan and San Pascual.

1996

Ibaan Rural Bank Foundation, Inc.

Ibaan Rural Bank Foundation was established to highlight the Corporate Social Responsibility of the bank with the puspose of extending micro- credit and scholarship program for poor but deserving students and sponsoring community-building seminars.

2001

MICROFINANCE

Microfinance was adopted as a major credit product of the bank.

2005

KABAYAN Loan

Individual Lending

KAPITAN Loan

Group Lending

Aquired Banco de Jesus in Marulas, Valenzuela.

Established 2 Loan Collection and Disbursement Points.

2007

NEW CORPORATE LOOK

Celebrated the bank's 50th anniversary and adopted the business name "Bangko Kabayan" with a resolve to be of service not only to Batangueños but also to other communities in nearby provinces.

BK BANGKO KABAYAN INC. A RURAL BANK

BK 50 years

2011-2012

eICBA SYSTEM

Integrated Core Banking System

CONTINUOUS EXPANSION

Opened 5 more branches in Batangas- Balayan, Tanauan, Agoncillo, Calatagan, and Lipa.

Began expansion outside Batangas province - in Laguna and Quezon.

Aquired an online, real time and fully Integrated online banking system.

2016

Bangko Kabayan Launched its new face as a Private Development Bank. It became 100% compliant with Cir. 855 within a year of its Introduction with minimal effect on its balance sheet.

BK PRIVATE DEVELOPMENT BANK

2017

BK 60 years

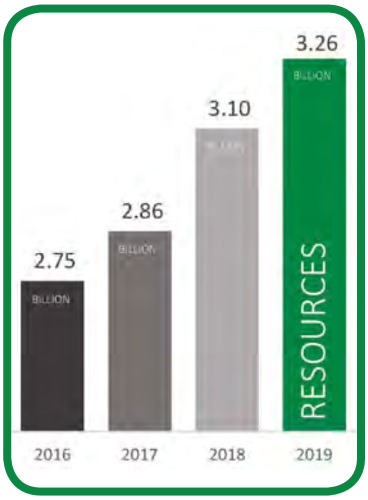
Tunay na Kabayan, Walang Iwanan!

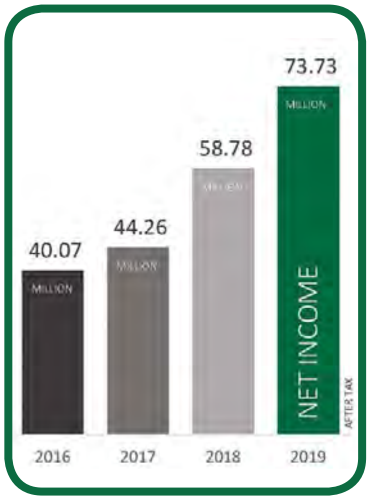
In celebration of it's 60th Anniversary, Bangko opened its very first Microfinance Banking Office in Lobo, Batangas.

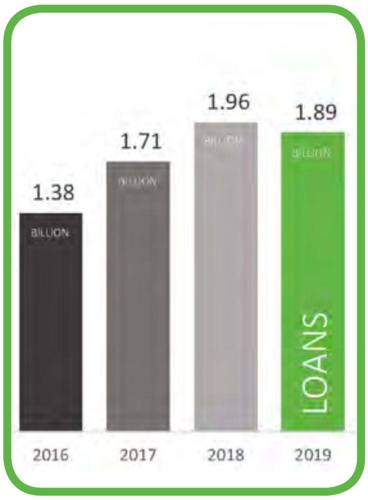
Financial Highlights

	Parent Bank (Solo)	
	2019	**2018**
Minimum Required Data Profitability		
Total Net Interest Income	318,165,840.00	268,316,535.00
Total Non-Interest Income	50,500,872.00	73,454,999.00
Total Non-Interest Expenses	246,792,441.00	252,709,589.00
Pre-provision profit	89,972,722.00	63,845,511.00
Allowance for credit losses	16,245,720.00	5,067,169.00
Net Income	73,727,002.00	58,778,342.00
Selected Balance Sheet Data		
Liquid Assets	1,803,119,852.00	1,522,629,101.00
Gross Loans	1,806,816,175.00	1,885,959,034.00
Total Assets	3,260,011,101.00	3,098,890,120.00
Deposits	2,554,984,727.00	2,457,732,717.00
Total Equity	587,540,801.00	514,407,385.00
Selected Ratios		
Return on equity	13.40%	12.00%
Return on assets	2.30%	2.00%
Capital Adequacy Ratio	20.20%	17.70%
Others		
Cash dividends declared	-	31,978,960.00

Financial Condition







As of December 31, 2019, the bank's total assets stood at P3.26B with a 5.20% growth rate or P161M higher than the previous year. Majority of our total assets or 58.10% is composed of loans and receivables, 13.00% of cash & cash equivalents and 9.45% of investments.

The bank's deposit liabilities displayed continued growth with a 3.96% increase in level as compared to the previous year's level. Our total deposit liabilities is composed of 76.39% low cost funds and 23.61% high cost of funds.

The bank's net total loans and receivables stood at P1.89B as of December 31, 2019, slightly lower than the previous year's P1.96B.

There was a slight increase in the bank's past due ratio from 2.16% in 2018 to 3.89% in 2019. Microfinance and Supervised Credit were pursued more aggressively beginning last year - yielding higher growth rates - but was accompanied by a past due ratio that is higher than historical performance, albeit within the bank's risk threshold.

The bank generated a net income after tax of P73.73M, significantly higher than 2018's NIAT of P58.78M. The growth rate of 25.43% was driven by a higher income on loans and investment, accompanied by a minimal 2.84% increment on expenses amounting to P7.73M.

The bank's CAR at 20.03% remains above industry average. Our loans to deposit ratio of 71.13% decreased compared to last year's 77.36%. while the higher net income contributed to an increase in our equity ratio from 16.6% to 18.02%

Operational Highlights

True to our commitment of becoming the region's partner in economic development, the bank has been finding ways to keep on improving its products and services and to increase our market reach.

In 2019, we introduced two new loan products – the Business Builder Loan (BBL) and the Multi- purpose Loan (MPL). The BBL aims to provide businessmen access to credit to acquire fixed assets for their business, while the MPL is offered to existing clients to finance their consumption needs.

In the first 7 months after the introduction of these products, there were more than 1,000 loan availments and, together, these two brought in an additional of at least P23.6 Million in loan portfolio.

Following the success of the bank's deposit generation campaign HATAW NA last 2018, the bank offered this promotion again in 2019 and generated an additional P247 million in new deposits.

Last year, we successfully pilot tested the i2i platform in partnership with UBX, a wholly owned subsidiary of Unionbank of the Philippines. i2i is a platform powered by technology that allows the bank to offer services other than deposit taking and loan granting, like the acceptance of bills payment, real-time transfer of funds within the i2i network with has more than 700 branches nationwide, same day transfer of funds to 53 PESONET members in the Philippines and real-time transfer of funds to 44 INSTAPAY members in the Philippines.

This service is targeted to be rolled-out to the other branches of the bank within the first half of this year and we believe that this will be a catalyst for financial inclusion through the use of technology for those in the countryside.

Staff Development

We continue to invest in the development of our employees. Bangko Kabayan currently employs 375 individuals, with 30% (123) of the workforce having undergone and successfully completed the Leadership and Management Training Program (LMTP). 77% (95) of the graduates have been promoted and are now occupying middle management positions.

Bangko Kabayan's "study now/pay later" program has also encouraged more employees to pursue their masteral studies. There are currently 3 pursuing their

MBA degrees and one manager going ahead towards a Doctorate Degree. Upon their completion, they will join 18 other members of the BK workforce armed with post-graduate degrees and hopefully will impact on increased professionalism and competence of BK.

Client Recognition

Our microfinance clients continue to gain recognition for their persistence, hard work and focus, helped along with a credit accommodation from Bangko Kabayan, Inc.

Last year, BK submitted 3 entries for the Microentrepreneur of the year award (MOTY) and one of them, Mr. Romualdo "Ejay" Blanco was chosen as Youth Microentrepreneur of the Year awardee.

In the year 2011, at the age of 20, Ejay started vending fruits but failed to generate adequate income to support his family. Later on he entered into another venture of selling isaw and fish ball and was given additional capital through the help of Bangko Kabayan. In 2014, on his 4th availment of KABAYAN loan, he and his wife started their dream business of manufacturing kakanin specializing in maja, puto and kutsinta. Through his hard work and good payment record, he was able to acquire five (5) motorcycles that deliver kakanin on consignment basis, with each motorcycle delivering to around 50 stores per day.

For the past years, BK was able to produced eight (8) MOTY awardees. These awardees were recognized because of their significant contributions to their respective local economies. This only proves that BK is not just a financial partner, but also a sustainable partner of their growing businesses.

Risk Management

Bangko Kabayan (BK) like any other businesses is invariably facing different kinds of risks that increase probabilities of financial losses. To mitigate these risks as a financial institution, BK established its Risk Management (RM) system as a component of good governance and an integral part of its culture.

RM fundamental principles show that it is an element of good governance that promotes transparency, accountability and control. Effectiveness of the RM system lies with the responsibility of the Board of Directors (BOD) through its Risk Oversight Committee (ROC) who oversees the bank's infrastructure, define, analyze, measure and report the effective control of the risks within the bank. BOD oversight includes monitoring of senior management's activities in managing credit, liquidity, operational, compliance, interest, market, strategic and reputational risks inherent in BK.

BK uses the Enterprise Risk Management (ERM) integrated approach to view risks, considering the risks at all levels of the organization and the inter-dependencies of its various units. BK's ERM aims to identify the risks associated with the core activities and business strategies of the bank and craft risk strategies to address these risks, at the same time inculcating RM as part of BK's culture while integrating RM as part of BK's good corporate governance and strategic management. It also aims to enhance operational efficiency, help sustain growth and optimize BK's earning potential.

BK's ERM encompasses strategic implementation of three line of defenses to define boundaries and clear responsibilities between each group. The first line of defense is the business line units who own and manage the risks. The second line of defense is the independent risk management and compliance function of the bank that oversees the risks. And the third line of defense is the internal audit which provides independent assurance.

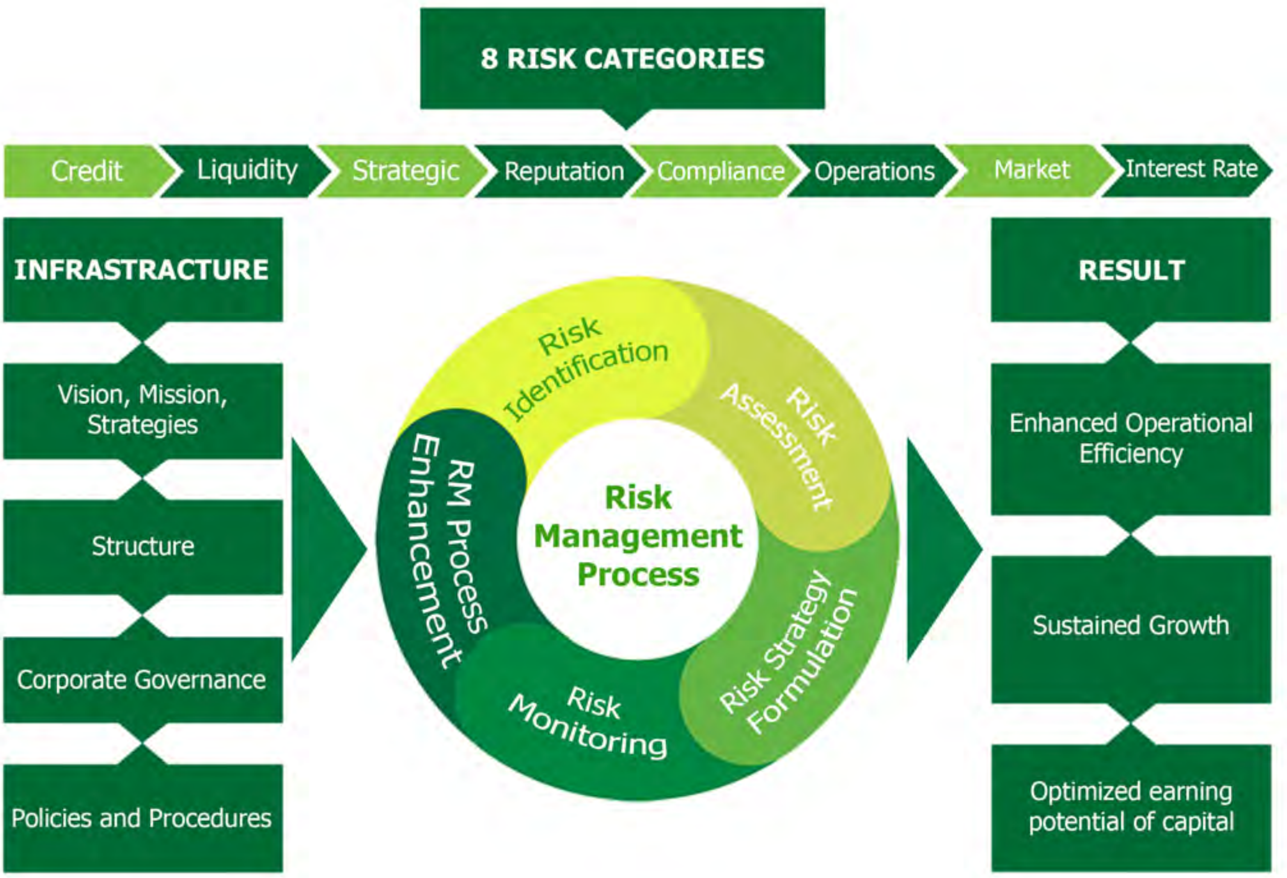
To provide a system of checks and balances, BK separates the risk-taking decision from the risk assessment and controls over it. The front office functions in charge of business execution and risk taking activities is segregated from back office functions where the later performs support functions to increase efficiency, and implements control functions for discipline and risk mitigation. The core banking system of BK also set appropriate controls that serve as a back office in both functions by limiting the access of the users using the least privilege principle and separation of duties. Independent from front office and back office, BK established a middle office through the risk management officer who has a direct access to the BOD and has sufficient leverage to push through complex or uncomfortable risk issues to the highest levels of decision-making.

To be able to achieve BK's ERM objectives, BK defined its risk appetite as the maximum level of risk the bank is prepared to accept in order to achieve its corporate objectives. This ensures that identified risks shall be managed to acceptable levels set by the bank. Risk appetites are reviewed and approved by the BOD through its ROC and is communicated down to operational level by formulating related risk limits that form part of the BK's policies. BK shall pursue its 5-year business plan with moderate risk appetite to support its vision of becoming the preferred financial institution of MSMEs in Region 4. The bank shall continue to take calculated risks to effectively serve its stakeholders, by taking into consideration its overall sustainability and maintaining an acceptable level of the following: capital adequacy ratio, annual return on equity and CAMELS rating. BK aims to operate within moderate overall risk range, reducing risk to acceptable level emanating from competition, client relationship management, information technology confidentiality, product pricing, BSP regulations, technology implementation, information technology availability / continuity, employee communication, and tone at the top.

Communication and reinforcement of BK's risk appetite throughout the bank help align all employees' risk taking decisions. For managing concentration of risk, prudent risk limits are set for strategic, credit, liquidity, reputational, compliance and operations risks in accordance with BK's size, complexity and risk profile. These risk limits are reviewed and approved by the BOD through its ROC. Through the risk management process, breaches of the risk appetite and risk limits can be identified. As the bank's risk management continuously monitors the limits, any breaches are reported to BOD and ROC for analysis and decision.

BK sees RM as a function and process that utilizes its infrastructure such as vision, mission, strategies, organizational structure, corporate governance, policies and procedures, technology, communication and reporting system to achieve the RM objectives of enhanced operational efficiency, sustained growth, optimized earning potential of capital, optimized beneficiary reach and risk culture inculcation. There are 8 risk categories identified to be monitored by financial institutions namely credit, liquidity, strategic, reputation, compliance, operations, market and interest rate. These risks are inherent given the infrastructure and systems instituted which, if properly managed through an effective RM system should lead to the intended results.

Risk Management Framework



Significant Risk Areas / Exposures

Bangko Kabayan operates within a moderate overall risk range, reducing risks to acceptable levels emanating from the following top risks identified by the bank:

1. Technology Implementation
Failure to use technology to achieve competitive advantage

2. Compensation and Benefits
Failure to compensate and provide benefits to employees that align with employee expectations and the competitor environment, and that motivate employees to perform their job function at an optimal level

3. Competition
Actions of competitors or new entrants to the market effect the company's competitive advantage and/or ability to survive. Inability to maintain and grow market share due to the failure to recognize and respond to competitive threats

4. Employee Communication
Inability to understand, and respond to, the communication needs of different employees

5. Technology Support
Failure of technology supporting a major initiative to meet the business need of that initiative (specifically for technology to administer new products)

Anti-Money Laundering Risk Management

Bangko Kabayan is committed to protect the integrity and confidentiality of the bank accounts of its depositors and ensure that the bank wil not be used as a money laundering site and conduit for the proceeds of unlawful activity. Bangko KAbayan supports the concerted effort to combat money laundering.

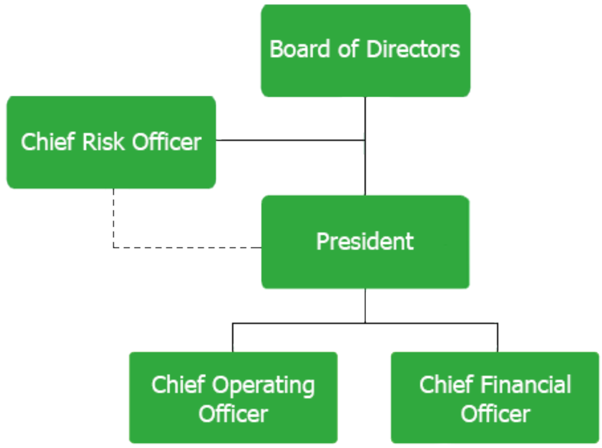
In an effort to prevent money laundering activities, the Bank adopts a KYC policies and guidelines in order to comply with the policies of AMLA issued by BSP. Under the guidelines each business unit is required to validate the true identity of a customer based on official or other reliable identifying documents or records before an account may be opened. Likewise, the Bank requited to risk profile its client to Low, Norma or High with its corresponding due diligence of Reduced, Average or Enhanced, in compliance with the risk based approached mandated by the MORB. Decisions to enter into a business relationship with high risk customer and politically exposed person requires senior management approval.

The Bank's procedure for compliance with the AMLA are set out in its MLPP. The Bank's Chief Compliance Officer, monitors AMLA compliance and conduct regular compliance testing of business units.

The Compliance office requires all branch unit compliance Officer to submit certificate of compliance with the Anti-Money Laundering Rules and Regulations on a quarterly basis.

The Chief Compliance Officer regularly reports to the Audit Committee and the BOD results of monitoring of AMLA compliance.

Risk Management Unit Structure



BK adhere with the above RM structure for efficient facilitation of the risk management process.

The Chief Risk Officer (CRO) heads the risk management function and has direct access to the Board of Directors and Risk Oversight Committee. CRO directly reports to the Board of Directors, but administratively reports to the President. The Chief Risk Officer (CRO) is responsible for overseeing the risk management function and should support the BOD in the development of the risk appetite and risk appetite statement of the bank, and for translating the risk appetite into a risk limit structure. The CRO also proposes enhancements to risk management policies, processes and systems to ensure that the bank's risk management capabilities are sufficiently robust and effective to fully support strategic objectives and risk-taking activities.

The Risk Management Function is responsible for overseeing the risk-taking activities across the bank, as well as in evaluating whether these remain consistent with the bank's risk appetite and strategic direction. It ensures that the risk governance framework remain appropriate relative to the complexity of risk taking activities of the bank. The risk management function is responsible for identifying, measuring, monitoring and reporting risk on an enterprise-wide basis as part of the second line of defense. It directly reports to the Risk Oversight Committee (ROC) or BOD.

The Board of Directors of Bangko Kabayan is responsible for approving the bank's risk governance framework and oversee management's implementation. The BOD defines the bank's risk appetite by taking into account the business environment, regulatory landscape and the bank's long term interests and ability to manage risk. The BOD also approves and oversees adherence to the risk appetite statement, risk policy and risk limits and defines organizational responsibilities following the three lines of defense framework. The BOD ensures that the risk management, compliance and internal audit functions have proper stature in the organization, have adequate staff and resources, and carry out their responsibilities independently, objectively and effectively.

Bangko Kabayan designated a Risk Oversight Committee (ROC) who will primarily advise the BOD for BK's overall current and future risk appetite, oversee senior management's adherence to the risk appetite and report on the state of risk culture of the bank. The committees main responsibility is to oversee the risk management framework, adherence to risk appetite and risk management function and ensure that there is periodic review of the effectiveness of the risk management systems and recovery plans. It also ensures that corrective actions are promptly implemented to address risk management concerns and that the current and emerging risk exposure are consistent with the bank's strategic direction and overall risk appetite. The ROC also performs assessment on the overall status of adherence to the risk appetite based on the quality of compliance with the limit structure, policies, and procedures relating to risk management and control, and performance of management, among others. It is also responsible for the appointment/selection, remuneration, and dismissal of the Chief Risk Officer (CRO).

Risk governance requires effective information sharing and communication system enabling the timely, accurate, concise, and understandable transfer of information. This includes, educating, collecting feedback, reporting and engaging in fruitful discussion about risk. The risk management of BK is responsible for communicating risk information throughout the institution through the preparation and presentation of risk reports. This report is also presented during the regular monthly and quarterly meeting of the Risk Oversight Committee and the BOD. The risk report covers satisfactory content like areas of concern, emerging threats and opportunities and material risk areas within the organization that is being monitored. To ensure accuracy of the risk reports, the data being used is reconciled and validated from system generated reports and financial statements.

BK employs the use of risk measurement tools like Key Risk Indicator (KRI), Stress Testing and Incident Monitoring for determining the quantitative and/or qualitative impact or consequences of risk. Key Risk Indicators (KRI) is used to predict the occurrence of risks. Each of the identified top priority risks has a set of KRIs that measures the possibility of the identified priority risk happening. Stress testing is used to evaluate the financial position under unlikely, yet possible events that could cause significant impact to capital. It covers various scenarios arising from identified risk events with a high probability of occurrence. BK performs stress testing for risk events that may affect large exposures and sources of funds. Results of these tests are included in the risk reports of the Chief Risk Officer (CRO) to the Risk Oversight Committee of the Board. Scenarios and assumptions are set by the CRO based on current conditions and factual information. Monitoring of Incident Report involve actions that are not in compliance with existing policies and procedures of the bank, irregularities encountered on the systems or any action that is against the interests of the bank are monitored, summarized and reported quarterly to the Risk Oversight Committee as operational risk management tool for monitoring risk of loss resulting from inadequate or failed internal processes, people and system or from external events.

Corporate Governance

Corporate Governance is an indispensable component of sound strategic business management. It is a system of rules, practices and process by which the Bank is directed and controlled.

The Board of Directors sets the tone at the top through directives and policies that is being communication to its employee. Within their chartered authority, the directors acting as a board have the fullest powers to regulate the concerns of the Corporation according to their best judgement.

Selection Process for the Board of Directors and Senior Management

Bangko Kabayan (BK) believes in selecting the right candidates base on the a) the qualification of the candidates, and b) the hiring standards of the Bank. To ensure a healthy exchange of views and objective judgment, professionals with various expertise are considered to guide the strategic direction of the bank.

The composition and term limits of the BOD is in line with the regulations set forth by the Bangko Sentral ng Pilipinas and the Securities and Exchange Commission ensuring an appropriate structure of corporate governance in place.

Majority (8 out of 9 of BK's board members are non-executive directors, including three (3) independent directors. This promotes an environment that allows members of the board to challenge actions and proposals of management while exercising shared responsibility in managing the business.

The appointment of Senior Management members is also subject to hiring standards of the bank and on the rules set by the BSP. They must also uphold the vision and core values of Bangko Kabayan.

Board of Directors' Over-all Responsibility

The Board of Directors is shaping the corporate culture and values of the bank by upholding BK's Vision, Mission and Core Values. They are highly involved in:

a) strategic planning and oversight on Management's implementation of the annual approved plan

b) appointing key members of the senior management to ensure competence and accountability

c) overseeing the corporate governance framework by meeting regularly and discussing relevant matters. And

d) adopting a robust compliance and risk governance framework

The Chairman of the Board

The Chairman of the Board is appointed by members of the Board and provides leadership and governance to ensure that the body discharges its mandate effectively. The Chairman sees to it that all members promote the highest standards of integrity and the board, as a whole, decides on matters collectively in order to steer the bank towards its strategic direction ensuring the achievement of its goals.

Board Composition

The Board of Direcors is composed of (9) Directors with at least three (3) Independent Directors, each holding at least 1 share. The composition of the Board is as follows:

Name of Directors	Type of Directorship	If nominee, identify the Principal	Years served as director	Number of direct/indirect shares held	% Shares to Total Outstanding Shares
Jose Roman S. Ozaeta	Non-Executive	Principal	2	10	0.00%
Maria Teresa M. Ganzon	Non-Executive	Principal	32	1,014,839	27.60%
Francis S. Ganzon	Executive	Principal	32	513,598	13.97%
Gregorio O. Ozaeta	Non-Executive	Principal	20	580,790	15.79%
Ma. Consuelo Francesca G. Costa	Non-Executive	Principal	7	178,713	4.86%
Ma. Fides Concepcion M. Ganzon-Ofrecio	Non-Executive	Principal	7	179,708	4. 89%
Leonardo P. Sangalang Jr.	Independent	Principal	7	733	0.02%
Alan John B. Tantoco	Independent	Principal	7	16,665	0.45%
Tita D. Puangco	Independent	Principal	2	7,355	0.20%

Board of Directors

JOSE ROMAN S. OZAETA

POSITION : CHAIRMAN OF THE BOARD
AGE : 60 YEARS OLD
NATIONALITY : FILIPINO
EDUCATION : MASTER IN BUSINESS ADMINISTRATION, FORDHAM UNIVERSITY

CURRENT DIRECTORSHIP / OFFICERSHIP IN OTHER COMPANIES:

COMPANY	POSITION	FROM	TO
BAGUIO COUNTRY CLUB	DIRECTOR	1997	PRESENT
MILAGROS FARMS INC.	GENERAL MANAGER / PRESIDENT	1993	PRESENT
PACIFIC GLASS CORP	DIRECTOR	1987	PRESENT

WORK EXPERIENCE IN THE LAST 10 YEARS:

COMPANY	POSITION	FROM	TO
MILAGROS FARMS INC.	GENERAL MANAGER / PRESIDENT	1993	PRESENT

MARIA TERESA M. GANZON

POSITION : DIRECTOR
AGE : 65 YEARS OLD
NATIONALITY : FILIPINO
EDUCATION : MASTER IN BUSINESS ADMINISTRATION, FORDHAM UNIVERSITY

CURRENT DIRECTORSHIP / OFFICERSHIP IN OTHER COMPANIES:

COMPANY	POSITION	FROM	TO
VILLA VICENTA FARMS, INC.	DIRECTOR	1977	PRESENT

WORK EXPERIENCE IN THE LAST 10 YEARS:

COMPANY	POSITION	FROM	TO
BANGKO KABAYAN INC.	PRESIDENT / DIRECTOR	1993	1991
BANGKO KABAYAN INC.	DIRECTOR	1991	2018

ATTY. FRANCIS S. GANZON

POSITION : DIRECTOR
AGE : 69 YEARS OLD
NATIONALITY : FILIPINO
EDUCATION : JURIS DOCTOR, ATENEO COLLEGE OF LAW

CURRENT DIRECTORSHIP / OFFICERSHIP IN OTHER COMPANIES:

COMPANY	POSITION	FROM	TO
VILLA VICENTA FARMS, INC.	DIRECTOR / PRESIDENT	1977	PRESENT

WORK EXPERIENCE IN THE LAST 10 YEARS:

COMPANY	POSITION	FROM	TO
BANGKO KABAYAN INC.	PRESIDENT	1991	PRESENT

GREGORIO O. OZAETA

POSITION : DIRECTOR
AGE : 54 YEARS OLD
NATIONALITY : FILIPINO
EDUCATION : MASTER IN BUSINESS MANAGEMENT, ASIAN INSTITUTE OF BUSINESS

CURRENT DIRECTORSHIP / OFFICERSHIP IN OTHER COMPANIES:

COMPANY	POSITION	FROM	TO
MELITONA ESTATE INC.	DIRECTOR / VICE PRESIDENT	2016	PRESENT

WORK EXPERIENCE IN THE LAST 10 YEARS:

COMPANY	POSITION	FROM	TO
MELITONA ESTATE INC.	DIRECTOR / VICE PRESIDENT	2016	PRESENT

MA. CONSUELO FRANCESCA G. COSTA

POSITION : DIRECTOR
AGE : 40 YEARS OLD
NATIONALITY : FILIPINO
EDUCATION : POST GRADUATE DIPLOMA IN FINANCE, UNIVERSITY OF MELBOURNE, AUSTRALIA

WORK EXPERIENCE IN THE LAST 10 YEARS:

COMPANY	POSITION	FROM	TO
BANGKO KABAYAN INC.	OPERATIONS MANAGER	2009	2012

MA. FIDES CONCEPCION M. GANZON-OFRECIO

POSITION : DIRECTOR
AGE : 35 YEARS OLD
NATIONALITY : FILIPINO
EDUCATION : MASTER IN ENTREPRENEURSHIP, ATENEO GRADUATE SCHOOL OF BUSINESS

CURRENT DIRECTORSHIP / OFFICERSHIP IN OTHER COMPANIES:

COMPANY	POSITION	FROM	TO
UPPA INC.	DIRECTOR / CEO	2017	PRESENT
INEXPH INC.	DIRECTOR / TREASURER	2016	PRESENT
BANGKO KABAYAN INC.	DIRECTOR	2012	PRESENT

WORK EXPERIENCE IN THE LAST 10 YEARS:

COMPANY	POSITION	FROM	TO
BANGKO KABAYAN INC.	CORPORATE PLANNIG HEAD	2012	2019
BANGKO KABAYAN INC.	MARKETING MANAGER	2008	2012

LEONARDO P. SANGGALANG

POSITION : INDEPENDENT DIRECTOR
AGE : 73 YEARS OLD
NATIONALITY : FILIPINO
EDUCATION : MASTER IN MANAGEMENT ASIAN INSTITUTE OF MANAGEMENT

WORK EXPERIENCE IN THE LAST 10 YEARS:

COMPANY	POSITION	FROM	TO
DE LA SALLE UNIVERSITY	MBA PROFESSOR	2002	2013

ATTY. ALAN JOHN B. TANTOCO

POSITION : INDEPENDENT DIRECTOR
AGE : 53 YEARS OLD
NATIONALITY : FILIPINO
EDUCATION : JURIS DOCTOR, ATENEO COLLEGE OF LAW

CURRENT DIRECTORSHIP / OFFICERSHIP IN OTHER COMPANIES:

COMPANY	POSITION	FROM	TO
102T, INC.	DIRECTOR / TREASURER	2013	PRESENT
THE HAPP GALLERY, INC.	DIRECTOR / TREASURER	2013	PRESENT
CORLILAMMARC HOLDINGS INC.	DIRECTOR / CFO	2013	PRESENT

WORK EXPERIENCE IN THE LAST 10 YEARS:

COMPANY	POSITION	FROM	TO
TANTOCO VILLANUEVA AND DE GUZMAN LAW OFFICES	DIRECTOR / CORPORATE	2004	PRESENT

TITA D. PUANGCO

POSITION : INDEPENDENT DIRECTOR
AGE : 69 YEARS OLD
NATIONALITY : FILIPINO
EDUCATION : MASTER IN MANAGEMENT, ASIAN INSTITUTE OF BUSINESS MANAGEMENT

CURRENT DIRECTORSHIP / OFFICERSHIP IN OTHER COMPANIES:

COMPANY	POSITION	FROM	TO
ANCILLA ENTERPRISE DEVELOPMENT CONSLTING, INC	CHAIRPERSON / CEO	1990	PRESENT

WORK EXPERIENCE IN THE LAST 10 YEARS:

COMPANY	POSITION	FROM	TO
ANCILLA ENTERPRISE DEVELOPMENT CONSLTING, INC	CHAIRPERSON / CEO	1990	PRESENT

Board Committees

Audit and Compliance Committe

The Audit and Compliance Committee aims to enhance its oversight capability over the Bank's financial reporting, internal control systems, internal and external audit processes, and compliance with applicable laws and regulations.

Name	Designation
Leonardo P. Sangalang Jr.	Chairman
Tita D. Puangco	Member
Ma. Consuelo Francesca Ganzon-Costa	Member

Risk Oversight Committee

The Risk Oversight Committee oversees the Banks's enterprise risk management system and ensure its functionality and effectiveness.

Name	Designation
Atty. Alan John B. Tantoco	Chairman
Leonardo P. Sangalang Jr.	Member
Jose Roman Ozaeta	Member

IT Steering Committee

The IT Steering Committee is ultimately responsible for understanding the IT risk confronted by the bank and ensuring that they are properly managed through institution of policies and procedures. They have overall responsibility for establishing and maintaining an independent, competent and effective IT audit function commensurate with the scope, complexity and sophistication of its environment.

Name	Designation
Gregorio O. Ozaeta	Chairman
Leonardo P. Sangalang Jr.	Member
Leandro B. Ofrecio	Member

Performance Assessment Program

Periodically, the Board of Directors conduct a self-assessment of its performance against established criteria for purposes of assessing its effectiveness.

Performance assessment serves as the board's tool to improve its structure, composition, practices and procedures.

The Chief Compliance Officer prepares the overall report and submits the same to the board for discussion and action to improve effectiveness.

Board of Director's Attendance

Name of Directors	Board Meetings Attendance	Risk Governance Committee Attendance	Board Audit Committee Attendance	IT Steering Committee Attendance
Jose Roman S. Ozaeta	100%	100%		
Maria Teresa M. Ganzon	100%			
Francis S. Ganzon	100%			
Gregorio O. Ozaeta	100%			100%
Ma. Consuelo Francesca G. Costa	100%		100%	
Ma. Fides Concepcion M. Ganzon-Ofrecio	100%			
Leonardo P. Sangalang, Jr.	100%	100%	100%	100%
Alan John B. Tantoco	100%	100%		
Tita D. Puangco	100%		100%	
Total Number of Meetings Held During the year	**12**	**4**	**4**	**4**

Senior Management

POSITION : PRESIDENT / DIRECTOR
AGE : 69 YEARS OLD
NATIONALITY : FILIPINO

EDUCATIONAL ATTAINMENT AND DEGREE:
AB POLITICAL SCIENCE
JURIS DOCTOR

PAST POSITIONS HELD IN BK AND INCLUSIVE YEARS:
PRESIDENT/DIRECTOR (2018-PRESENT)
PRESIDENT/CHAIRMAN OF THE BOARD OF DIRECTORS (2016-2017)
PRESIDENT/VICE CHAIRMAN OF THE BOARD OF DIRECTORS (2007-2016)

POSITION : CHIEF OPERATING OFFICER
AGE : 39 YEARS OLD
NATIONALITY : FILIPINO

EDUCATIONAL ATTAINMENT AND DEGREE:
BS INDUSTRIAL ENGINEERING
MASTERS OF BUSINESS ADMINISTRATION MAJOR IN MARKETING

PAST POSITIONS HELD IN BK AND INCLUSIVE YEARS:
CHIEF OPERATING OFFICER (2016-PRESENT)
BRANCH BANKING GROUP HEAD (2014-2016)
GENERAL SERVICES AND ADMINISTRATIVE DEPARTRMENT HEAD (2012-2014)

POSITION : CHIEF FINANCIAL OFFICER
AGE : 56 YEARS OLD
NATIONALITY : FILIPINO

EDUCATIONAL ATTAINMENT AND DEGREE:
BS COMMERCE MAJOR IN ACCOUNTING, CPA
MASTER IN BUSINESS ADMINISTRATION

PAST POSITIONS HELD IN BK AND INCLUSIVE YEARS:
EXECUTIVE VICE PRESIDENT / CHIEF FINANCIAL OFFICER (2007-PRESENT)
EXECUTIVE VICE PRESIDENT / DIRECTOR (2007-2017)
EXECUTIVE VICE-PRESIDENT (2005-2007)
VICE PRESIDENT FOR OPERATIONS (1997-2006)
ASSISTANT GENERAL MANAGER/CASHIER (1993-1997)
OFFICER-IN-CHARGE / CASHIER (1991-1993)
INTERNAL AUDITOR (1989-1990)
CHIEF ACCOUNTANT (1988-1989)
INTERNAL AUDITOR (1987-1988)

POSITION : ACTING CORPORATE PLANNING HEAD
AGE : 37 YEARS OLD
NATIONALITY : FILIPINO

EDUCATIONAL ATTAINMENT AND DEGREE:
BS FINANCIAL MANAGEMENT
MASTER IN BUSINESS ADMINISTRATION

PAST POSITIONS HELD IN BK AND INCLUSIVE YEARS:
ACTING CORPORATE PLANNING HEAD (2019-PRESENT)
RISK OFFICER/INFORMATION SECURITY OFFICER (2015-2019)
BRANCH ADMINISTRATION AND DEVELOPMENT OFFICER (2014-2015)
APPLICATION SUPPORT SPECIALIST / CORE BANKING (2012-2014)
AUDITOR (2010-2012)
BRANCH ACCOUNTANT / MF BOOKEEPER (2008-2010)
OPERATIONS ASSISTANT - LCDP BATANGAS CITY (2007-2008)
MF BOOKKEEPER (2004-2007)

POSITION : CREDIT GROUP HEAD
AGE : 46 YEARS OLD
NATIONALITY : FILIPINO

EDUCATIONAL ATTAINMENT AND DEGREE:
BS COMMERCE MAJOR IN AGRIBUSINESS

PAST POSITIONS HELD IN BK AND INCLUSIVE YEARS:
CREDIT GROUP HEAD (2015-PRESENT)
CREDIT MANAGEMENT DEPARTMENT HEAD (2013-2015)
LOANS MANAGER (2009-2013)
SAN JOSE BRANCH MANAGER (2008-2009)
CUENCA BRANCH MANAGER (2008-2008)
CUENCA BRANCH OFFICER-IN-CHARGE (2006-2008)
MANAGEMENT TRAINEE (2005-2006)

POSITION : TREASURY OFFICER / MIS HEAD
AGE : 36 YEARS OLD
NATIONALITY : FILIPINO

EDUCATIONAL ATTAINMENT AND DEGREE:
BS ACCOUNTANCY, CPA
MASTER IN BUSINESS ADMINISTRATION

CERTIFICATION:
CERTIFIED TREASURY PROFESSIONAL

PAST POSITIONS HELD IN BK AND INCLUSIVE YEARS:
TREASURY OFFICER (2018-PRESENT)
COMPTROLLER IN CONCURRENT CAPACITY AS TREASURY AND BUDGET OFFICER AND MIS HEAD (2015-2018)
CHIEF ACCOUNTANT (2007-2015)
SENIOR ACCOUNTANT (2006-2007)
ACCOUNTANT 1 (2005-2006)

POSITION : STRATEGIC SUPPORT GROUP HEAD
AGE : 47 YEARS OLD
NATIONALITY : FILIPINO

EDUCATIONAL ATTAINMENT AND DEGREE:
BACHELOR IN COMPUTER DATA PROCESSING AND MANAGEMENT
MASTER IN BUSINESS ADMINISTRATION

PAST POSITIONS HELD IN BK AND INCLUSIVE YEARS:
STRATEGIC SUPPORT GROUP HEAD IN CONCURRENT CAPACITY AS CHIEF INFORMATION OFFICER (2018-PRESENT)
CHIEF INFORMATION OFFICER (2012-2018)
CORPORATE SUPPORT HEAD (2005-2012)
HRAD MANAGER (2002-2005)
ASSISTANT LOANS MANAGER (2002-2002)
EDP MANAGER (2000-2002)
TSG/EDP MANAGER (1998-2000)
EDP MANAGER (1997-1998)
EDP STAFF (1995-1997)
ADMIN / RECORDS ASSISTANT (1993-1995)

POSITION : CHIEF COMPLIANCE OFFICER
AGE : 46 YEARS OLD
NATIONALITY : FILIPINO

EDUCATIONAL ATTAINMENT AND DEGREE:
BS ACCOUNTANCY, CPA
MASTER IN BUSINESS ADMINISTRATION

PAST POSITIONS HELD IN BK AND INCLUSIVE YEARS:
CHIEF COMPLIANCE OFFICER (2015-PRESENT)
ASSISTANT COMPLIANCE OFFICER (2015-2015)
MIS GROUP HEAD / TREASURY AND BUDGET OFFICER (2014-2015)
MICROFINANCE DEPARTMENT MANAGER (2007-2014)
MFU PROGRAM HEAD (2006-2007)
MF SUPERVISOR (2005-2006)
SENIOR ACCOUNTANT (2003-2005)

POSITION : INTERNAL AUDIT HEAD
AGE : 30 YEARS OLD
NATIONALITY : FILIPINO

EDUCATIONAL ATTAINMENT AND DEGREE:
BS ACCOUNTANCY, CPA

CERTIFICATIONS:
CERTIFIED INTERNAL AUDITOR – GLOBAL
CERTIFIED INTERNAL CONTROLS AUDITOR - GLOBAL

PAST POSITIONS HELD IN BK AND INCLUSIVE YEARS:
INTERNAL AUDIT HEAD (2016-PRESENT)
INTERNAL AUDIT HEAD (2012-2015)
AUDITOR 2 (2011-2012)

POSITION : ACTING RISK / INFORMATION SECURITY / DATA PRIVACY OFFICER
AGE : 39 YEARS OLD
NATIONALITY : FILIPINO

EDUCATIONAL ATTAINMENT AND DEGREE:
BS COMPUTER SCIENCE

CERTIFICATION:
DATA PRIVACY OFFICER ACE LEVEL 1 CERTIFICATION

INCLUSIVE YEARS:
ACTING RISK / INFORMATION SECURITY / DATA PRIVACY OFFICER (2019 - PRESENT)
INFORMATION TECHNOLOGY DEPARTMENT HEAD (2018 – 2019)
IT OPERATIONS HEAD (2017 – 2018)
ASSISTANT IT MANAGER / SYSTEM ADMINISTRATOR (2013 – 2017)
INFORMATION SECURITY OFFICER (2012 – 2013)
SENIOR MIS ASSISTANT (2007-2012)
COMPUTER PROGRAMMER/MIS STAFF (2003 – 2007)
ADMINISTRATIVE STAFF / RECORDS & SUPPLIES CUSTODIAN (2003)
HR STAFF/PERSONNEL CLERK (2002 – 2003)

Performance Assessment for Senior Management

On an annual basis, each member of the Bangko Kabayan's Senior Management is being evaluated in accordance with the Bank's performance on achieving its organizational objectives and goals.

Performance Objectives and Targets
Organizational Objectives and Targets are being decided during the yearly Strategic Planning session which is used as basis in rating the performance of all the members of the organization the following year. Organizational objectives and targets usually include financial achievements in terms of Income Generation, Loan Portfolio Management and Deposit Generation. Apart from financial targets, other key result areas include service delivery, job performance and compliance to set policies and procedures. Depending on the job requirements, the factors above are assigned individual weights to determine the final rating of each individual.

Following the doctrine of command responsibility, rating of the members of the senior management is arrived at based on the rating of all the personnel under his/her supervision.

Members of the Senior Management are currently assessed against the following KRA:

President
- Bankwide PMS Rating

Chief Operating Officer
- Rating of Microfinance Dept. Head
- Rating of Strategic Support Group Head
- Rating of Credit Group Head
- Rating of Area Manager
- Rating of Operations & Control Officer
- Rating of Branch Admin. & Dev't. Officer

Chief Finance Officer
- Rating of the Chief Accountant
- Rating of the Treasury Officer

Corporate Planning Head
- Bankwide PMS Rating
- Product Development & Management

Credit Group Head
- Past Due Ratio
- Rating of Credit Management Department (CMD)
- Rating of Credit Support Department (CSD)
- Rating of Remedial Management Unit (RMU)
- Rating of Asset Management and Real and Other Properties Department (AM/RD)

Treasury Officer
- Profitability
- Fund Management
- Reports Submission
- Audit Rating

Strategic Support Group Head
- Rating of HR Head
- Rating of Marketing Head
- Rating of GSAD Head
- Rating of IT Head

Chief Compliance Officer
- Rating of the Board
- Share of Compliance in BSP Findings
- CAMELS Rating
- Internal Audit Rating

Internal Audit Head
- Accomplishment of Audit Plan
- Rating of the Board
- Share of IA on Recent BSP Findings
- CAMELS Rating
- Staff Rating

Risk Officer
- Timeliness of Risk Assessment Report Delivery
- Rating of the Board
- CAMELS Rating
- Share on BSP Findings
- Audit Rating

Management Committees

Executive Committe (ExCom)

The executive committee provides a mechanism to engage within the limits set by board, in decision making, relating to the transaction routine, administrative matters, oversight and communication of important organizational matters.

Members:
1. President
2. Chief Operating Officer
3. Chief Financial Officer
4. Corporate Planning Head
   -Designated Secretary
5. Operations Control Officer
6. Credit Group Head
7. Microfinance Head
8. Treasury Head
9. Strategic Support Group Head

10. Chief Compliance Officer
11. Internal Audit Head
12. Risk Officer

Personnel Committe (PerCom)

The Personnel Committees provides direction and decision-making for employee policies, compensation and benefits, legal compliance and staff evaluation and trainings. The Personnel Committee ensures that all employees have the training and tools to perform their jobs, are held accountable for achieving goals, and are compensated appropriately for their efforts.

Members:

1. Strategic Support Group Head
2. HR Manager
3. Operations Control Officer
4. Training and Organizational Development Specialist - Designated Secretary

Asset and Liability Committee

The Asset/Liability Committee (ALCO) has been established to assess the adequacy and monitor the implementation, of the Bank and Company's Asset/ Liability Management policy and related procedures. The ALM Policy will include specific policies and procedures relating to (i) interest rate risk, (ii) market/ investment risk, (iii) liquidity risk, (iv) credit risk, and (v) capital risk.

Members:

1. President
2. Executive Vice President - CFO
3. Chief Operating Officer
4. Credit Group Head
5. Treasury Head - Designated Secretary

Executive Credit Committee (ExeCreCom)

In line with the Bank's thrust of maintaining a high quality, sound and profitable loan portfolio, the Executive Credit Committee was formed to evaluate and approve loan accounts within its credit approval authority. They are responsible to review credit policies and procedures, recommend changes, if necessary. To ensure continues effectiveness of loan product, review of performance are done to act/resolve credit risk limit breached as discussed with the risk board committee.

The Committee carries out the following responsibilities: (1) Reviewing and approving credit decision that may pose material risks to the Bank's business strategy or reputation, (2) Reviewing the financial results of the Bank and determining action plans and (3) Reviewing and approving all loans and credit transactions with the scope of its authority.

Members:

1. President - BOD Member
3. Chief Financial Officer
4. Chief Operating Officer
5. Credit Group Head
6. Credit Management Head

Management Committee (ManCom)

The Management Committee (ManCom) is responsible for crafting strategic decisions to ensure that the organization stays true to its Vision and Mission as it carries out its daily operations. The Committee makes important decisions to direct the future of the organization.

Members:

1. Executive Officers
2. Department Heads
3. Area Heads

Orientation and Education Program

Bangko Kabayan believes that the continuing development of people behind its operations is imperative to guarantee its success. Thus, Bangko Kabayan designed a training program for its Board of Directors and senior management to make sure that they continuously possess qualifications for the position they are handling and that they are kept abreast with the different developments in the banking industry. This program aims to provide them with the necessary skills and knowledge critical in the position as well as to keep them abreast with the different developments specifically in the banking industry, and the financial economy, in general.

At a minimum, each of the members of the BOD must have attended the Corporate Governance and Risk Management Seminar which should be taken within six (6) months upon appointment from a BSP accredited organization.

For continuing professional education, the members of the BOD may opt to attend any of the following professional trainings:

- Professional Director's Program
- Enhancing Audit Committee Effectiveness
- Finance for Directors
- Advance Corporate Governance Training

- Legal Liabilities and Proceedings affecting banks and their directors
- Anti-Money Laundering Act

In the case of senior management, at a minimum, they should have attended the Anti-Money Laundering Act Training Program and the Middle Management Leadership Program or its equivalent or the Leadership and Management Training Program.

Other trainings that they may be required to attend depending on the requirements of their jobs are as follows:

- Labor Relations, Human Relations and Productivity
- Strategic Planning and Management
- Strategic Risk Management
- Effective Auditing Techniques and Methodologies
- Treasury Management
- Disaster Recovery and Business Continuity Management
- Customer Relations Management
- Compliance Management System Assessment Seminar
- Updates on various regulations
- Trends on Information Technology

Succession Plan

Bangko Kabayan believes that human resource plays an integral part in the achievement of its vision. It recognizes the importance of enhancing the leadership culture and managing its top talents to continuously carry out the bank's mission and objectives, for the greater good of the organization and the community it serves.

Bank leadership is shared among its Board of Directors and the senior management. The Board of Directors (BOD) is composed of nine 9 members, 3, of whom are independent directors. The members of the BOD are elected by the stockholders from a host of qualified persons, based on the requirements of the BSP.
The regular term of a director shall be from the date of his/her election to the next annual meeting of stockholders of the Bank or until his/her successors shall have been elected and qualified to take his/her place at said annual meeting. Unless a director shall sooner resign, be removed from office or becomes unable to act by reason of death, disqualification, or otherwise, he/she shall hold office during the term for which elected and until his/her successor is elected and qualified.

The Senior Management, on the other hand, is composed of the following positions:

a. President / Chief Executive Officer
b. Chief Operating Officer
c. Chief Financial Officer
d. Credit Group Head
e. Strategic Support Group Head
f. Compliance Officer
g. Risk Officer
h. Branch Banking Group Head
i. Internal Audit Head
j. Treasury / MIS Head

The bank acknowledges that any sudden movement/ disruption in its leadership core will have a significant impact on the bank's operations and may hinder the achievement of its goals.

To ensure its readiness for such movements, the bank designed a succession plan covering the following items:

a. Key Result Areas and Key Competencies and Skills

Key result areas, includes but not limited to portfolio and deposit volume targets, portfolio management, financial ratios, processing turn-around time, etc., for each position were identified. Similarly, education, experience and competencies required were also laid down. This is to ensure that the most suited successor can be put in place.

b. Criticality and the vacancy risk of the positions

The position's overall impact in the achievement of the bank's goals, as well as the imminence of losing the incumbent were also determined. These information are vital in identifying the priority positions needing immediate replacements.

The position's criticality is assessed using the degree or complexity of skills or knowledge that the incumbent must possess while the vacancy risk is assessed based on the incumbent's age, marketability of skills and experience, tenure, life events or circumstances, future plans of the incumbent.

c. Management Development Program (MDP)

The management development program is a plan that aims to prepare the potential successors in assuming the position. It outlines the training programs that a potential successor must go through to augment the competencies that s/he currently possesses. It is a combination of classroom and practical trainings, which the potential successor, may take in a defined span of time.

Bangko Kabayan believes in the moral obligation to help prepare employees who devoted their lives in productive work to lead an enjoyable retirement life. The Bank has provided a noncontributory Employee Retirement Plan which covers the granting of retirement benefit for all eligible employees of Bangko Kabayan.

Retirement Policy

1. Eligibility for Membership
a. Membership in the Employee Retirement Plan shall be automatic for all officers and employees of Bangko Kabayan who are considered having regular employment status.

b. Membership will commence retroactively on the first day of the month coincident with or next following his attainment of regular employment status.

2. Normal Retirement Benefit
a. The normal retirement date of an employee shall be the first day of the month coincident with or next following attainment of age sixty (60) with at least five (5) years of credited service.

b. The normal retirement benefit shall be a sum equal to 150% of the employee's salary for every year of credited service as of normal retirement date.

3. Early Retirement Benefit
a. With the consent of the management, an employee may opt to retire prior to his normal retirement provided he has completed at least ten (10) years of credited service regardless of the employee's age

b. The early retirement benefit shall be a sum equal to a percentage of the employee's salary for every year of credited service in accordance with the following schedule:

Years of Credited Service	Percentage
Less than 10	0 %
10 to 14	100 %
15 to 19	125 %
20 or more	150 %

4. Late Retirement Benefit
a. An employee who is permitted by the management to continue to work on a yearly extension basis beyond his normal retirement date shall continue to be eligible for the Retirement Plan up to his late retirement date. The late retirement date of such employee shall be the first day of any month after attaining his normal retirement date but not beyond age 65.

b. The late retirement benefit shall be a sum equal to 150% of the employee's salary for every year of credited service as of late retirement date.

5. Dismissal for Cause
a. An employee who is dismissed by the Bank for cause shall not be entitled to any benefits under the Employee Retirement Plan.

Remuneration Policy

The members of the board of directors will fix their compensation and reasonable per diems for attendance in meetings. Provided, that the compensation other than per diems shall have the prior conformity of the stockholders representing at least a majority of the outstanding capital stock at a regular or special stockholders' meeting. Provided, the amount shall not be more than ten percent (10%) of the net income before tax of the Bank during the preceding year.

With regards to the senior management, each of the position in the bank goes through the process of job evaluation wherein the following factors are determined:

- Span of Control (30%);
- Knowledge and Skills (30%)
- Decision Making (40%)

The total points of each position determine the job level of that particular position which is used in determining the equivalent salary based on the salary structure as presented below:

Band	Job level	Minimum	Maximum
Executive	12	P70,000.00	P140,000.00
	11	P55,000.00	P110,000.00
	10	P42,000.00	P84,000.00

The above stated salary structure was arrived at by looking at the banking industry compensation as a whole, with focus on local banks to assess the spectrum of salary range for critical positions. This allows us to assess the risk and come up with a decent competitive positioning in the market, since the landscape of the competition has changed, that is at the same time sustainable and affordable.

Dividend Policy

Dividends declared by Bangko Kabayan are taken from the retained earnings of the bank and are governed by the policies set by the Bangko Sentral ng Pilipinas. The declaration of dividends, both cash and stock, are approved by the majority of the Board of Directors, subject to a ratification of the majority during the annual stockholder's meeting. No dividends declared for the year 2019.

Related Party Transaction Policy

The Bank allows transactions with related parties. However, BK ensures such transactions are conducted in an arm's length manner or in the ordinary course of business. Each Director, Stockholder or Officer is responsible to declare any Related Party Transactions and the material interest that they, or an immediate family member, may have with the bank.

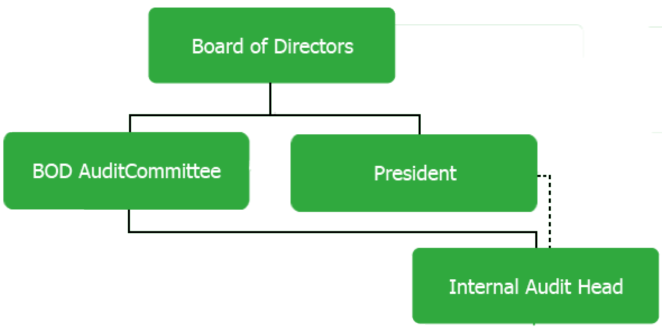
Relevant information with respect to the transactions like, description and material terms and condition, value and share of the related party, related party's involved in the transactions and any potential reputational risk issues that may arise, are disclosed in the contract.

The Board assures that all terms such as price, commissions, interest rates, fees, tenor, collateral requirement, contracts of related party transactions are within standard, as if they were applied to non-related parties. A material aggregate amount for a period of twelve (12) months from January to December of the financial year are set and approved by the Board as basis of the amount subject for review and approval of the board.

The members of the board, stockholders and management shall disclose to the board whether they directly, indirectly or on behalf of third parties, have financial interests in any transactions or matter affecting the bank. Directors and officers with personal interests on the related party transactions abstain from the discussion, approval and management of such transaction or matter affecting the bank.

For the year 2019, no related party transaction exceeded the materiality threshold set by the board.

Self-Assessment Function



The authority to carry out the internal audit function is vested in the Internal Audit Department, which reports directly to the Board of Directors Audit Committee (BoDAC). The Internal Audit Department (IAD) headed by the Chief Audit Executive (CAE) reports functionally to the Board and administratively (i.e. day to day operations) to the President. BoDAC and the CAE functionally meet a minimum of 4 times a year and as many times as that committee deems necessary with regards to the IA work programs, reports, and status of recommendations.

Internal audit provides an independent and objective review and advisory service to provide assurance to the Board of Directors that Bangko Kabayan's financial and operational controls designed to manage the organization's risks and achieve the entity's objectives are operating in an efficient, effective and ethical manner, and assist management in improving the entity's business performance. The ability of BKI's internal audit function to achieve desired objectives depends largely on the independence of its audit personnel. Generally, the position of the auditor within the organizational structure of the institution, the reporting authority or audit results, and the auditor's responsibilities indicate the degree of auditor independence. The board should ensure that IA does not participate in activities that may compromise its independence. The internal audit function may, however, engage in consulting activities that provide advice and direction in areas for which the internal auditor possesses the necessary skills and knowledge.

To achieve an acceptable level of performance, IA is guided by the professional practices framework issued by The Institute of Internal Auditors (IIA) and developed standard for information technology auditing by The Information Systems Audit and Control Association (ISACA). Both internationally known institutions.

The department is divided into three (3) units namely the Branch, Executive and Information Systems Audit units. Branch Audit Unit is primarily responsible in conducting the operations and compliance audit of branches while the Executive Audit Unit is in charge of the audit of the executive or head office business units as well as special audits, and other engagements requested by the BoDAC and the Senior Management. On the other hand, Information Systems Audit Unit is responsible for the audit of Information Security and Technology controls that support BK's business operations.

Compliance Function

Compliance Function is an independent function that defines, advises on, monitors and reports on the Bank's compliance risk.

The compliance function facilitates effective management of compliance risk by:
1. Advising the board of directors and senior management on relevant laws, rules and standards, including keeping them informed on the developments in the area;

2. Apprising the Bank's personnel on compliance issues, and acting as a contact point within the Bank's compliance queries from its personnel;

3. Establishing written guidance to staff on the appropriate implementation of laws, rules and standards through policies and procedures and other documents such as compliance manuals, internal codes of conduct and practice guidelines;

4. Reviewing and assessing the compliance risk associated with the Bank's business activities, including new product and business units.

5. Assessing the appropriateness of the Bank's compliance procedures and guidelines, promptly following up any identified deficiencies, and where necessary, formulating proposals for amendments.

6. Monitoring and testing compliance by performing sufficient and representative compliance testing;

7. Maintaining a constructive working relationship with the Bangko Sentral and other regulators.

STATUS
a. Independence
   i. The compliance function is independent from the business activities of the Bank.

   ii. It is given sufficient resources to carry out its responsibilities on its own initiative in all units where compliance risks exist.

   iii. It has the right to conduct investigation and is free to report to Senior Management, Audit Committee and/or the Board of Directors material breaches of the Compliance Program and/or laws, rules and standards, without fear of retaliation or disfavor from Management or other affected parties.

   iv. It has access to all operational areas as well as any records or files necessary enabling it to carry out its duties and responsibilities.

b. Authority
To carry out its Compliance responsibilities effectively, the CCO
   i. Has direct and unrestricted access to any records, documents, books of accounts, and information it needs, for the performance of his/her responsibilities: and

   ii. Has the right to require any member of the Management and Staff to promptly supply information and/or explanations as may be needed to carry out his/her functions.

c. Reporting Lines
The Chief Compliance Officer (CCO) is appointed with prior approval from the BSP. He / She is functionally and administratively under the direct supervision of the Board of Directors (through the Audit Committee) and the President, respectively.

d. Relationship with Other Units of the Banks
In addition to the specific collaboration, CCO, Legal Officer, Internal Audit Head and Risk Officer exerts effort to ensure good coordination and continued cooperation.

The CCO seeks legal advice from the Legal Officer on banking and corporate laws compliance matters. As necessary, the Legal Officer also arranges consultation with external experts. The CCO retains primary responsibility for relations with the regulatory agencies and is involved in responding to external compliance-related inquiries.

The Compliance System is also subject to periodic reviews by the Internal Audit Department.

Consumer Protection Practices

1. Consumer Protection Oversight Function

Bangko Kabayan Inc. (A Private Development Bank) has developed this consumer protection program to ensure the rights of consumers as well as fair trade, competition and accurate information in the marketplace. The Board of Directors and Senior Management are responsible for developing Bangko Kabayan's consumer protection strategy and establishing an effective oversight over Bangko Kabayan's consumer protection program.

1.1 Board of Directors Oversight

The Board of Directors is primarily responsible for approving and overseeing the implementation of BK's consumer protection policies as well as the mechanism to ensure compliance with said policies.

The Board is responsible in monitoring and overseeing the performance of the Senior Management in managing the day to day consumer protection activities of Bangko Kabayan to ensure the delivery of effective recourse to the consumer.

1.2 Senior Management Oversight

The Senior Management is responsible for the implementation of the consumer protection policies duly approved by the Board as well as the mechanism to ensure compliance and implementation of the said policies.

A Consumer Protection Committee composed of representatives from Senior Management was created to perform this oversight function.

The Consumer Protection Committee is composed of the following:

a) Chief Financial Officer as Chairman
b) Chief Compliance Officer
c) Chief Risk Officer
d) Internal Audit Department Head
e) Strategic Support Group Head
f) Head Consumer Assistance Officer (CAO) as Secretariat

2. Consumer Protection Risk Management System

Bangko Kabayan Inc. (A Private Development Bank) recognizes the rights of the consumer when dealing with financial institutions. Thus the following consumer protection standards were adopted by the bank with the aim of providing the highest quality of products and services to its clientele. All employees and officers of the bank observe these standards at all times in their dealings with financial consumers.

BK further guarantees that it will be responsive to the needs of its stakeholders with a high standard of accountability and responsibility.

2.1 Disclosure and Transparency

Bangko Kabayan Inc. (A Private Development Bank) provide up to date information about products and services to its consumers. Full disclosure and utmost transparency are the critical elements that empower the consumer, information shall be easily accessible, clear, simple to understand, accurate, not misleading and includes any potential risk to consumer.

2.1.1 Advertising and Promotional Materials

BK shall ensure that advertising and marketing materials do not make false, misleading or deceptive statements that materially and/or adversely affect the decision of the customer to acquire the product or services. BK ensures that promotional materials are targeted according to the specific groups of consumers to whom products are marketed.

2.1.2 Conflict of Interest

2.1.2.1 BK shall ensure availability of a written policy on conflict of interest, and ensure that this policy will help to detect potential conflicts of interest. When the possibility of a conflict of interest arises between the bank and the third party, this should be disclosed to the consumer.

2.2 Protection of Client Information

BK ensure that consumers' financial and personal information disclosed in the course of a transaction should be protected through appropriate control and protection mechanism. These mechanisms should define the purposes for which the data may be collected, processed, held, used and disclosed (especially to third parties).

In compliance to the Bank Secrecy Law, all databases containing client information, whether deposit or loans, is handled with utmost confidentiality.

BK ensures to obtain the customer's written consent, unless in situations required/allowed by law or BSP issued regulations on confidentiality of customers' information, before sharing customer's information to third parties such as; credit bureau, collection agencies, marketing and promotional partners, and other relevant external parties.

New regulations pertaining to sharing of information are made available for clients' reference through various channels such as websites and bulletin boards.

2.3 Fair Treatment

BK ensure that the customer is dealt with fairly, honestly and professionally by offering products and services that are not disadvantageous to the customers. All relevant information about the products and services shall be provided.

BK shall provide the customer with a "cooling off" period of at least two (2) banking days immediately following the signing of any agreement or contract, particularly for deposit products whose term is longer than three (3) years

BK has designed remuneration structure for Bank's staff and authorized agents that will encourage responsible business conduct, fair treatment and avoidance/ mitigation of conflicts of interests.

2.4 Effective Recourse

BK Consumer Assistance Management System was developed to handle customer complaints to provide customers efficient means for resolving complaints with their financial transactions.

3. Consumer Assistance Management System

Bangko Kabayan Inc. (A Private Development Bank) designed this policy to protect the interests of the consumer, promote the general welfare of the customer and to establish standards of conduct for business and its employees, by adopting the following measures;

1. Protection against deceptive, unfair and unconscionable acts and practices.
2. Provision of information and education to facilitate sound choice and the proper exercise of rights by the consumer.
3. Provision of adequate rights and means of redress
4. Provision of a reporting system/avenue that will allow the bank customers' to raise their concerns whether complaint or request with regards to the bank's products, services as well as its employees.

Process Flow of Consumer Assistance Management System

Corporate Social Responsibility

As Bangko Kabayan's partner in advancing the culture of sharing among BK staff and local communities, BK Foundation Inc. (BKFI) supported 22 Bayani ng Komunidad projects for almost 30,000 beneficiaries last 2019. These projects include coastal clean-up and tree planting for preservation of the environment, cooking lessons for sweet delicacies as livelihood program, installation of solar lights along pathways for safety, and using eco bricks for rebuilding safe pathways with canals, sinks, tables and benches in schools.

Another project of BKFI was "Bigay Kalinga". The proceeds of the Honesty Garage Sale was used to buy school supplies that benefited 618 students from 3 different schools.

In pursuit of sustainable development and innovative social entrepreneurship, BKFI had two (2) runs of its 4 day Entrep Eskwela program last 2019. Attendees for the two (2) batches totaled 35 individuals coming from various parts of Batangas and Quezon.

Corporate Information

Organizational Structure

Top 20 Stockholders

Name of Stockholder	Type of Share	Citizenship	Number of Shares Subscribed	Paid-In Capital	Subscription Receivable	Amount Subscribed	% to Total
Ganzon, Maria Teresa M.	Common	Filipino	1,014,839	101,483,900.00	0.00	101,483,900.00	27.60%
Ozaeta, Gregorio O.	Common	Filipino	580,790	58,079,000.00	0.00	58,079,000.00	15.79%
Ganzon, Francis S.	Common	Filipino	513,598	51,359,800.00	0.00	51,359,800.00	13.97%
Melitona Estate	Common	Filipino	215,040	21,504,000.00	0.00	21,504,000.00	5.85%
Ganzon-Ofrecio, Ma. Fides Concepcion M.	Common	Filipino	179,708	17,970,800.00	0.00	17,970,800.00	4.89%
Ganzon-Ozaeta, Anna Cristina M.	Common	Filipino	179,087	17,908,700.00	0.00	17,908,700.00	4.87%
Ganzon, Alexandra Therese M.	Common	Filipino	179,058	17,905,800.00	0.00	17,905,800.00	4.87%
Costa, Ma. Consuelo Francesca G.	Common	Filipino	178,713	17,871,300.00	0.00	17,871,300.00	4.86%
Ganzon, Catherine Claire M.	Common	Filipino	178,332	17,833,200.00	0.00	17,833,200.00	4.85%
Villa Vicenta Farms, Inc.	Common	Filipino	173,817	17,381,700.00	0.00	17,381,700.00	4.73%
Tovera, Miriam Grace G.	Common	Filipino	39,807	3,980,700.00	0.00	3,980,700.00	1.08%
Berberabe, Sonrisa Q.	Common	Filipino	26,191	2,619,100.00	0.00	2,619,100.00	0.71%
Ceradoy, Rogelio G.	Common	Filipino	20,918	2,091,800.00	0.00	2,091,800.00	0.57%
Tantoco, Albert B.	Common	Filipino	16,665	1,666,500.00	0.00	1,666,500.00	0.45%
Paner, Antonio	Common	Filipino	12,595	1,259,500.00	0.00	1,259,500.00	0.34%
Lopez, Rebecca R.	Common	Filipino	12,199	1,219,900.00	0.00	1,219,900.00	0.33%
Reyes, Gilda Loida R.	Common	Filipino	11,864	1,186,400.00	0.00	1,186,400.00	0.32%
Mercado, Liza V.	Common	Filipino	9,996	999,600.00	0.00	999,600.00	0.27%
Puangco, Tita D.	Common	Filipino	7,355	735,500.00	0.00	735,500.00	0.20%
Montalbo, Cecilia	Common	Filipino	6,350	635,000.00	0.00	635,000.00	0.17%

Products and Services

DEPOSIT PRODUCTS

Savings Account

- Regular Savings Account
- Special Purpose Savings Account
  - Savings Account Maintained by SSS Pensioners
  - Savings Account Maintained by Microfinance Clients
  - Bibo Kid Savings
  - Basic Savings Deposit

Time Deposit

- Regular Time Deposit
- Special Time Deposit
  - Time Deposit Plus
  - Premium Deposit

Checking Account

- Direct or Regular Account
- Automatic Transfer Account (ATA)

LOAN PRODUCTS

Small and Medium Enterprise Loans

- SME Loan
- Loans to Private Corporations
- Housing Loan
- Transport Vehicle and Equipment Loan
- Back to back Loan
- Incentive for Business Loan
- ADB Loan

Agrarian Reform and Other Agricultural Loans

- Agricultural Loan
- ANI Loan
- ANI Plus

Microfinance Loans

- KABAYAN
- KABAYAN Plus
- KAPITAN
- KABAYAN MSE
- Gabay Housing Loan
- Educational Loan

OTHER SERVICES

ATM Services

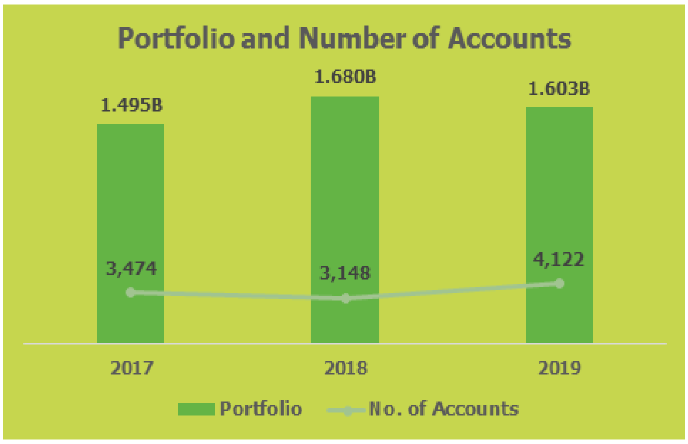
Automated teller machines are provided by DBP in selected branches offering MegaLink and BancNet transactions.

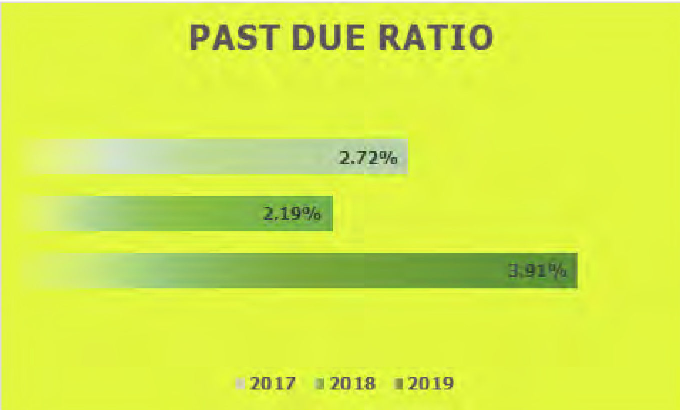
Remittance Services

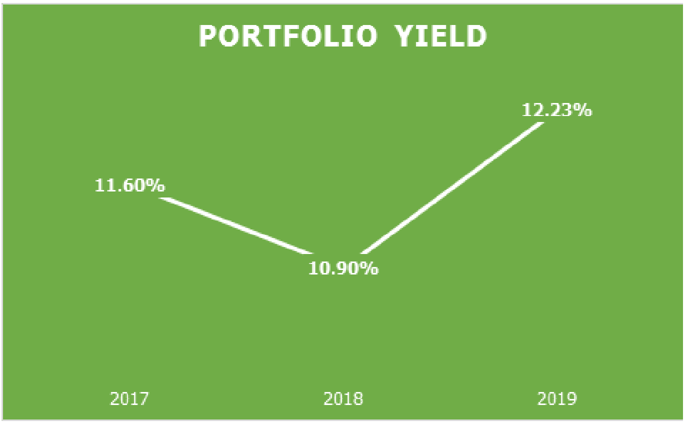
- Western Union - Money Transfer
- Palawan Express Pera Padala
- True Money
- Globe Gcash
- i2i

Product Performance

Regular Loans







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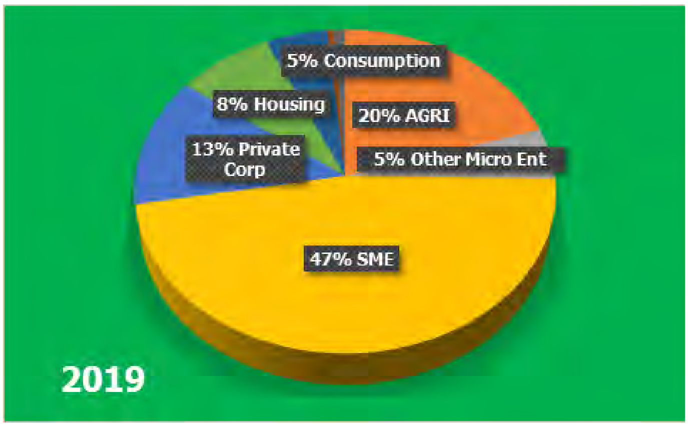
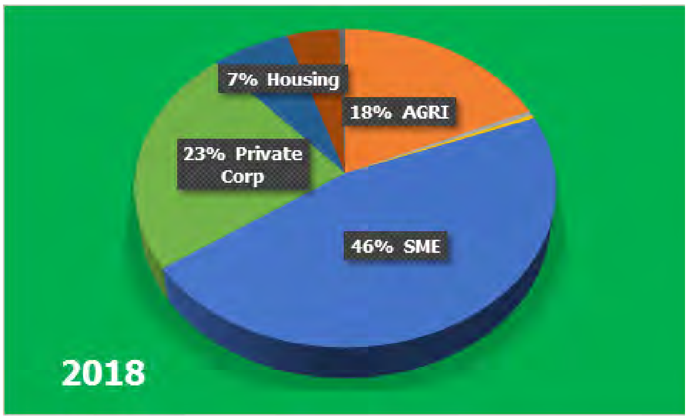
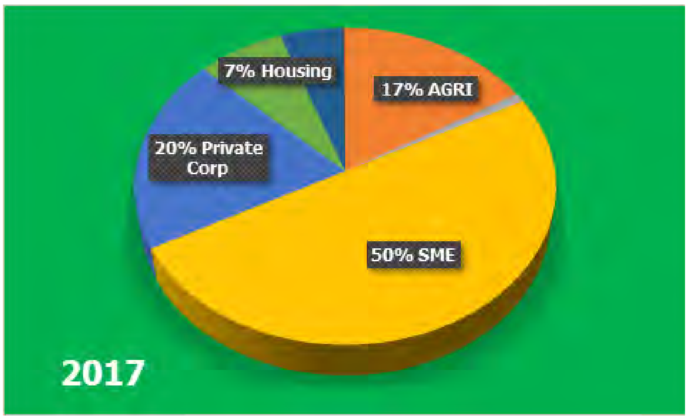
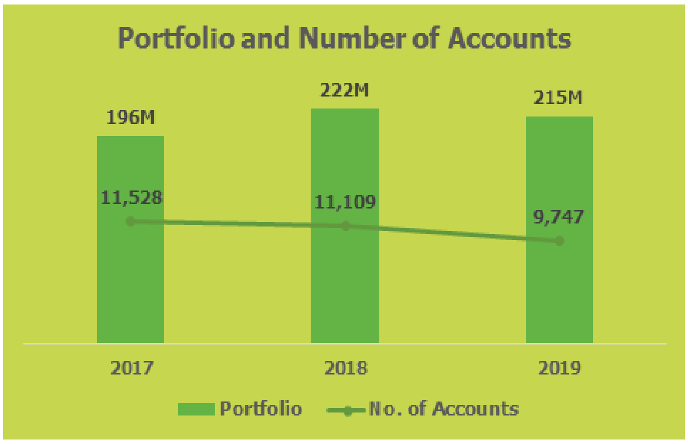
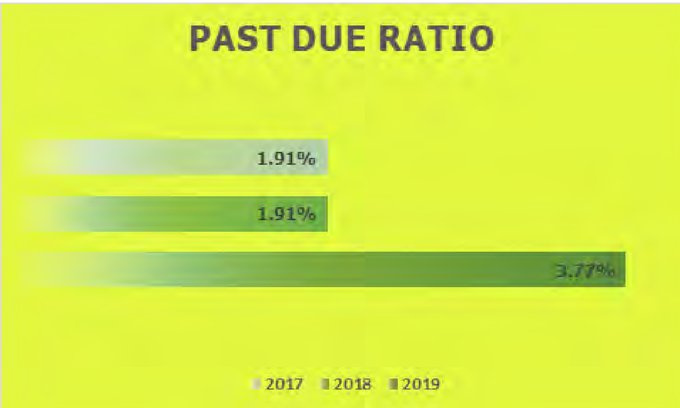


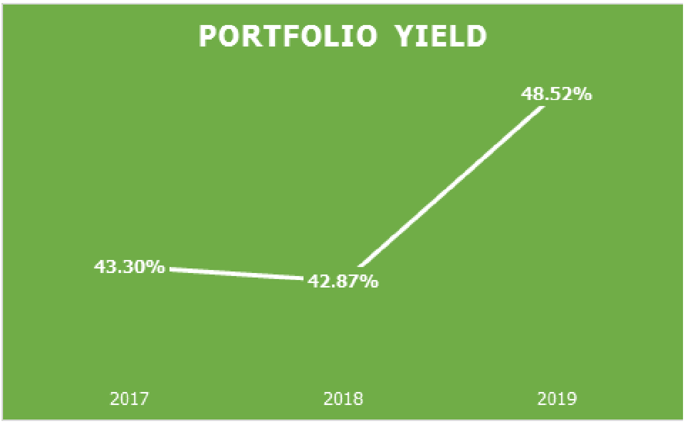




Microfinance Loans







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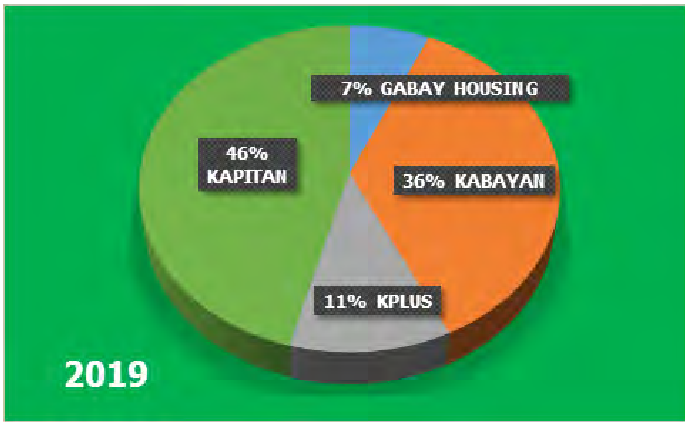

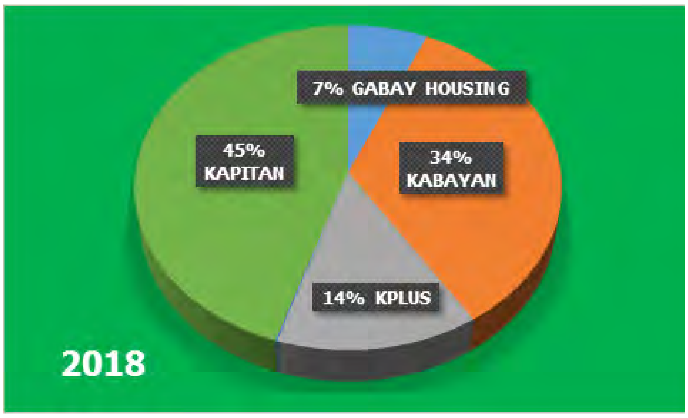

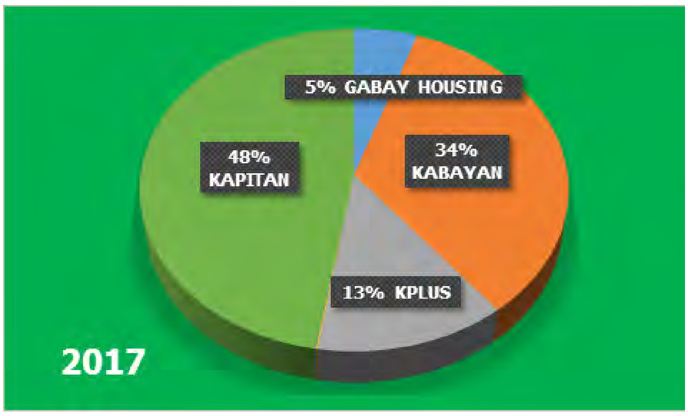

Branch Directory

HEAD OFFICE

Santiago Street, Poblacion
Ibaan, Batangas
info@bangkokabayan.com
(043) 311-1420 / (043) 311-1127

BATANGAS BRANCHES

AGONCILLO
J. Mendoza Street, Poblacion
Agoncillo, Batangas
agoncillo@bangkokabayan.com
(043) 210-3348 / (043) 740-1802

BALAYAN
Union St., Brgy. 5, Balayan, Batangas
balayan@bangkokabayan.com
(043) 211-6632 / (043) 740-3091

BATANGAS CITY
P. Burgos Street, Batangas City
batangas@bangkokabayan.com
(043) 402-4182 / (043) 300-1228

CALACA
Marasigan Street, Poblacion
Calaca, Batangas
calaca@bangkokabayan.com
(043) 419-2705 / (043) 223-5221

CALATAGAN
Ayala Street, Brgy. 3, Poblacion
Calatagan, Batangas
calatagan@bangkokabayan.com
(043) 419-0212

CUENCA
National Road, Poblacion
Cuenca, Batangas
cuenca@bangkokabayan.com
(043) 342-1481 / (043) 342-1281

IBAAN
Santiago Street, Poblacion
Ibaan, Batangas
ibaan@bangkokabayan.com
(043) 311-2804 / (043) 311-1303

LEMERY
National Highway, Brgy. Palanas
Lemery, Batangas
lemery@bangkokabayan.com
(043) 411-0893 / (043) 740-6897

LIPA
P. Torres Extension
Lipa City, Batangas
lipa@bangkokabayan.com
(043) 726-0295

LOBO (Branch Lite)
P. Burgos Street, Poblacion
Lobo, Batangas
lobo@bangkokabayan.com
(0917) 826-2010

MABINI
Poblacion, Mabini, Batangas
mabini@bangkokabyan.com
(043) 774-4420

NASUGBU
P. Rinoza Street, Nasugbu, Batangas
nasugbu@bangkokabayan.com
(043) 740-6552 / (043) 416-0569

ROSARIO
Brgy. C, Poblacion, Rosario, Batangas
rosario@bangkokabayan.com
(043) 321-1134

SAN JOSE
Taysan, San Jose, Batangas
sanjose@bangkokabayan.com
(043) 726-2139 / (043) 726-2560

SAN JUAN
Gen. Luna Street, Poblacion
San Juan, Batangas
sanjuan@bangkokabayan.com
(043) 575-3771 / (043) 341-1149

SAN PASCUAL
San Antonio, San Pascual, Batangas
sanpascual@bangkokabayan.com

TALISAY
Brgy. Banga, Talisay, Batangas
talisay@bangkokabayan.com
(043) 786-0632

TANAUAN
J.P. Laurel Highway
Tanauan City, Batangas
tanauan@bangkokabayan.com
(043) 784-3894

LAGUNA BRANCHES

NAGCARLAN
Rizal Avenue, Brgy. II
Nagcarlan, Laguna
nagcarlan@bangkokabayan.com
(049) 543-8599

PAGSANJAN
Gen. Taiño Street, Poblacion 1
Pagsanjan, Laguna
pagsanjan@bangkokabayan.com
(049) 500-9241

QUEZON BRANCHES

ATIMONAN
Rizal Street, cor. P. Enriquez Street
Brgy. Zone 1, Poblacion
Atimonan, Quezon
atimonan@bangkokabayan.com
(042) 788-0439

GUMACA
G/F Landig Building, P. Castillo Street
Brgy. Tabing Dagat, Gumaca, Quezon
gumaca@bangkokabayan.com
(042) 717-6728

SARIAYA
General Luna Street, Poblacion
Sariaya, Quezon
sariaya@bangkokabayan.com
(042) 717-0677 / (043) 727-1120

TIAONG
Don V. Robles cor. Recto Street
Poblacion, Tiaong, Quezon
(042) 545-6621

Capital Structure and Capital Adequacy

		2019	2018	2017
A.	**Tier 1 (Core plus Hybrid) Capital**			
A.1	**Core Tier 1 Capital**			
(1)	Paid up common stock	368	368	320
(2)	Deposit for common stock subscription			
(3)	Paid-up perpetual and non-cumulative preferred stock			
(4)	Deposit for perpetual and non-cumulative preferred stock subscription			
(5)	Additional paid-in capital			
(6)	Retained earnings	153	89	138
(7)	Undivided profits	77	68	44
(8)	Net gains on fair value adjustment of hedging instruments in a cash flow hedge of available for sale equity securities			
(9)	Cumulative foreign currency translation			
(10)	Minority interest in subsidiary financial allied undertakings (i.e., RBs and venture capital corporations (VCCs) for TBs, and RBs for Coop Banks) which are less than wholly-owned (for consolidated basis) [1/]			
(11)	Sub-total *[Sum of A.1 (1) to A.1 (10)]*	598	525	503
A.2	**Deductions from Core Tier 1 Capital**			
(1)	Common stock treasury shares (for consolidated basis)			
(2)	Perpetual and non-cumulative preferred stock treasury shares (for consolidated basis)			
(3)	Net unrealized losses on available for sale equity securities purchased	0	0	5
(4)	Unbooked valuation reserves and other capital adjustments based on the latest ROE as approved by the Monetary Board			
(5)	Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, net of allowance for credit losses	0.25	0.06	0.35
(6)	Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates, net of allowance for credit losses			
(7)	Deferred tax asset, net of deferred tax liability [2/]	19	8	10
(8)	Goodwill, net of allowance for losses [3/]			
(9)	Total Deductions *[Sum of A.2 (1) to A.2 (8)]*	19	8	16
A.3	**Total Core Tier 1 Capital *[A.1 (11) minus A.2 (9)]***	579	517	486
A.4	**Hybrid Tier 1 Capital**			
(1)	Perpetual preferred stock			
(2)	Perpetual unsecured subordinated debt			
(3)	Total Hybrid Tier 1 Capital *[Sum of A.4 (1) and A.4 (2)]*	0	0	0
(4)	Eligible Hybrid Tier 1 Capital *[limited to 17.65% of Total Core Tier 1 Capital (Item A.3)]*	0	0	0

A.5	**Total Tier 1 Capital** *[Sum of A.3 and A.4 (4)]*	579	517	486
B.	**Tier 2 (Supplementary) Capital**			
B.1	**Upper Tier 2 Capital**			
(1)	Paid-up perpetual and cumulative preferred stock			
(2)	Deposit for perpetual and cumulative preferred stock subscription			
(3)	Paid-up limited life redeemable preferred stock with the replacement requirement upon redemption			
(4)	Deposit for limited life redeemable preferred stock subscription with the replacement requirement upon redemption			
(5)	Appraisal increment reserve – bank premises, as authorized by the Monetary Board			
(6)	Net unrealized gains on available for sale equity securities purchased (subject to a 55% discount)			
(7)	General loan loss provision [limited to 1.00% of total credit risk-weighted assets computed per Part I, Item B.1(d)]	23	24	16
(8)	Unsecured subordinated debt with a minimum original maturity of at least 10 years (subject to a cumulative discount factor of 20% per year during the last 5 years to maturity, i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less than 4 years, etc.)			
(9)	Hybrid Tier 1 Capital (in excess of the max allowable 15% limit of total Tier 1 capital) *[A.4 (3) minus A.4 (4)]*	0	0	0
(10)	Sub-total *[Sum of B.1 (1) to B.1 (9)]*	23	24	16
B.2	**Deductions from Upper Tier 2**			
(1)	Perpetual and cumulative preferred stock treasury shares (for consolidated basis)			
(2)	Limited life redeemable preferred stock treasury shares with the replacement requirement upon redemption (for consolidated basis)			
(3)	Sinking fund for redemption of limited life redeemable preferred stock with the replacement requirement upon redemption			
(4)	Net losses in fair value adjustment of hedging instruments in a cash flow hedge of available for sale equity securities			
(5)	Total Deductions *[Sum of B.2 (1) to B.2 (4)]*	0	0	0
B.3	**Total Upper Tier 2 Capital** ***[B.1 (10) minus B.2 (5)]***	23	24	16
B.4	**Lower Tier 2 Capital**			
(1)	Paid-up limited life redeemable preferred stock without the replacement requirement upon redemption (subject to a cumulative discount factor of 20% per year during the last 5 years to maturity, i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less than 4 years, etc.)			

(2)	Deposit for limited life redeemable preferred stock subscription without the replacement requirement upon redemption			
(3)	Unsecured subordinated debt with a minimum original maturity of at least 5 years (subject to a cumulative discount factor of 20% per year during the last 5 years to maturity, i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less than 4 years, etc.)			
(4)	Sub-total *[Sum of B.4 (1) to B.4 (3)]*	0	0	0
B.5	**Deductions from Lower Tier 2**			
(1)	Limited life redeemable preferred stock treasury shares without the replacement requirement upon redemption (for consolidated basis)			
(2)	Sinking fund for redemption of limited life redeemable preferred stock without the replacement requirement upon redemption (limited to the balance of redeemable preferred stock after applying the cumulative discount factor)			
(3)	Total Deductions *[Sum of B.5 (1) and B.5 (2)]*	0	0	0
B.6	**Total Lower Tier 2 Capital** *[B.4 (4) minus B.5 (3)]*	0	0	0
B.7	**Eligible Amount of Lower Tier 2 Capital** *(limited to 50% of total Tier 1 capital per Item A.5)*	0	0	0
B.8	**Total Tier 2 Capital** *[Sum of B.3 and B.7]*	23	24	16
B.9	**Eligible Amount of Tier 2 Capital** *(limited to 100% of total Tier 1 capital per Item A.5)*	23	24	16
C.	**Gross Qualifying Capital** *(Sum of A.5 and B.9)*	602	540	502
(1)	Total Tier 1 Capital *(Item A.5)*	579	517	486
(2)	Total Tier 2 Capital *(Item B.9)*	23	24	16
D.	**Deductions from Tier 1 and Tier 2 Capital**			
(1)	Investments in equity of unconsolidated subsidiary RBs and VCCs for TBs, and RBs for Coop Banks after deducting related goodwill, if any (for solo basis)			
(2)	Investments in other regulatory capital instruments of unconsolidated subsidiary RBs for Coop Banks (for solo basis)			
(3)	Investments in equity of unconsolidated subsidiary non-financial allied undertakings after deducting related goodwill, if any (for both solo and consolidated bases)			
(4)	Significant minority investments (20%-50% of voting stock) in banks and other financial allied undertakings (for both solo and consolidated bases)			
(5)	Reciprocal investments in equity/other regulatory capital instruments of other banks/quasi-banks/enterprises			
(6)	Total Deductions *[Sum of D (1) to D (5)]*	0	0	0
E.	**Net Tier 1 and Tier 2 Capital**			
E.1	Net Tier 1 Capital [4/] *{C (1) minus [D (6) multiply by 50%]}*	579	517	486

E.2	Net Tier 2 Capital [4/] *{C (2) minus [D (6) multiply by 50%]}*	23	24	16
F.	**Total Qualifying Capital** *[C minus D (6)]*	602	540	502
	Risk Weighted Assets			
	G.1 Credit Risk Weighted Assets	2,565	2,656	2,427
	G.2 Market Risk Weighted Assets	0	0	0
	G.3 Operational Risk Weighted Assets	421	399	381
	G.4 Total Risk Weighted Assets	2,985	3,056	2,809
	H Capital to Risk Assets			
	H.1 Capital Adequacy Ratio (F divided by G.4) 18.4% 20.1% 24.3%	20.2%	17.7%	17.9%
	H.2 Tier 1 Capital to Risk Weighted Assets (A.5 divided by G.4)	19.4%	16.9%	17.3%

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Grant Thornton
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Financial Statements and
Independent Auditors' Report

Bangko Kabayan Inc.

December 31, 2019, 2018 and 2017

P&A
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The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 8988 2288

Report of Independent Auditors

The Board of Directors
Bangko Kabayan Inc.
(A Private Development Bank)
Santiago Street
Poblacion, Ibaan, Batangas

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bangko Kabayan Inc. (A Private Development Bank) (the Bank), 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 (PFRS).

Basis for Opinion

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

Emphasis of Matter

We draw attention to Note 25 to the financial statements, which describes management's assessment of the impact on the Bank's financial statements of the business disruption brought by the corona virus outbreak and consequent events after the reporting period. Management has determined that these are non-adjusting events and as such, had no impact on the Bank's financial statements as at and for the year ended December 31, 2019. As further stated in Note 25, management was unable to reliably estimate yet as at the issuance date of the financial statements the impact of the said events on the Bank's financial conditions and operations in subsequent period. Our opinion is not modified in respect to this matter.

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Other Information

Management is responsible for the other information. The other information comprises the information included in the Bank's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS (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 auditors' report.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements takes as a whole. The supplementary information for the year ended December 31, 2019 required by the Bangko Sentral ng Pilipinas and Bureau of Internal Revenue as disclosed in Note 26 and 27, respectively, to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: **Nelson J. Dinio**
Partner

CPA Reg. No. 0097048
TIN 201-771-632
PTR No. 8116543, January 2, 2020, Makati City
SEC Group A Accreditation
Partner - No. 1036-AR-2 (until Mar. 15, 2020)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-032-2019 (until Sept. 4, 2022)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

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March 5, 2020

BANGKO KABAYAN INC.
(A PRIVATE DEVELOPMENT BANK)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018
(Amounts in Philippine Pesos)

	Notes	2019	2018
RESOURCES			
CASH AND OTHER CASH ITEMS	7	P 68,652,536	P 57,573,135
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	375,899,457	193,674,093
DUE FROM OTHER BANKS	8	355,284,325	385,169,160
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	9	172,977,086	146,493,294
HELD-TO-COLLECT FINANCIAL ASSETS	9	135,000,000	134,994,425
LOANS AND OTHER RECEIVABLES - Net	10	1,893,921,699	1,957,216,494
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11, 14	132,018,489	107,429,466
INVESTMENT PROPERTIES - Net	12	88,152,103	82,290,446
OTHER RESOURCES - Net	13	38,105,406	34,049,607
TOTAL RESOURCES		P 3,260,011,101	P 3,098,890,120
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	15	P 2,554,984,727	P 2,457,732,717
BILLS PAYABLE	16	-	65,000,000
OTHER LIABILITIES	17	117,485,573	61,750,018
Total Liabilities		2,672,470,300	2,584,482,735
CAPITAL STOCK	18	367,739,200	367,739,200
SURPLUS FREE	18	220,371,004	153,463,608
SURPLUS RESERVES	18	15,038,231	8,575,310
REVALUATION RESERVES - Net		(15,607,634)	(15,370,733)
Total Equity		587,540,801	514,407,385
TOTAL LIABILITIES AND EQUITY		P 3,260,011,101	P 3,098,890,120

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See Notes to Financial Statements.

BANGKO KABAYAN INC.
(A PRIVATE DEVELOPMENT BANK)
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	2019	2018	2017
INTEREST INCOME				
Loans and other receivables	10	P 311,077,325	P 265,564,903	P 232,053,338
Investment securities	9	15,592,502	13,324,924	12,049,894
Due from Bangko Sentral ng Pilipinas and other banks	7, 8	8,724,978	3,709,365	9,782,903
Others - net	20	-	456,432	12,260
		335,394,805	283,055,624	253,898,395
INTEREST EXPENSE				
Deposit liabilities	15	15,223,392	13,938,395	12,766,560
Bills payable	16	298,438	800,694	48,125
Others - net	14, 20	1,707,136	-	-
		17,228,966	14,739,089	12,814,685
NET INTEREST INCOME		318,165,839	268,316,535	241,083,710
IMPAIRMENT LOSSES - Net	10, 12	16,654,929	5,999,801	2,309,455
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		301,510,910	262,316,734	238,774,255
OTHER OPERATING INCOME - Net	19	50,500,872	73,454,999	61,137,134
OTHER OPERATING EXPENSES	19	(246,383,232)	(251,776,958)	(236,004,768)
PROFIT BEFORE TAX		105,628,550	83,994,775	63,906,621
TAX EXPENSE	21	31,901,549	25,216,433	19,647,296
NET PROFIT		P 73,727,001	P 58,778,342	P 44,259,325
Earnings Per Share Basic and Diluted	22	P 20.05	P 15.98	P 12.04

See Notes to Financial Statements.

BANGKO KABAYAN INC.
(A PRIVATE DEVELOPMENT BANK)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	2019	2018	2017
NET PROFIT		**P 73,727,001**	P 58,778,342	P 44,259,325
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that will not be reclassified subsequently to profit or loss				
Gains (losses) on remeasurements of post-employment defined benefit obligation	20	**(21,624,036)**	(4,016,069)	12,004,624
Tax income (expense)	21	**6,487,211**	1,204,821	(3,601,387)
		(15,136,825)	(2,811,248)	8,403,237
Item that will be reclassified subsequently to profit or loss				
Fair value gains (losses) on financial assets at fair value through other comprehensive income	9	**16,483,792**	(11,712,975)	(2,665,901)
Tax income (expense)	21	**(1,583,868)**	1,316,299	(1,270,968)
		14,899,924	(10,396,676)	(3,936,869)
Other Comprehensive Income (Loss) - Net of tax		**(236,901)**	(13,207,924)	4,466,368
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**P 73,490,100**	P 45,570,418	P 48,725,693

See Notes to Financial Statements.

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BANGKO KABAYAN INC.
(A PRIVATE DEVELOPMENT BANK)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Philippine Pesos)

				Revaluation Reserves - Net			
	Capital Stock (see Note 18)	Surplus (Notes 2 and 18) Free	Surplus (Notes 2 and 18) Reserves	Unrealized Fair Value Losses on Financial Assets at Fair Value through Other Comprehensive Income (see Note 9)	Unrealized Fair Value Losses on Available-for-Sale Financial Assets (see Note 9)	Remeasurements on Retirement Benefit Obligation (see Note 20)	Total Equity
Balance at January 1, 2019							
As previously reported	P 367,739,200	P 153,463,608	P 8,575,310	(P 17,923,027)	P -	P 2,552,294	P 514,407,385
Effect of adoption of Philippine Financial Reporting Standard 16, *Leases*	-	(356,684)	-	-	-	-	(356,684)
As restated	367,739,200	153,106,924	8,575,310	(17,923,027)	-	2,552,294	514,050,701
Appropriation of (transfer to) surplus free	-	(6,462,921)	6,462,921	-	-	-	-
Total comprehensive income (loss) for the year	-	73,727,001	-	14,899,924	-	(15,136,825)	73,490,100
Balance at December 31, 2019	**P 367,739,200**	**P 220,371,004**	**P 15,038,231**	**(P 3,023,103)**	**P -**	**(P 12,584,531)**	**P 587,540,801**
Balance at January 1, 2018	P 319,789,600	P 174,470,627	P 8,737,349	(P 7,526,351)	P -	P 5,363,542	P 500,834,767
Transaction with owners							
Stock dividends	47,949,600	(47,949,600)	-	-	-	-	-
Cash dividends	-	(31,997,800)	-	-	-	-	(31,997,800)
Appropriation of (transfer to) surplus free	-	162,039	(162,039)	-	-	-	-
Total comprehensive income (loss) for the year	-	58,778,342	-	(10,396,676)	-	(2,811,248)	45,570,418
Balance at December 31, 2018	P 367,739,200	P 153,463,608	P 8,575,310	(P 17,923,027)	P -	P 2,552,294	P 514,407,385
Balance at January 1, 2017	P 298,889,100	P 171,945,608	P -	P -	(P 3,589,482)	(P 3,039,695)	P 464,205,531
Transaction with owners							
Stock dividends	20,900,500	(20,900,500)	-	-	-	-	-
Cash dividends	-	(17,955,083)	-	-	-	-	(17,955,083)
Total comprehensive income (loss) for the year	-	44,259,325	-	-	(3,936,869)	8,403,237	48,725,693
Balance at December 31, 2017	P 319,789,600	P 177,349,350	P -	P -	(P 7,526,351)	P 5,363,542	P 494,976,141

See Notes to Financial Statements.

BANGKO KABAYAN INC.
(A PRIVATE DEVELOPMENT BANK)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		P 105,628,550	P 83,994,775	P 63,906,621
Adjustments for:				
Depreciation and amortization	11, 12, 13	27,365,940	22,524,473	27,891,370
Impairment losses - net	10, 12	16,654,929	5,999,801	2,309,455
Gain on sale of non-financial assets	11, 12	(12,229,667)	(35,794,842)	(22,509,731)
Premium (discount) amortization on held-to-collect (HTC) financial assets	9	144,425	77,795	(96,385)
Unrealized foreign currency (gains) losses - net		(4,592)	877	677
Operating profit before changes in resources and liabilities		137,559,585	76,802,879	71,502,007
Decrease (increase) in loans and other receivables		82,955,154	(230,671,610)	(327,662,283)
Decrease (increase) in investment properties		4,045,885	55,017,072	37,403,672
Decrease (increase) in other resources		(25,825,295)	8,502,789	(2,130,623)
Increase in deposit liabilities		97,252,010	152,331,736	199,943,937
Increase in other liabilities		31,029,798	19,580,688	12,816,069
Cash generated from (used in) operations		327,017,137	81,563,554	(8,127,221)
Cash paid for income taxes		(31,603,702)	(27,297,464)	(15,224,461)
Net Cash From (Used in) Operating Activities		295,413,435	54,266,090	(23,351,682)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of held-to-collect financial assets	9	(35,000,000)	(10,000,000)	(120,000,000)
Proceeds from maturities of held-to-collect financial assets (held-to-maturity financial assets in 2017)	9	34,850,000	37,369,626	43,000,000
Acquisitions of bank premises, furniture, fixtures and equipment	11	(13,321,562)	(10,466,571)	(18,013,905)
Acquisitions of financial assets at fair value through other comprehensive income (available-for-sale financial assets in 2017)	9	(10,000,000)	-	(66,000,000)
Acquisitions of computer software	13	(282,240)	(4,549,160)	(205,747)
Proceeds from disposal of bank premises, furniture, fixtures and equipment	11	141,541	3,171,807	3,938,632
Net Cash From (Used in) Investing Activities		(23,612,261)	15,525,702	(157,281,020)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayments of bills payable	16	(65,000,000)	(120,000,000)	(150,000,000)
Payment of lease liability	14	(7,070,548)	-	-
Availments of bills payable	16	-	165,000,000	20,000,000
Payment of dividends	17	-	(31,978,286)	(17,828,304)
Net Cash From (Used in) Financing Activities		(72,070,548)	13,021,714	(147,828,304)
Effect of Changes in Foreign Exchange Rates		4,592	(877)	(677)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		199,735,218	82,812,629	(328,461,683)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
Cash and other cash items	7	57,573,135	37,721,982	37,957,743
Due from Bangko Sentral ng Pilipinas	7	193,674,093	185,661,964	169,621,677
Due from other banks	8	325,169,160	252,170,026	636,064,518
		576,416,388	475,553,972	843,643,938
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and other cash items	7	68,652,536	57,573,135	37,721,982
Due from Bangko Sentral ng Pilipinas	7	375,899,457	193,674,093	185,661,964
Due from other banks	8	286,284,325	325,169,160	252,170,026
Securities under overnight repurchase agreement	10	36,315,288	18,000,000	-
		P 767,151,606	P 594,416,388	P 475,553,972

Supplemental Information on Non-cash Investing and Financing Activities:

(1) In 2019, the Bank recognized additional right-of-use asset amounting to P1.0 million which is presented as part of Bank Premises, Furniture, Fixtures and Equipment (see Note 11). As of December 31, 2019, the right-of-use asset amounted to P25.0 million.

(2) In 2019, 2018 and 2017, the Bank acquired P33.2 million, P23.3 million and P17.8 million properties through foreclosure which were accounted for as investment properties (see Note 12).

(3) In 2017, certain investment properties with carrying value of P0.2 million was reclassified to Bank Premises, Furniture, Fixtures and Equipment due to change in use of the assets (see Notes 11 and 12).

(4) In 2018 and 2017, the Bank declared and distributed stock dividends of P47.9 million and P20.9 million, respectively (see Note 18).

(5) Out of the P32.0 million and P18.0 million cash dividends declared in 2018 and 2017, respectively, P0.8 million were not paid within the years of declaration (see Notes 17 and 18).

(6) For statement of cash flows purposes, time deposits presented as part of the Due from Other Banks account amounting to P69.0 million and P60.0 million as of December 31, 2019 and 2018, respectively, are not included as cash and cash equivalents since these have maturities of more than three months (see Note 8).

Other information -

The securities under overnight repurchase agreement is included as part of Cash and Cash Equivalents for cash flow purposes but are presented as part of Loans and Other Receivables in the 2019 and 2018 statements of financial position. The Bank has no outstanding securities under overnight repurchase agreement as of December 31, 2017 (see Note 10).

See Notes to Financial Statements.

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BANGKO KABAYAN INC.
(A PRIVATE DEVELOPMENT BANK)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Philippine Pesos)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

Bangko Kabayan Inc. (A Private Development Bank), formerly known as Bangko Kabayan (A Rural Bank) Inc. (the Bank), was incorporated in the Philippines on August 2, 2007 to engage in the business of rural banking. It was organized to carry the merger between Bangko Kabayan (Ibaan Rural Bank, Inc.) and Banco de Jesus Rural Bank, Inc. The Monetary Board of the Bangko Sentral ng Pilipinas (BSP) issued the Bank's authority to operate as a thrift bank on May 27, 2016. On April 25, 2016, the Securities and Exchange Commission (SEC) approved the Bank's application to operate as a thrift bank.

The Bank was authorized to engage in the business of extending financial services to farmers, employees, entrepreneurs, commercial, manufacturing and industrial enterprises and to such other persons or entities that require financial intermediation, and to have and to exercise all authority and powers, and to do and perform all acts, and to transact all business which may legally be done by Thrift Banks organized under and in accordance with the existing New Thrift Banks Act of 1995 (Republic Act No. 7906).

On June 1, 2018, the Bank converted its existing microfinance other banking office to a branch-lite unit. As of December 31, 2019, the Bank has 23 branches, including the head office, in the areas of Batangas, Laguna and Quezon (Southern Luzon), and one branch-lite in Lobo, Batangas.

The Bank's registered address, which is also its principal place of business, is at Santiago Street, Poblacion, Ibaan, Batangas.

1.2 Approval of Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2019 (including the comparative financial statements as of December 31, 2018 and for the years ended December 31, 2018 and 2017) were authorized for issue by the Bank's Board of Directors (BOD) on March 5, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Financial Statements

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

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

(c) Functional and Presentation Currency

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

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates.

2.2 Adoption of New and Amended PFRS

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

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

PAS 19 (Amendments)	:	Employee Benefits – Plan Amendment, Curtailment or Settlement
PFRS 9 (Amendments)	:	Financial Instruments – Prepayment Features with Negative Compensation
PFRS 16	:	Leases
International Financial Reporting Interpretations Committee (IFRIC) 23	:	Uncertainty over Income Tax Treatments
Annual Improvements to PFRS (2015-2017 Cycle)		
PAS 12 (Amendments)	:	Income Taxes – Tax Consequences of Dividends

Discussed below and in the succeeding pages are the relevant information about these new standards, amendments, interpretation and improvements.

(i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement*. The amendments clarify that past service cost and gain or loss on settlement is calculated by measuring the net defined benefit liability or asset using updated actuarial assumptions and comparing the benefits offered and plan assets before and after the plan amendment, curtailment or settlement but ignoring the effect of the asset ceiling that may arise when the defined benefit plan is in a surplus position. Further, the amendments now require that if an entity remeasures its net defined benefit liability or asset after a plan amendment, curtailment or settlement, it should also use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the change to the plan. The application of these amendments had no significant impact on the Bank's financial statements.

(ii) PFRS 9 (Amendments), Financial Instruments – Prepayment Features with Negative Compensation. The amendments clarify that prepayment features with negative compensation attached to financial assets may still qualify under the "solely payments of principal and interests" (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at fair value through other comprehensive income (FVOCI). The application of these amendments had no significant impact on the Bank' financial statements.

(iii) PFRS 16, *Leases*. The new standard replaced PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, Standard Interpretations Committee (SIC) 15, *Operating Leases – Incentives* and SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. For lessees, it requires an entity to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and lease liability arising from contract that is, or contains, a lease.

For lessors, the definitions of the type of lease (i.e., finance and operating leases) and the supporting indicators of a finance lease are substantially the same with the provisions under PAS 17. In addition, basic accounting mechanics are also similar but with some different or more explicit guidance related to variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The Bank has adopted PFRS 16 using the modified retrospective approach as allowed under the transitional provisions of the standard. The adoption of the standard has resulted in adjustments to the amounts recognized in the financial statements as at January 1, 2019, with the cumulative effect recognized in equity as an adjustment to the opening balance of Surplus Free for the current period. Accordingly, comparative information was not restated.

The new accounting policies of the Bank as a lessee are discussed in Note 2.13(a).

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

a. For contracts in place at the date of initial application, the Bank has elected to apply the definition of a lease from PAS 17 and IFRIC 4 and has not applied PFRS 16 to arrangements that were previously not identified as leases under PAS 17 and IFRIC 4.

b. The Bank recognized lease liabilities in relation to leases which had previously been classified as operating leases under PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Bank's incremental borrowing rate as of January 1, 2019. The Bank's weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 5%.

c. The Bank has elected not to include initial direct costs in the measurement of right-of-use assets at the date of initial application. The Bank also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid lease payments and estimated cost to restore the leased asset that existed as at January 1, 2019.

d. For leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Bank has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

e. The Bank has also used the following practical expedients, apart from those already mentioned above, as permitted by the standard:

    i. application of a single discount rate to a portfolio of leases with reasonably similar characteristics; and,
    ii. reliance on its historical assessments on whether leases are onerous as an alternative to performing an impairment review on right-of-use assets. As at January 1, 2019, Bank has no onerous contracts.

The following table shows the effects of the adoption of PFRS 16 in the carrying amounts and presentation of certain accounts in the statement of financial position as at January 1, 2019.

	Notes	Carrying Amount (PAS 17) December 31, 2018	Remeasurement	Carrying Amount (PFRS 16) January 1, 2019
Resources:				
Other resources	c	P 34,049,607	(P 1,545,630)	P 32,503,977
Bank premises, furniture, fixtures, and equipment – net	c	107,429,466	29,622,631	137,052,097
			28,077,001	
Liabilities –				
Other liabilities	b	61,750,018	28,433,685	90,183,703
Impact on Surplus free			(P 356,684)	

A reconciliation of the opening lease liabilities recognized at January 1, 2019 and the total operating lease commitments determined under PAS 17 at December 31, 2018 is shown below.

	Notes	
Operating lease commitments December 31, 2018 (PAS 17)	24.1	P 35,544,055
Recognition exemption – Leases of low value assets	2.2(a)(iii)(d)	1,278,550
Operating lease liabilities before discounting		34,265,505
Discount using incremental borrowing rate at 5%	2.2(a)(iii)(b)	(5,831,820)
Lease liabilities, January 1, 2019 (PFRS 16)		P 28,433,685

(iv) IFRIC 23, *Uncertainty over Income Tax Treatments*. This interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Bank to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Bank has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.

(v) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, PAS 12 (Amendments), *Income taxes – Tax Consequences of Dividends*, is considered relevant to the Bank but has no material impact on the Bank's financial statements as this amendment merely clarifies existing requirements. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

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

There amendments to existing standards effective for annual periods subsequent to 2019, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, management is currently assessing the impact on the Bank's financial statements:

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

(ii) Revised Conceptual Framework for Financial Reporting (effective from January 1, 2020). The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

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

2.3 Financial Assets

Financial assets are recognized when the Bank becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

(a) Classification, Measurement and Reclassification of Financial Assets

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

(i) Financial Assets at Amortized Cost

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

- the asset is held within the Bank's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); 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 allowance for expected credit loss (ECL).

Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement [(see Note 3.1(b)]. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss (FVTPL).

The Bank's financial assets at amortized cost are presented in the statement of financial position as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Held-to-Collect (HTC) Financial Assets, Loans and Receivables and Refundable deposits (presented under Other Resources account).

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise of accounts with original maturities of three months or less from placement date, including cash and other cash items and non-restricted balances of Due from BSP, Due from Other Banks, and Securities under reverse repurchase agreement (SPURRA) (presented as part of Loans and Other Receivables account). These generally include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

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

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

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and

- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Bank for trading.

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

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

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. Also, equity securities are classified as financial assets at FVTPL, unless the Bank designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Bank has not designated any financial assets at FVOCI.

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

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

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

(b) Effective Interest Rate Method and Interest Income

Interest income is recorded using the effective interest rate (EIR) method for all financial instrument measured at amortized cost and financial instrument designated at FVTPL. Interest income on interest bearing financial assets measured at FVOCI is recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

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

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive (negative) adjustment to the carrying amount of the asset in the balance sheet with an increase (reduction) in Interest income. The adjustment is subsequently amortized through interest and similar income in the statement of income.

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

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

(c) Impairment of Financial Assets

The Bank recognizes allowance for ECL on a forward-looking basis associated with its financial assets at amortized cost, debt securities at FVOCI, and loan commitments issued.

Recognition of credit losses is no longer dependent on the Bank's identification of a credit loss event. Instead, the Bank considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

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

- debt securities that are identified to have 'low credit risk' at the reporting date; and,
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

For these financial instruments, the allowance for credit losses is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as 'Stage 1' financial instruments). Unless there has been a significant increase in credit risk (SICR) subsequent to the initial recognition of the financial asset, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial asset) will be recognized (referred to as 'Stage 2' financial instruments). 'Stage 2' financial instruments also include those loan accounts and facilities where the credit risk has improved and have been reclassified from 'Stage 3'. A lifetime ECL shall be recognized for 'Stage 3' financial instruments, which include financial instruments that are subsequently credit-impaired, as well as purchased or originated credit-impaired (POCI) assets.

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

Measurement of ECL

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

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The Bank's detailed ECL measurement, as determined by the management, is disclosed in Note 4.3.6(a).

(d) Derecognition of Financial Assets

(i) Modification of Loans

When the Bank derecognizes a financial asset through renegotiation or modification of contractual cash flows of loans to customers, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank considers, among others:

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

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

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows of the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets). As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

(ii) Derecognition of Financial Assets other than Modification

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

2.4 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and, must be legally enforceable for both entity and all counterparties to the financial instruments.

2.5 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less allowance for impairment losses, if any. All other bank premises, furniture, fixtures and equipment are stated at cost less accumulated depreciation, amortization and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Building and improvements	5 to 25 years
Transportation equipment	3 to 5 years
Furniture, fixtures and equipment	3 to 5 years

Leasehold improvements are amortized over the term of the lease or useful lives of the improvements of ten years, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.15).

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

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation and amortization and any impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is presented as part of Gain on sale of non-financial assets under Other Operating Income account in the statement of income in the year the item is derecognized.

2.6 Investment Properties

Investment properties pertain to parcels of land, building and improvements acquired by the Bank in settlement of loans from defaulting borrowers through foreclosure or dacion in payment which are held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment properties are measured initially at acquisition cost. Directly attributable cost incurred such as legal fees, transfer taxes and other transaction costs are capitalized as part of the carrying amount of investment properties.

The Bank adopted the cost model in measuring its investment properties; hence, these are carried at cost less accumulated depreciation and any impairment in value, if any (see Note 12). Investment properties, except land, are depreciated on a straight-line basis over a period of 10 years.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the disposal of an investment property is recognized in profit or loss and is presented as part of Gain on sale of non-financial assets under Other Operating Income in the statement of income in the year of disposal.

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

2.7 Other Resources

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

2.8 Intangible Assets

Intangible assets include computer software licenses, which is presented as part of Other Resources account. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. These costs are amortized on a straight-line basis over the expected useful life of three to seven years. Costs associated with maintaining computer software are expensed as incurred. In addition, computer software licenses are subject to impairment testing as described in Note 2.15.

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

2.9 Financial Liabilities

Financial liabilities, which include deposit liabilities, bills payable and other liabilities (except tax-related payables) are recognized when the Bank becomes a party to the contractual terms of the instrument.

All interest-related charges incurred on a financial liability are recognized as an expense in profit or loss as part of Interest Expense in the statement of income.

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

Bills payable are recognized initially at fair value, equivalent to the issue proceeds (fair value of consideration received), net of direct issue costs. Bills payable are subsequently measured at amortized cost. Any difference between proceeds, net of transaction costs, and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are declared by the Bank.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.10 Equity

Capital stock represents the nominal value of shares that have been issued.

Surplus reserve pertains to the appropriation of the Surplus account, brought about by cases when the allowance for credit losses on 'Stage 1' loan accounts computed under the requirements of PFRS 9 is less than the 1% GLLP required by the BSP. This is in pursuant to BSP Circular No. 1011, *Guidelines on the Adoption of PFRS 9*, which requires financial institutions to set up GLLP equivalent to 1% of all outstanding 'Stage 1' on-balance sheet loan accounts.

Surplus free represents all current and prior period results of operations as disclosed in the statement of profit or loss, reduced by the amount of dividends declared.

Revaluation reserves consist of:

(a) Net unrealized fair value gains or losses arising from remeasurements of financial assets at FVOCI; and,

(b) Remeasurements of post-employment defined benefit plan comprising of net accumulated actuarial gains or losses arising from experience adjustments and other changes in actuarial assumptions, and actual return on plan assets (excluding account included in net interest).

2.11 Provisions and Contingencies

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

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

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Bank can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.12 Other Income and Expense Recognition

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

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

For revenues to be accounted for under PFRS 15, the following information about the nature and timing of satisfaction of performance obligations in contracts with customers including significant payment terms, and the related revenue recognition policies:

(a) *Fees and commissions* – are generally recognized when the service has been provided. These include commissions and fees arising from loans, deposits and other banking transactions and are taken up as income based on agreed terms and conditions.

(b) *Gain on sale of non-financial assets* – is recognized when the title to the properties is transferred to the buyer or when the collectibility of the entire sales price is reasonably assured. This is included in profit or loss as part of Other Operating Income.

2.13 Leases – Bank as Lessee

(a) *Accounting for Leases in Accordance with PFRS 16 (2019)*

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

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;

- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,

- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Bank depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.15).

On the other hand, the Bank measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

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

On the statement of financial position, right-of-use assets and lease liabilities have been presented under Bank Premises, Furniture, Fixtures and Equipment account and Other Liabilities account, respectively.

(b) Accounting for Leases in Accordance with PAS 17 (2018)

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

The Bank determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the 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.

2.14 Foreign Currency Transactions and Translations

The accounting records of the Bank are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

2.15 Impairment of Non-financial Assets

The Bank's bank premises, furniture, fixtures and equipment, investment properties, intangible assets, and other non-financial assets are subject to impairment testing. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

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

Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts, which is the higher of its fair value less costs to sell and its value in use. The recoverable amount is the higher of fair value, reflecting market conditions, less costs to sell and value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Bank's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

2.16 Employee Benefits

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

(a) Post-employment Defined Benefit

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

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

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

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

(b) Defined Contribution Plan

A defined contribution plan is a post-employment plan under which the Bank pays fixed contributions into an independent entity (e.g., Social Security System). The Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities or assets may be recognized if underpayment or prepayment has occurred.

(c) Termination Benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

(d) Bonuses

The Bank recognizes a liability and an expense for accrual of bonuses. The Bank recognizes a provision where it is contractually obliged to pay the benefits.

(e) Compensated Absences

Unavailed leaves, included in Accrued expenses under Other Liabilities account in the statement of financial position, are recognized as expense at the amount the Bank expects to pay at the end of reporting period. Each regular employee is entitled to 15 days vacation and sick leaves each year. Five of the vacation leaves are convertible into cash when unused and can be carried forward to the next taxable year. The maximum vacation leaves that can be accumulated by each employee is 45 days. Sick leaves, on the other hand, are non-convertible but cumulative.

2.17 Borrowing Costs

Borrowing costs are recognized as expense in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

2.18 Income Taxes

Tax expense recognized in profit or loss comprises the sum of current tax and deferred tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

2.19 Related Party Transactions and Relationships

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

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

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

2.20 Earnings Per Share

Basic earnings per share is determined by dividing the net profit by the weighted average number of common shares subscribed and issued during the year after retroactive adjustment for stock dividend, stock split and reverse stock split declared during the year, if any.

Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares. Currently, the Bank does not have dilutive potential shares outstanding, hence, the diluted earnings per share is equal to the basic earnings per share.

2.21 Segment Reporting

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

In identifying its operating segments, management generally follows the Bank's products and services. Each of these operating segments is managed separately as each of these services requires different technologies and resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

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

The Bank's operations are organized according to the nature of the products and services provided. However, management does not view the Bank's business operations, activities and components separately but rather they view the Bank as a whole. Accordingly, no business segment information is presented in its financial statements.

2.22 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Bank's financial position at the end of reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Application of ECL to HTC Financial Assets and Financial Assets at FVOCI

The Bank uses a provision matrix to calculate ECL for all debt instruments carried at amortized cost and FVOCI, together with loan commitments and financial guarantee contracts, if any. The allowance for impairment is based on the ECLs associated with the probability of default of a financial instrument in the next 12 months, unless there has been a SICR since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized.

The Bank has established a policy to perform an assessment, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

(b) Evaluation of Business Models Applied and Testing the Cash Flow Charancteristics of Financial Assets in Managing Financial Instruments

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

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

In determining the classification of a financial instrument, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Bank (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Bank's investment, trading and lending strategies. Furthermore, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are 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) 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.

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

(c) Distinction between Investment Properties and Owner-occupied Properties

The Bank determines whether a property qualifies as an investment property.
In making its judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by the Bank. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production, supply process, and in the Bank's banking operation.
The management has determined that the land and, building and improvements acquired by the Bank from defaulting borrowers are classified as investment properties.

(d) Distinction between Operating and Finance Leases

The Bank has entered into various lease agreements as a lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risks and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of resources and liabilities. Based on management's judgment, such leases were determined to be operating leases.

(e) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish the difference between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.11 and relevant disclosures are presented in Note 24.

In dealing with the Bank's various legal proceedings, its estimate of the probable costs that may arise from claims and contingencies has been developed in consultation and coordination with the Bank's internal and external counsels acting in defense for the Bank's legal cases and are based upon the analysis of probable results.

Although the Bank does not believe that its dealing on these proceedings will have material adverse effect on the Bank's financial position, it is possible that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies conducted relating to those proceedings.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of resources and liabilities within the next reporting period:

(a) Estimation of Allowance for ECL

The Bank provides ECL for financial instruments that have passed the SPPI test (see Note 2.3). The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions which include: the Bank's criteria for assessing if there has been a significant increase in credit risk; and, development of expected credit loss models, including the choice of inputs relating to macroeconomic variables. The calculation of credit-impairment provisions also involves expert credit judgement to be applied based upon counterparty information received from various sources including relationship managers and on external market information.

The analysis of the allowance for impairment and the ECL assessed on financial assets are shown in Note 4.3.7.

(b) Fair Value Measurement for Financial Instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

The fair value information related to financial assets and financial liabilities is disclosed in Note 6. The carrying values of the Bank's financial assets at FVOCI (previously AFS financial assets) and the amounts of fair value changes recognized on those assets are disclosed in Note 9.1.

(c) Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Investment Properties and Computer Software

The Bank estimates the useful lives of property and equipment, investment properties and computer software (classified under Other Resources) based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment, investment properties and computer software are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of bank premises, furniture, fixtures and equipment are analyzed in Note 11 while investment properties and computer software are analyzed in Notes 12 and 13, respectively.

Based on management's assessment as at December 31, 2019 and 2018, there is no change in estimated useful lives of bank premises, furniture, fixtures and equipment, investment properties and computer software during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(d) Determination of Fair Value of Investment Properties

The Bank's investment properties are composed of parcels of land, buildings and improvements which are held for capital appreciation and are measured using cost model. The estimated fair value of investment properties disclosed in Note 6.4 is determined on the basis of the appraisals conducted by professional appraiser applying the relevant valuation methodologies as discussed therein.

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

A significant change in key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

(e) Determination of Realizable Amount of Deferred Tax Assets

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management assessed that the deferred tax assets recognized as at December 31, 2019 and 2018 will be fully utilized within the prescribed availment period. The carrying value of deferred tax assets as of those dates is disclosed in Note 21.

(f) Estimation of Impairment of Non-financial Assets

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.15). Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

As of December 31, 2019 and 2018, the Bank has not recognized any impairment losses on its bank premises, furniture, fixtures and equipment and computer software. Impairment losses recognized by the Bank on investment properties, on the other hand, are discussed in Note 12.

(g) Valuation of Post-employment Defined Benefit Plan

The determination of the Bank's obligation and cost of post-employment and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 20 and include, among others, discount rates and salary increase rates. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the retirement benefit asset or obligation in the next reporting period.

The amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of defined benefit obligation, as well as the significant assumptions used in estimating such obligations are presented in Note 20.2.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank recognizes that risk management is an activity critical to its success. It is committed to ensure constant adherence to best practices and standards and to apply prudence and accountability in its risk-taking activities. The Bank exposes itself to a myriad of risks arising from the use of financial instruments. In particular, these financial risks are mainly exposure to credit, liquidity and market risks. Consequently, the Bank has put in place the appropriate risk management structures, policies, and processes to address each type of risk. The key risk processes involve identifying, measuring, controlling and monitoring risks.

4.1 Risk Management Structure

The following structure shows the Bank's overall approach to risk management:

(a) Board of Directors

The BOD has the ultimate responsibility for approving and periodically reviewing the risk strategies and significant policies of the Bank. It adopts policies and guidelines to govern the safe and prudent functioning of the Bank with the end in view of effectively managing all risks in its activities. The policies to be formulated include, but not limited to, lending, investing, fund sourcing, liquidity management, personnel administration, and internal control.

(b) Risk Oversight Committee

Risk Oversight Committee (ROC) is the board level committee responsible for the development and oversight of the risk management program of the Bank. It oversees the system of limits to discretionary authority that the BOD delegates to management, ensures that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached.

(c) Senior Management

Senior Management is responsible for the design, implementation and maintenance of effective management program. They also ensure compliance with laws and regulations and create systems to measure and monitor performance.

(d) Risk Unit

Risk Unit (RU) performs an independent risk governance function within the Bank. It is tasked with identifying, measuring, controlling and monitoring existing and emerging risks inherent in the Bank. The unit develops and employs risk assessment tools to facilitate risk identification and measurement. It is responsible for developing and implementing the framework for policies and practices to assess and manage enterprise-wide risks. It also develops and endorses risk tolerance limits for approval of the BOD through ROC, and monitors compliance with the approved risk tolerance limits. It regularly reports to the BOD, through the ROC, the results of its risk monitoring.

(e) Executive Credit Committee

A board level committee responsible to oversee the credit risk-taking activities, quality and profitability of the credit portfolio, and credit evaluation process. All credit proposals beyond the credit approving limit of the Credit Committee passes through this committee for final approval. This committee also endorses credit proposals beyond its approving limit to the BOD for final approval.

(f) Asset-Liability Management Committee

A management level committee responsible for the overall management of the Bank's liquidity risks. It monitors the Bank's liquidity position and reviews the impact of strategic decisions on liquidity. It is responsible for managing liquidity risks and ensuring that the Bank's exposures remain within established tolerance levels.

(g) Compliance Unit

This unit is responsible for reviewing any legal or regulatory matters that could have a significant impact on the Bank's financial statements and compliance with laws and regulations. It reviews the effectiveness and adequacy of the system for monitoring compliance with laws and regulations. The Chief Compliance Officer regularly reports to the BOD.

(h) Internal Audit Department

Internal Audit Department (IAD) provides an independent assessment of the Bank's management and effectiveness of existing internal control systems through adherence testing of processes and controls across the organization. The IAD audits risk management processes throughout the Bank. It employs a risk-based audit approach that examines both the adequacy of the procedures and the Bank's compliance with the procedures. It discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee of the BOD.

4.2 Market Risk

The Bank is exposed to market risk through its use of financial instruments and specifically to interest rate risk and certain other price risk which resulted from its operating, investing and financing activities.

(a) Interest Rate Risk

The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.

As a result of these, the Bank's exposure to interest rate fluctuations, and other market risks, is significantly reduced.

The Bank, in keeping with banking industry practice, maintains a large portion of its deposit base on short-term deposits. Savings and demand accounts, and time deposit accounts constitute 76.4% and 23.6%, respectively, of the total deposit liabilities as of December 31, 2019 and 75.1% and 24.9%, respectively, as of December 31, 2018. Rates on time deposits and special savings account are usually priced according to the amount deposited.

As of December 31, 2019 and 2018, the Bank's loans and other receivables have fixed interest rates.

The following table provides for the effective interest rates by period of maturity of the Bank as of December 31, 2019 and 2018.

	2019			2018		
	Less than Three Months	**Three Months to One Year**	**More than One Year**	Less than Three Months	Three Months to One Year	More than One Year
Resources						
Due from other banks	**0.0%-3.5%**	**3.5%**	**2.75%-3.0%**	0.0% - 2.9%	2.75%	-
Loans and other receivables	**0.0%-60%**	**3.3%-61.0%**	**3.3%-28.0%**	3.3% - 48%	3.3% - 48%	3.3% - 30%
Financial assets at FVOCI	**-**	**-**	**3.3%-5.8%**	-	-	3.3% - 5.85
HTC financial assets	**-**	**4.3%**	**4.9%-6.3%**	-	3.9%	4.3% - 5.8%
Sales contract receivables	**0%-12%**	**0%-12%**	**7.0%-12.0%**	0 - 12.0%	0 - 12.0%	7.0% - 12%
Liabilities						
Saving deposits	**0.3%**	**-**	**-**	0.3%	-	-
Time deposits	**0.5%-7.0%**	**0.8%-7.0%**	**0.9%-7.0%**	0.5% - 3%	0.8% - 3%	0.9% - 7%
Bills payable	**-**	**-**	**-**	6.3% - 7%	-	-

(b) Foreign Currency Risk

The Bank has no significant exposure to foreign currency risks as most transactions are denominated in Philippine pesos, its functional currency. Its foreign currency denominated cash as of December 31, 2019 and 2018 amounted to P0.07 million and P0.23 million, respectively, which is recorded as part of Due from other banks in the statements of financial position (see Note 8).

(c) Other Price Risk

The Bank's market price risk arises from its financial assets at FVOCI. The Bank manages exposures to price risk by monitoring the changes in the market price of the investments.

The observed volatility rates of the fair values of the Bank's trading and investment securities and their impact on the Bank's profit before tax and equity as at December 31, 2019 and 2018 are summarized below. These percentages have been determined using standard deviation based on the average market volatility in security prices in the previous 12 months.

	Observed Volatility Rates		Impact of Increase on		Impact of Decrease on	
	Increase	Decrease	Profit Before Tax	Equity	Profit Before Tax	Equity
December 31, 2019						
Debt securities						
Corporate bonds	10.1%	-10.1%	P 11,455,970	P 10,376,300	(P11,455,970)	(P 10,376,300)
Government bonds	2.9%	-2.9%	1,438,837	1,261,636	(1,438,837)	(1,261,636)
			P 12,894,807	**P 11,637,936**	**(P12,894,807)**	**(P 11,637,936)**
December 31, 2018						
Debt securities						
Corporate bonds	+9.0%	-9.0%	P 9,191,255	P 8,326,216	(P 9,191,255)	(P 8,326,216)
Government bonds	+8.3%	-8.3%	3,682,564	3,217,368	(3,682,564)	(3,217,368)
			P 12,873,819	P 11,543,584	(P 12,873,819)	(P 11,543,584)

4.3 Credit Risk

Credit risk refers to the potential loss of the Bank's earnings arising from the inability to review and analyze requests for credit to determine likelihood of repayment. This includes the failure to manage the risk that loss is incurred if counterparty does not fulfill its financial obligations in a timely manner. Managing credit risk involves defining the principles and parameters governing credit activities at various levels, i.e. strategic level, portfolio level down to individual transaction or account level.

The following tools, among others, are used in identifying, assessing and managing credit risk:

- Established credit policies, asset allocations and concentration limits, collateral acceptance criteria, target market and clearly defined approving authorities;
- Defined documentation policies of approved credit lines;
- Independence of credit control and monitoring functions from the credit risk-taking function;

- Periodic monitoring of individual account performance;
- Regular review of the adequacy of valuation reserves;
- Active loan portfolio management to determine the quality of the loan portfolio, including risks associated with particular industry sectors, loan size and maturity, monitoring portfolio growth, collection performance and delinquency trends, trend of non-performing loans, concentration risk, and other performance indicators; and,
- Close monitoring of remedial accounts.

4.3.1 Credit Quality Analysis

The following table sets out information about the credit quality of loans and other receivables, HTC financial assets and financial assets at FVOCI. As of December 31, 2019 and 2018, there are no POCI financial assets in the Bank's financial statements.

	Stage 1	Stage 2	Stage 3	Total
2019				
Loans and other receivables				
Perfoming:				
Current	P 1,721,671,341	P 63,709,803	P 29,583,911	P 1,814,965,055
Past due	-	7,540,361	2,832,990	10,373,351
Non-performing:				
Past due	-	-	78,105,383	78,105,383
Items in litigation	-	-	18,248,327	18,248,327
	1,721,671,341	71,250,164	128,770,611	1,921,692,116
Expected credit loss allowance	(7,258,917)	(760,074)	(19,751,426)	(27,770,417)
Carrying amount	**P 1,714,412,424**	**P 70,490,090**	**P 109,019,185**	**P 1,893,921,699**
HTC financial assets				
Carrying amount	**P 135,000,000**	**P -**	**P -**	**P 135,000,000**
Financial assets at FVOCI				
Carrying amount	**P 172,977,086**	**P -**	**P -**	**P 172,977,086**
2018				
Loans and other receivables				
Perfoming:				
Current	P 1,915,027,482	P -	P -	P1,915,027,482
Past due	-	15,436,922	-	15,436,922
Non-performing:				
Past due	-	-	42,497,681	42,497,681
Items in litigation	-	-	4,818,192	4,818,192
	1,915,027,482	15,436,922	47,315,873	1,977,780,277
Expected credit loss allowance	(13,781,782)	(510,380)	(6,271,621)	(20,563,783)
Carrying amount	P 1,901,245,700	P 14,926,542	P 41,044,252	P 1,957,216,494
HTC financial assets				
Carrying amount	P 134,994,425	P -	P -	P 134,994,425
Financial assets at FVOCI				
Carrying amount	P 146,493,294	P -	P -	P 146,493,294

4.3.2 Concentrations of Credit Risk

Excessive concentration of lending poses undue risk on the Bank's asset quality. The Bank believes that good diversification across economic sectors and kinds of borrowers will lessen this risk.

RU reviews the Bank's loan portfolio monthly, in line with its policy of avoiding significant credit concentration to specific industry or group of borrowers.

To maintain the quality of its loan portfolio, the Bank keeps its risk tolerance limits on asset quality lower than the industry ratio and enforce a stringent policy on credit evaluation, review and monitoring. Credit concentration profile as of December 2019 and 2018 is presented in Note 10.

4.3.3 Credit Risk Assessment

Loans and receivables, regardless if the accounts have been fully paid, extended or renewed in subsequent year or period, are subjected to evaluation for possible losses. The Bank's estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows, and the passage of time. The assessment of credit risk of a portfolio of assets requires further estimations as to the PDs occurring, of the associated loss ratios, and of default correlations between counterparties; accordingly, such credit risk is measured using probability of default (PD), exposure at default (EAD), and loss given default (LGD), for purposes of measuring ECL.

The Bank uses its internal credit risk rating system (ICRRS) to determine any evidence of potential deterioration in the quality of an instrument that take into consideration both quantitative and qualitative criteria. The rating system classifies performing accounts with weighted score from ICRRS of 70% and above, indicating an extremely strong capacity of the counterparty to meet financial commitments down to accounts with weighted score of less than 50%, demonstrating weakness in the counterparty's economic and financial condition that could lead to payment default on financial commitments. The ICRRS established by the Bank takes into consideration both quantitative and qualitative characteristics of the borrowers. Past due accounts, accounts identified for phase-out and those that exhibit the characteristics of classified loans shall be risk-rated following the guidelines on credit classification per BSP Manual of Regulations for Banks and under the BSP Circular No. 1011, i.e., Especially Mentioned, Substandard, Doubtful or Loss. These guidelines are used by the Bank to assign the individually assessed loan or a group of loans within a particular portfolio segment to a specific stage category under the PFRS 9 loan impairment standards (i.e. Stage 1, 2, 3).

In assessing accounts subject to individual assessment, the Bank has established a materiality threshold of P10.0 million for all exposures. Such threshold shall be regularly reviewed at the end of reporting period to ensure that it appropriately captures what the Bank considers as material items of loan for individual assessment. The provision for ECL for individually assessed exposures shall reflect consideration of the facts and circumstances that affect the repayment of each individual loan as of evaluation date.

A periodic assessment of credit quality may improve the borrower's weighted score or it could lead to one or more scoring downgrades over time; hence could lead to the transfer of credit exposure in different stages of impairment.

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

4.3.4 Assessment of Significant Increase in Credit Risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank assesses the change in the risk of a default occurring over the remaining life of the financial instrument. In making this assessment, the Bank assesses on a periodic basis both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information as appropriate.

The Bank's ECL model follows a three-stage impairment approach in determining the loss allowance to be recognized in the financial statements:

(a) Stage 1 – these are credit exposures that are considered 'performing' and with no SICR since initial recognition or with low credit risk. The loss allowance is determined based on a 12-month ECL.

(b) Stage 2 – these are credit exposures that are considered 'under performing' and with SICR since initial recognition. A lifetime ECL is recognized for these credit exposures.

(c) Stage 3 – these are credit exposures with objective evidence of impairment and considered 'non-performing'. The Bank recognizes a lifetime ECL for all credit-impaired financial assets.

The Bank considers low credit risk for listed debt security when its credit risk rating is equivalent to a globally understood definition of 'investment grade' (which should be from atleast one major rating agency); other debt securities are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Financial assets that are credit-impaired on initial recognition are classified as POCI assets. ECL is only recognized or released to the extent that there is a subsequent change in the ECLs.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's internal credit assessment, the borrower or counterparty is determined to have well-defined credit weaknesses. Under the Bank's ICRRS, these are exposures rated at least Substandard. For exposures with no internal credit risk rating performed, if contractual payments are more than a specified days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Depending on the number of days past due which differ across the various products of the Bank, a credit exposure may be transferred to Stage 2 or Stage 3. 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. As a general rule, an upgrade or transfer of credit exposure from Stage 3 to Stage 1 is allowed when there is sufficient evidence to support that full collection of principal and interest is probable, consistent with the Bank's definition of curing period.

4.3.5 Definition of Default

(a) Loans and receivables

The Bank defines a loan instrument as in default, which is aligned with the definition of credit-impaired, when the borrower is more than 90 days past due on its contractual payments, except for the one day past due threshold for microfinance loan portfolio. As part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances and factors that may indicate unlikeliness to pay which may include (a) significant financial difficulty of the issuer or borrower; (b) the restructuring of a loan by the Bank, for economic or legal reasons relating to the borrower's financial difficulty, on terms that the Bank would not consider otherwise; or, (c) it becoming probable that the borrower will enter bankruptcy or other financial reorganization. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted.

An instrument is considered to be no longer in default or have cured when the borrower is able to repay the installments in arrears and the account no longer meets any of the default criteria for a consecutive period of 180 days within which the borrower shall make consecutive payments.

These criteria are consistent with the definition of default used for internal credit risk management purposes that is aligned with the default criteria used for regulatory capital purposes. Such definition is consistently applied in determining PD, LGD, and EAD for each loan portfolio segment and throughout the ECL calculations of the Bank.

(b) Investment in debt securities

Investments in debt securities is assessed as credit-impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of an event that occurred after the initial recognition of the security (a "loss event") and that loss event has impact on the estimated future cash flows of the securities. Losses expected as a result of future events, shall also be considered in estimating the ECL.

Objective evidence that the security is impaired includes observable data that comes to the attention of the holder of the security about the following loss events:

- significant financial difficulty of the issuer or obligor;
- breach of contract, such as a default or delinquency in interest or principal payments;
- the financial institution, for economic or legal reasons relating to the issuer's financial difficulty, granting to the issuer a concession that the financial institution would not otherwise consider;
- it becoming probable that the issuer will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that security because of financial difficulties; or

- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of securities since the initial recognition of those assets, although the decrease cannot yet be identified with the individual securities in the portfolio, including adverse change in the payment status of issuers in the portfolio; or national or local economic conditions that correlate with defaults on the securities in the portfolio. The disappearance of an active market because a financial institution's held securities are no longer publicly traded is not evidence of impairment. A downgrade of an issuer's credit rating is not, by itself, evidence of impairment, although it may be evidence of impairment when considered with other available information.

  A decline in the fair value of a security below its cost or amortized cost is not necessarily evidence of impairment (for example, a decline in fair value of an investment in debt security that results from an increase in the risk-free interest rate).

4.3.6 Expected Credit Loss Measurement Inputs

Integral in the Bank's established policies in measuring and calculating ECL on financial instrument is the use of appropriate model for each segment of financial asset that applies relevant inputs and assumptions, including forward-looking information as appropriate.

(a)Key Inputs and Assumptions in the Expected Credit Loss Model

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

(i) PD represents an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. In determining PD, the Bank performed segmentation of its credit exposures based on homogenous characteristics. PD of individually assessed credit exposures is determined based on the historical losses incurred over total exposure while PD of collectively assessed credit exposure is determined based on the net flow rate which is developed from historical movements between one days past due bucket to the next.

(ii) LGD pertains to estimate of loss related to the amount that may not be recovered after the borrower defaults. The Bank estimates LGD parameters based on historical recovery rates of claims against defaulted counterparties, which takes into consideration the realization of any collateral that is integral to the financial asset.

(iii) EAD represents the gross carrying amount of the exposure in the event of default which include the amortized cost of an instrument and any accrued interest receivable. For lending commitments, the EAD includes the amount of drawn and undrawn irrevocable loan commitments under the contract, which are estimated based on historical observations and forward-looking forecast.

(b) *Overlay of Forward-looking Information*

The Bank incorporates forward-looking information (FLI) in its assessment of SICR and calculation of ECL. The Bank has performed historical analysis and has identified the key macroeconomic variables (MEVs) impacting credit risk associated with its borrowers.

The MEVs and their associated impact on the PD, LGD and EAD vary by financial instrument. The impact of these MEVs on the PD, LGD, and EAD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

The MEVs considered by the Bank includes economic data and forecasts published by government bodies (e.g., BSP and Philippine Statistics Authority). Accordingly, the Bank has identified key drivers for credit risk for each portfolio. Using an analysis on historical data, the Bank has estimated relationships between MEVs and credit risk and credit losses.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore, the actual outcomes may be significantly different to those projections. The Bank considers these forecasts to represent its best estimate of the possible outcomes.

4.3.7 Allowance for Expected Credit Loss

The following tables show the reconciliation of the loss allowance for ECL by class of financial instruments as of December 31, 2019 and 2018.

(a) *Loans and receivables*

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at January 1	P 13,781,782	P 510,380	P 6,271,621	P 20,563,783
Transfers:				
Stage 1 to Stage 2	(333,284)	333,284	-	-
Stage 1 to Stage 3	(1,687,096)	-	1,687,096	-
Stage 2 to Stage 1	32,884	(32,884)	-	-
Stage 2 to Stage 3	-	(122,223)	122,223	-
Stage 3 to Stage 1	516,107	-	(516,107)	-
New assets originated	6,492,512	378,640	13,720,963	20,592,115
Net remeasurement	(4,799,639)	48,150	12,970,145	8,218,656
Assets derecognized or repaid	(6,744,349)	(355,273)	(2,528,105)	(9,627,727)
Write-offs	-	-	(11,976,410)	(11,976,410)
	(6,522,865)	249,694	13,479,805	7,206,634
Balance at December 31	**P 7,258,917**	**P 760,074**	**P 19,751,426**	**P 27,770,417**

	2018			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	P 9,738,749	P 1,816,255	P 6,889,971	P 18,444,975
Transfers:				
Stage 1 to Stage 2	(104,110)	104,110	-	-
Stage 1 to Stage 3	(265,130)	-	265,130	-
Stage 2 to Stage 1	487,707	(487,707)	-	-
Stage 2 to Stage 3	-	(769,922)	769,922	-
Stage 3 to Stage 1	100,811	-	(100,811)	-
New assets originated	8,863,419	127,691	3,001,357	11,992,467
Net remeasurement	(1,425,862)	271,968	3,236,892	2,082,998
Assets derecognized or repaid	(3,613,802)	(552,015)	(1,662,095)	(5,827,912)
Write-offs	-	-	(6,128,745)	(6,128,745)
	4,043,033	(1,305,875)	(618,350)	2,118,808
Balance at December 31	P 13,781,782	P 510,380	P 6,271,621	P 20,563,783

(b) *HTC financial assets and financial assets at FVOCI*

No ECL was recognized for HTC financial assets and financial assets at FVOCI during the 2019 and 2018.

(c) *Loan commitments*

Allowance for ECL recognized by the Bank related to undrawn loan commitments as of December 31, 2018 amounted to P0.1 million and is presented as part of Others under the Other Liabilities account (see Note 17). The Bank reversed the related ECL amounting to P0.1 million in 2019 and 2018, which is presented as reduction to the Impairment Losses - net in the statements of income.

The information on how the significant changes in the gross carrying amount of the financial instruments contributed to the changes in the amount of allowance for ECL are presented in Note 4.3.8.

4.3.8 Significant Changes in Gross Carrying Amount Affecting Allowance for ECL

The table below provides information how the significant changes in the gross carrying amount of financial instruments as of December 31, 2019 and 2018 contributed to the changes in the allowance for ECL.

(a) *Loans and receivables*

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at January 1	P 1,915,027,482	P 15,436,922	P 47,315,873	P 1,977,780,277
Transfers:				
Stage 1 to Stage 2	(69,464,493)	69,464,493	-	-
Stage 1 to Stage 3	(51,064,896)	-	51,064,896	-
Stage 2 to Stage 1	5,450,546	(5,450,546)	-	-
Stage 2 to Stage 3	-	(4,421,232)	4,421,232	-
Stage 3 to Stage 1	5,809,413	-	(5,809,413)	-
New assets originated	2,376,133,344	20,724,552	112,262,828	2,509,120,724
Assets derecognized or repaid	(2,460,220,055)	(24,504,025)	(68,508,395)	(2,553,232,475)
Write-offs	-	-	(11,976,410)	(11,976,410)
	(193,356,141)	55,813,242	81,454,738	(56,088,161)
Balance at December 31	**P 1,721,671,341**	**P 71,250,164**	**P 128,770,611**	**P 1,921,692,116**

	2018			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	P1,680,667,532	P 31,994,124	P 22,945,988	P 1,735,607,644
Transfers:				
Stage 1 to Stage 2	(13,090,998)	13,090,998	-	-
Stage 1 to Stage 3	(23,985,229)	-	23,985,229	-
Stage 2 to Stage 1	8,224,141	(8,224,141)	-	-
Stage 2 to Stage 3	-	(12,028,503)	12,028,503	-
Stage 3 to Stage 1	3,011,090	-	(3,011,090)	-
New assets originated	1,187,789,380	7,057,925	18,668,743	1,213,516,048
Assets derecognized or repaid	(927,588,434)	(16,453,481)	(21,172,755)	(965,214,670)
Write-offs	-	-	(6,128,745)	(6,128,745)
	234,359,950	(16,557,202)	24,369,885	242,172,633
Balance at December 31	P1,915,027,482	P 15,436,922	P 47,315,873	P1,977,780,277

(b) HTC financial assets and financial assets at FVOCI

There was no significant movement in the Bank's HTC financial assets and financial assets at FVOCI during the year that affected the allowance for ECL (see Note 9).

4.3.9 Collateral

Quality of collateral is one of the considerations in granting of loan as this is an alternative way of collecting from the borrower in case of default. Collateral is valued according to existing credit policies, with the appraisal report as basis of the computed loan value.

As part of the Bank's risk control, a central unit is charged to handle collateral documentation wherein standard documents are used. Any deviation from these pro-forma documents are subject to Executive Credit Committee's approval prior to use and acceptance.

The table below provides the collateral profile of the outstanding loan portfolio (receivables from customers) of the Bank.

	2019	2018
Directors, officers, stockholders and related interests (DOSRI) loans		
Secured –		
Non-risk assets	**P 614,281**	P 776,357
Unsecured	**250,425**	57,845
	864,706	834,202
Non-DOSRI loans		
Secured:		
Real estate mortgage	**1,095,692,890**	1,157,193,169
Non-risk assets	**50,253,475**	53,939,212
Others	**159,811,901**	130,204,324
	1,305,758,266	1,341,336,705
Unsecured	**500,193,202**	543,788,128
	1,805,951,468	1,885,124,833
	P 1,806,816,174	P 1,885,959,035

The estimated fair value of collateral and other security enhancements held against the loan portfolio as of December 31, 2019 are presented below:

	Stage 1	Stage 2	Stage 3	Total
Real properties	P 3,167,948,491	P 167,871,396	P 112,404,916	P 3,448,224,803
Chattel	233,691,782	50,276,589	59,511,667	343,480,038
Hold-out deposits	68,728,035	95,979	2,359,559	71,183,573
Others	83,785,510	-	1,208,661	84,994,171
	P 3,554,153,818	**P 218,243,964**	**P 175,484,803**	**P3,947,882,585**

The Bank normally grants loans to borrowers at a maximum rate of 60% of the latest appraised value of the borrowers' collateral. Non-risk assets are securities covered by back-to-back on deposits. Others on the non-DOSRI loans includes chattel mortgages.

The Bank's manner of disposing the collateral for impaired loans and receivables is normally through sale of the assets after foreclosure proceedings are taken place.

4.3.10 Modification of Financial Assets

In certain cases, the Bank modifies the terms of the loans provided to the borrowers due to commercial renegotiations, or for distressed loans, with a view of maximizing recovery of the contractual amount of obligation that the Bank is owed to. Restructuring policies and practices are based on indicators or criteria which, in the management's judgment, indicate that payment will most likely continue. Such policies are continuously reviewed and updated as necessary.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the performance of the financial asset subsequent to its modification.

The Bank may determine that the credit risk has significantly improved after restructuring (in accordance with the new terms for six consecutive months or more), so that the assets are moved from Stage 3 or Stage 2.

4.3.11 Write-offs of Financial Assets

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery of the financial asset. Indicators that there is no reasonable expectation of recovery include; cessation of enforcement activity; and, where the Bank's recovery method is through foreclosure of collateral and the value of the collateral is less than the outstanding contractual amounts of the financial assets to be written-off.

4.3.12 Other Information on Credit Risk

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in cash and cash equivalents are cash in banks and short-term investments which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

4.4 Liquidity Risk

Liquidity risk is the risk that funds available may not be adequate to meet the credit demands of the Bank's customers and repay deposits on maturity. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a loan portfolio with evenly-spaced maturities and cash flows. In addition, the Bank seeks to maintain sufficient liquidity to take advantage of interest rate opportunities when they arise.

The main responsibility of daily asset liability management lies with the Treasury Unit. Liquidity risk management is monitored through Asset-Liability Management Committee. The Bank's principal source of liquidity is comprised of cash and other cash items, due from BSP and due from other banks.

Analysis of maturity profile of the financial assets and financial liabilities of the Bank are shown below.

	2019				
	Less than One Month	**One to Three Months**	**Three Months to One Year**	**More than One Year**	**Total**
Resources:					
Cash and other cash items	P 68,652,536	P -	P -	P -	P 68,652,536
Due from BSP	375,899,457	-	-	-	375,899,457
Due from other banks	239,697,160	46,587,165	69,000,000	-	355,284,325
Financial assets at FVOCI	-	-	-	172,977,086	172,977,086
HTC financial assets	-	-	50,000,000	85,000,000	135,000,000
Loans and other receivables – net	137,572,248	115,062,449	515,957,378	1,125,329,624	1,893,921,699
Refundable deposits	8,593	28,375	178,646	435,759	651,373
	821,829,994	**161,677,989**	**635,136,024**	**1,383,742,469**	**3,002,386,476**
Liabilities:					
Deposit liabilities	2,184,678,981	248,093,591	79,104,209	43,107,946	2,554,984,727
Other liabilities	38,955,158	1,175,732	1,422,434	22,297,101	63,850,425
	2,223,634,139	**249,269,323**	**80,526,643**	**65,405,047**	**2,618,835,152**
Net periodic surplus (gap)	**(1,401,804,145)**	**(87,591,334)**	**554,609,381**	**1,318,337,422**	**383,551,324**
Cumulative total surplus (gap)	**(P1,401,804,145)**	**(P 1,489,395,479)**	**(P 934,786,098)**	**P 383,551,324**	**P -**

	2018				
	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Total
Resources:					
Cash and other cash items	P 57,573,135	P -	P -	P -	P 57,573,135
Due from BSP	193,674,093	-	-	-	193,674,093
Due from other banks	279,770,960	45,398,200	60,000,000	-	385,169,160
Financial assets at FVOCI	-	-	-	146,493,294	146,493,294
HTC financial assets - net	-	-	34,994,425	100,000,000	134,994,425
Loans and other receivables – net	131,005,304	148,267,058	416,751,250	1,261,192,882	1,957,216,494
Refundable deposits	10,000	-	87,366	517,635	615,001
	662,033,492	193,665,258	511,833,041	1,508,203,811	2,875,735,602
Liabilities:					
Deposit liabilities	2,065,550,304	269,699,359	71,123,795	51,359,259	2,457,732,717
Bills payable	65,000,000	-	-	-	65,000,000
Other liabilities	31,826,138	-	-	-	31,826,138
	2,162,376,442	269,699,359	71,123,795	51,359,259	2,554,558,855
Net periodic surplus (gap)	(1,500,342,950)	(76,034,101)	440,709,246	1,456,844,552	321,176,747
Cumulative total surplus (gap)	(P 1,500,342,950)	(P 1,576,377,051)	(P 1,135,667,805)	P 321,176,747	P -

4.4.1 Minimum Liquidity Ratio

On February 8, 2018, the BSP issued Circular No. 996, *Amendments to the Liquidity Coverage Ratio Framework for Stand-Alone Thrift Banks, Rural Banks, Cooperative Banks and Quasi-Banks*, which provide guidance on and prescribes the prudential requirement for covered institutions to maintain eligible stock of liquid assets proportionate to the level of total qualifying liabilities (i.e., both on and off-balance sheet liabilities). Eligible liquid assets shall include cash and other liquid assets that are immediately liquefiable and free from encumbrances.

The minimum liquidity ratio (MLR) of 20% shall be complied with on an ongoing basis absent a period of financial stress effective January 1, 2019.

The Bank's MLR as of December 31, 2019 are analyzed below.

Eligible stock of liquid assets	P 973,084,843
Total qualifying liabilities	2,101,849,121
MLR	**46.3%**

4.5 Anti-Money Laundering Controls

The Anti-Money Laundering Act (AMLA) or Republic Act (RA) No. 9160 was passed in September 2001 and was amended by RA No. 9194, RA No. 10167, and RA No. 10365 in March 2003, June 2012 and February 2013, respectively. Under the AMLA, as amended, the Bank is required to submit "Covered Transaction Reports" to the Anti-Money Laundering Council (AMLC) involving single transactions in cash or other equivalent monetary instruments in excess of P0.5 million within one banking day. The Bank is also required to submit "Suspicious Transaction Reports" to the AMLC in the event that circumstances exist and there are reasonable grounds to believe that the transaction is suspicious. Furthermore, terrorist financing was criminalized in RA No. 10168.

In addition, the AMLA requires that the Bank safekeeps, as long as the account exists, all the Know Your Customer (KYC) documents involving its clients, including documents that establish and record the true and full identity of its clients. Likewise, transactional documents must be maintained and stored for five years from the date of the transaction. In cases involving closed accounts, the KYC docu ments must be kept for five years after their closure. Meanwhile, all records of accounts with court cases must be safe kept until there is a final resolution.

On January 27, 2011, BSP Circular No. 706, *Updated Anti-Money Laundering Rules and Regulations* (the Circular), was implemented superseding all policies on AMLA. The Circular requires the Bank to adopt a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program (MLPP) designed according to the covered institution's corporate structure and risk profile.

The Compliance Unit of the Bank, headed by the Chief Compliance Officer (CCO), monitors the Bank's compliance on the implementation and management of MLPP.
The Branch Operations Head is the compliance officer at the branch level, that oversees the daily activities of the branch. The CCO regularly reports to the Audit Committee and to the BOD the results of their monitoring of AMLA compliance.

In an effort to further prevent money laundering activities, the Bank strengthens its KYC policies and guidelines. New individual customers shall establish their true and full identity, and shall maintain an account only in the true and full name of the account owner. Likewise, the Bank is required to risk profile its clients to Low, Normal or High with its corresponding due diligence of Reduced, Average or Enhanced, in compliance with the risk-based approach mandated by the Circular. Politically-Exposed Persons are automatically profiled as high risk and subject to enhanced due diligence. Any suspicious transaction is reported to the Bank's AML Committee, who investigates and deliberates whether the transaction has a valid ground to be reported as Suspicious Transaction Report.

5. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below.

	2019		2018	
	Carrying Amounts	**Fair Values**	Carrying Amounts	Fair Values
Financial assets				
At amortized cost:				
Cash and other cash items	**P 68,652,536**	**P 68,652,536**	P 57,573,135	P 57,573,135
Due from BSP	**375,899,457**	**375,899,457**	193,674,093	193,674,093
Due from other banks	**355,284,325**	**355,284,325**	385,169,160	385,169,160
HTC financial assets	**135,000,000**	**137,279,200**	134,994,425	151,007,187
Loans and other receivables	**1,893,921,699**	**1,865,855,218**	1,957,216,494	2,038,407,216
Refundable deposits	**651,373**	**651,373**	615,001	615,001
	2,829,409,390	**2,803,622,109**	2,729,242,308	2,826,445,792
At fair value –				
Financial assets at FVOCI	**172,977,086**	**172,977,086**	146,493,294	146,493,294
	P 3,002,386,476	**P 2,976,599,195**	P 2,875,735,602	P 2,972,939,086
Financial liabilities				
At amortized cost:				
Deposit liabilities	**P 2,554,984,727**	**P2,554,860,666**	P 2,457,732,717	P 2,463,682,996
Bills payable	**-**	**-**	65,000,000	65,000,000
Other liabilities	**63,850,425**	**63,850,425**	31,826,138	31,826,138
	P 2,618,835,152	**P 2,618,711,091**	P2,554,558,855	P 2,560,509,134

See Notes 2.3 and 2.9 for the description of the accounting policies for each category of financial instruments including the determination of fair values. A description of the Bank's risk management objectives and policies for financial instruments is provided in Note 4.

5.2 Offsetting of Financial Assets and Financial Liabilities

Certain financial assets and financial liabilities of the Bank with amounts presented in the statements of financial position as of December 31, 2019 and 2018 are subject to offsetting, enforceable master netting arrangements and similar agreements. However, there were no financial assets presented at net in the statements of financial position.

Presented below are the financial assets subject to offsetting in the event of default but the related amounts are not set-off in the statements of financial position.

	December 31, 2019			December 31, 2018		
	Related amounts not set off in the statements of financial position			Related amounts not set off in the statements of financial position		
	Financial instruments	Collateral received	Net amount	Financial instruments	Collateral received	Net amount
Financial assets –						
Loans and receivables	P 1,893,921,699	(P 114,883,142)	P 1,779,038,557	P 1,957,216,494	(P 119,715,568)	P 1,837,500,926
Financial liabilities:						
Deposit liabilities	P 2,554,984,727	(P 50,867,755)	P 2,504,116,972	P 2,457,732,717	(P 54,715,568)	P 2,403,017,149
Bills payable	-	-	-	65,000,000	(65,000,000)	-

For purposes of presenting the information, the related amounts not set-off in the statements of financial position pertain to:

(a) Hold-out deposits which serve as the Bank's collateral enhancement for certain loans and receivables; and,

(b) Certain loan and receivables assigned by the Bank as collateral for its bills payable. The financial instruments that can be set-off are only disclosed to the extent of the amounts of the Bank's counterparties.

6. FAIR VALUE MEASUREMENT AND DISCLOSURE

6.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Bank uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

6.2 Financial Instruments Measurement at Fair Value

The table below shows the fair value hierarchy of the Bank's financial assets measured at fair value in the statements of financial position on a recurring basis as of December 31, 2019 and 2018 (amount in thousands).

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Financial assets at FVOCI:				
Government debt securities	P 49,615	P -	P -	P 49,615
Corporate debt securities	123,362	-	-	123,362
	P 172,977	**P -**	**P -**	**P 172,977**
December 31, 2018				
Financial assets at FVOCI:				
Government debt securities	P 44,368	P -	P -	P 44,368
Corporate debt securities	102,125	-	-	102,125
	P 146,493	P -	P -	P 146,493

The fair value of the debt securities of the Bank determined as follows:

(a) Fair values of peso-denominated government debt securities issued by the Philippine government are determined based on the reference price per Bloomberg which uses BVAL. These BVAL reference rates are computed based on the weighted price derived using an approach based on a combined sequence of proprietary BVAL algorithms of direct observations or observed comparable.

(b) For other quoted debt securities under Level 1, fair value is determined to be the current bid price per Philippine Dealing & Exchange Corp.

There were no changes in Level 2 and Level 3 instruments in both years.

6.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Bank's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

	Level 1	Level 2	Level 3	Total
December 31, 2019:				
Financial assets				
Cash and other cash items	P 68,652,536	P -	P -	P 68,652,536
Due from BSP	375,899,457	-	-	375,899,457
Due from other banks	355,284,325	-	-	355,284,325
Loans and other receivables - net	36,315,288	-	1,829,539,930	1,865,855,218
Debt securities – HTC financial assets	137,279,200	-	-	137,279,200
Refundable deposits	-	-	651,373	651,373
	P 973,430,806	**P -**	**P1,830,191,303**	**P2,803,622,109**
Financial liabilities				
Deposit liabilities	P -	P -	P2,554,860,666	P 2,554,860,666
Other liabilities	-	-	63,850,425	63,850,425
	P -	**P -**	**P 2,618,711,091**	**P 2,618,711,091**
December 31, 2018:				
Financial assets				
Cash and other cash items	P 57,573,135	P -	P -	P 57,573,135
Due from BSP	193,674,093	-	-	193,674,093
Due from other banks	385,169,160	-	-	385,169,160
Loans and other receivables - net	18,000,000	-	2,020,407,216	2,038,407,216
Debt securities – HTC financial assets	151,007,187	-	-	151,007,187
Refundable deposits	-	-	615,001	615,001
	P 805,423,575	P -	P2,021,022,217	P 2,826,445,792
Financial liabilities				
Deposit liabilities	P -	P -	P2,463,682,996	P 2,463,682,996
Bills payable	-	-	65,000,000	65,000,000
Other liabilities	-	-	31,826,138	31,826,138
	P -	P -	P2,560,509,134	P 2,560,509,134

The fair values of financial assets and financial liabilities not presented at fair value in the statements of financial position are determined as follows:

(a) *Due from BSP and Other Banks*

Due from BSP pertains to deposits made by the Bank to the BSP for clearing and reserve requirements, and overnight deposit facilities. Due from other banks includes items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of short-term deposits approximates the nominal value.

(b) Loans and Receivables

Loans and receivables are net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(c) HTC Financial Assets

These financial assets consist of government and corporate bonds. The fair value of these financial assets is determined by the direct reference to published price quoted in an active market for traded securities consistent with BSP Circular No. 813, *Amendment on Market Valuation of Government Securities*.

(d) Deposit Liabilities and Bills Payable

The estimated fair value of deposits is the amount repayable on demand.
The estimated fair value of long-term fixed interest-bearing deposits and other borrowings without quoted market prices is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(e) Refundable deposits and Other Liabilities

Due to their short-term duration, the carrying amounts of refundable deposits and other liabilities in the statements of financial position are considered to be reasonable approximation of their fair values.

6.4 Fair Value Measurement for Non-financial Assets

The table below shows the Levels within the fair value hierarchy of non-financial assets for which fair value is disclosed as of December 31, 2019 and 2018.

	Level 1	Level 2	Level 3	Total
December 31, 2019:				
Investment properties:				
Land	P -	P -	P 144,425,699	P 144,425,699
Buildings	-	-	48,135,289	48,135,289
	P -	**P -**	**P 192,560,988**	**P 192,560,988**
December 31, 2018:				
Investment properties:				
Land	P -	P -	P 132,556,234	P 132,556,234
Buildings	-	-	40,780,572	40,780,572
	P -	P -	P 173,336,806	P 173,336,806

The fair value of the Bank's land, buildings and equipment classified under Investment Properties (see Note 12) are determined on the basis of the appraisals performed by an independent and internal appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraiser in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land, buildings and equipment, and the comparable prices in the corresponding property location. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. The fair values discussed in the preceding page, as determined by the appraisers, were used by the Bank in determining the fair value of investment properties.

The fair value of these non-financial assets was determined based on the following approaches:

(a) Fair Value Measurement of Land

The Level 3 fair value of land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations adjusted for differences in key attributes such as property size, zoning, and accessibility. The most significant input into this valuation approach is the price per square foot, hence, the higher the price per square foot, the higher the fair value.

(b) Fair Value Measurement of Buildings and Improvements

The Level 3 fair value of the buildings and equipment, on the other hand, was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2019 and 2018.

7. CASH AND DUE FROM BANGKO SENTRAL NG PILIPINAS

This account is composed of the following:

	Note	**2019**	2018
Cash and other cash items		**P 68,652,536**	P 57,573,135
Due from BSP	15		
Mandatory reserves		**100,826,097**	192,059,325
Other than mandatory reserves		**275,073,360**	1,614,768
		375,899,457	193,674,093
		P 444,551,993	P 251,247,228

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers. Other cash items include cash items (other than currency and coins on hand) such as checks drawn on other banks or that were received after the Bank's clearing cut-off time until the close of the regular banking hours.

Mandatory reserves represent the balance of the deposit account maintained with the BSP to meet reserve requirements.

Interest income earned in 2019, 2018 and 2017 amounted to P4.4 million, P0.9 million and P1.9 million, respectively, which is presented as part of Interest Income on Due from BSP and Other Banks in the statements of income.

8. DUE FROM OTHER BANKS

The breakdown of due from other banks by currency follows:

	2019	2018
Philippine pesos	**P 355,217,333**	P 384,935,619
United States dollars	**66,992**	233,541
	P 355,284,325	P 385,169,160

Due from other banks includes regular and time deposits with local banks. Annual interest rates on these deposits ranges from 0.0% to 3.5% in 2019, 0.0% to 2.9% in 2018 and 0.0% to 4.0% in 2017. There are deposits such as current accounts, which do not earn interest. Total interest income earned amounted to P4.3 million, P2.8 million and P7.9 million in 2019, 2018 and 2017, respectively, and are presented as part of Interest Income on Due from BSP and Other Banks in the statements of income.

For statement of cash flows purposes, time deposits amounting to P69.0 million, P60.0 million and P96.0 million as of December 31, 2019, 2018 and 2017 respectively, are not included as cash and cash equivalents since these have maturities of more than three months.

9. INVESTMENT SECURITIES

9.1 Financial Assets at Fair Value Through Other Comprehensive Income

Financial assets at fair value through other comprehensive income as of December 31, 2019 and 2018 consist of:

	2019	2018
Corporate	**P 123,362,001**	P 102,125,059
Government bonds	**49,615,085**	44,368,235
	P 172,977,086	P 146,493,294

The Bank incurred fair value gains amounting to P16.5 million in 2019 and fair value losses amounting to P11.7 million and P2.7 million in 2018 and 2017, respectively, on its financial assets at FVOCI which are recognized in other comprehensive income and presented in the statements of comprehensive income under items that will be reclassified subsequently to profit or loss.

The maturity profile of this account is presented below.

	2019	2018
Between two years and five years	**P 153,333,414**	P 111,683,103
Beyond five years	**19,643,672**	34,810,191
	P 172,977,086	P 146,493,294

Interest income generated from financial assets at FVOCI in 2019, 2018 and 2017 amounted to P7.5 million, P7.3 million and P5.5 million, respectively, and is shown as part of Interest Income on Investment Securities in the statements of income. Average interest rate on these investments in 2019, 2018 and 2017 is equivalent to 4.4%.

Changes in the Bank's holdings of financial assets at FVOCI are summarized below.

	2019	2018
Balance at beginning of year	**P 146,493,294**	P 158,206,269
Additions	**10,000,000**	-
Fair value gain (loss)	**16,483,792**	(11,712,975)
	P 172,977,086	P 146,493,294

The Bank's financial assets at FVOCI, which are subject to credit risk exposure (see Note 4.3.1), have been reviewed for indications of impairment. Based on such review, the management determines that the related losses are immaterial to the financial statements. Accordingly, the Bank did not recognize any impairment losses on these financial assets in 2019 and 2018.

9.2 Held-to-Collect Financial Assets

HTC financial assets consist of:

	2019	2018
Government bonds	**P 95,000,000**	P 94,994,425
Corporate	**40,000,000**	40,000,000
	P 135,000,000	P 134,994,425

The maturity profile of this account is presented below.

	2019	2018
Within one year	P 50,000,000	P 34,850,000
Between two years and five years	45,000,000	60,000,000
Beyond five years	40,000,000	40,000,000
	135,000,000	134,850,000
Unamortized premium	-	144,425
	P 135,000,000	P 134,994,425

Interest income generated from HTC financial assets in 2019, 2018 and 2017 amounted to P8.1 million, P6.0 million and P6.5 million, respectively, and is shown as part of Interest Income on Investment Securities in the statements of income. Average interest rate on these investments in 2019, 2018 and 2017 is equivalent to 5.3%, 4.7% and 5.0%, respectively.

Changes in the Bank's holdings of HTC financial assets are summarized below.

	2019	2018
Balance at beginning of year	P 134,994,425	P 162,441,846
Additions	35,000,000	10,000,000
Maturities	(34,850,000)	(37,369,626)
Premium amortization	(144,425)	(77,795)
	P 135,000,000	P 134,994,425

The Bank's HTC financial assets, which are subject to credit risk exposure (see Note 4.3.1), have been reviewed for indications of impairment. Based on such review, the management determines that the related losses are immaterial to the financial statements. Accordingly, the Bank did not recognize any impairment losses on these financial assets in 2019, 2018 and 2017.

10. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	2019	2018
Receivables from customers:		
Loans and discounts	P 1,817,345,487	P 1,901,396,005
Unearned discount	(10,529,313)	(15,436,970)
	1,806,816,174	1,885,959,035
Other receivables:		
Sales contract receivable (SCR)	58,369,124	56,515,952
Repurchase agreement	36,315,288	18,000,000
Accrued interest receivable	18,268,791	15,299,430
Accounts receivable	1,922,739	2,005,860
	114,875,942	91,821,242
	1,921,692,116	1,977,780,277
Allowance for impairment	(27,770,417)	(20,563,783)
	P 1,893,921,699	P 1,957,216,494

Interest rates on receivables from customers range from 3.3% to 61% in 2019, 3.3% to 48% in 2018 and 6.0% to 48% in 2017. Interest rates on SCR range from 0.0% to 12% in 2019, 2018 and 2017. All receivable from customers has a fixed interest rate in 2019, 2018 and 2017. All other receivables are noninterest bearing, unsecured and are generally payable on demand.

The repurchase agreement represents the overnight deposit facility with BSP, which is maintained to maximize earnings from excess funds with effective interest of 4.0% and 4.75% in 2019 and 2018, respectively. This loan has a term of five days and is included as cash and cash equivalents for cash flow reporting purposes.

Total interest income earned from loans and other receivables amounted to P311.1 million, P265.6 million and P232.1 million in 2019, 2018 and 2017, respectively, and are presented as Interest Income on Loans and Receivables in the statements of income.

10.1 Maturity Profile of Receivables from Customers

The maturity profile of the Bank's receivables from customers, gross of allowance for impairment loss, follows:

	2019	2018
Within one year	**P 610,868,801**	P 536,685,483
Beyond one year but within five years	**847,775,453**	913,967,312
Beyond five years	**348,171,920**	435,306,240
	P 1,806,816,174	P 1,885,959,035

Receivables from customers (before allowance of impairment losses) have the following types and category of loans:

	2019	2018
Current loans:		
Small and medium enterprises	**P 736,930,923**	P 691,817,198
Agra and other agri credits	**292,021,193**	293,856,025
Microenterprise loans	**283,808,923**	279,679,477
Private corporations	**207,434,230**	388,104,577
Individuals for housing purposes	**125,108,010**	104,287,241
Individuals for consumption purposes	**78,205,848**	70,319,277
Individuals for other purposes	**7,218,935**	8,961,424
	1,730,728,062	1,837,025,219
Past due loans:		
Agra and other agri credits	**29,241,687**	10,616,453
Small and medium enterprises	**26,427,116**	22,061,664
Microenterprise loans	**11,394,358**	8,625,050
Individuals for consumption purposes	**5,419,749**	2,867,075
Individuals for housing purposes	**2,526,982**	4,763,574
Individuals for other purposes	**1,078,220**	-
	76,088,112	48,933,816
	P 1,806,816,174	P 1,885,959,035

The maturity profile of the Bank's SCR from customers, gross of allowance for impairment loss, follows:

	2019	2018
Within one year	**P 12,533,382**	P 9,815,004
Beyond one year but within five years	**12,127,982**	14,765,045
Beyond five years	**33,707,760**	31,935,903
	P 58,369,124	P 56,515,952

10.2 Allowance for Credit Losses

A reconciliation of allowance for impairment at the beginning and end of 2019 and 2018 is shown below.

	2019	2018
Balance at beginning of year	**P 20,563,783**	P 18,444,975
Provision for impairment losses	**19,183,044**	8,247,553
Write-offs	**(11,976,410)**	(6,128,745)
Balance at end of year	**P 27,770,417**	P 20,563,783

In 2019, 2018 and 2017, the Bank recovered certain loans and receivables previously written off. Such recoveries amounted to P2.6 million, P2.2 million and P1.0 in 2019, 2018 and 2017, respectively, and are presented as net of provision for impairment losses under Impairment Losses – net in the statements of income.

11. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2019 and 2018 are shown below.

	Land	**Building and Improvement**	**Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Leasehold Improvements**	**Right-of-Use Asset**	**Total**
December 31, 2019							
Cost or valuation	P 62,614,860	P 75,437,724	P 71,816,996	P 28,052,350	P 29,599,901	P 30,600,115	P 298,121,946
Accumulated depreciation and amortization	-	(65,748,822)	(64,114,113)	(12,962,119)	(17,655,136)	(5,623,267)	(166,103,457)
Net carrying amount	**P 62,614,860**	**P 9,688,902**	**P 7,702,883**	**P 15,090,231**	**P 11,944,765**	**P 24,976,848**	**P 132,018,489**
December 31, 2018							
Cost or valuation	P 62,614,860	P 73,578,354	P 70,429,854	P 21,126,640	P 29,409,502	P -	P 257,159,210
Accumulated depreciation and amortization	-	(64,011,586)	(61,362,739)	(9,659,838)	(14,695,581)	-	(149,729,744)
Net carrying amount	P 62,614,860	P 9,566,768	P 9,067,115	P 11,466,802	P 14,713,921	P -	P 107,429,466

	Land	Building and Improvement	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Right-of-Use Asset	Total
January 1, 2018							
Cost or valuation	P 62,614,860	P 73,221,854	P 69,024,513	P 26,369,016	P 27,444,958	P -	P 258,675,201
Accumulated depreciation and amortization	-	(62,023,438)	(58,190,547)	(12,693,271)	(12,562,086)	-	(145,469,342)
Net carrying amount	P 62,614,860	P 11,198,416	P 10,833,966	P 13,675,745	P 14,882,872	P -	P 113,205,859

A reconciliation of the carrying amounts at the beginning and end of 2019, 2018 and 2017 is shown below.

	Land	**Building and Improvement**	**Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Leasehold Improvements**	**Right-of-Use Asset**	**Total**
Balance at January 1, 2019, net of accumulated depreciation and amortization, as previously stated	P 62,614,860	P 9,566,768	P 9,067,115	P 11,466,802	P 14,713,921	P -	P 107,429,466
PFRS 16 transition adjustment	-	-	-	-	-	29,622,631	29,622,631
As restated	62,614,860	9,566,768	9,067,115	11,466,802	14,713,921	29,622,631	137,052,097
Additions	-	1,859,370	4,346,082	6,925,710	190,400	977,484	14,299,046
Disposals	-	-	(86,541)	(55,000)	-	-	(141,541)
Depreciation and amortization charges for the year	-	(1,737,236)	(5,623,773)	(3,247,281)	(2,959,556)	(5,623,267)	(19,191,113)
Balance at December 31, 2019, net of accumulated depreciation and amortization	**P 62,614,860**	**P 9,688,902**	**P 7,702,883**	**P 15,090,231**	**P 11,944,765**	**P 24,976,848**	**P 132,018,489**
Balance at January 1, 2018, net of accumulated depreciation and amortization	P 62,614,860	P 11,198,416	P 10,833,966	P 13,675,745	P 14,882,872	P -	P 113,205,859
Additions	-	356,500	4,935,031	2,405,000	2,770,040	-	10,466,571
Disposals	-	-	(77,806)	(980,420)	-		(1,058,226)
Depreciation and amortization charges for the year	-	(1,988,148)	(6,624,076)	(3,633,523)	(2,938,991)	-	(15,184,738)
Balance at December 31, 2018, net of accumulated depreciation and amortization	P 62,614,860	P 9,566,768	P 9,067,115	P 11,466,802	P 14,713,921	P -	P 107,429,466
Balance at January 1, 2017, net of accumulated depreciation and amortization	P 62,614,860	P 16,450,019	P 14,228,952	P 11,329,635	P 13,134,792	P -	P 117,758,258
Additions	-	-	4,738,107	8,872,890	4,402,908	-	18,013,905
Disposals	-	-	(88,352)	(2,212,634)	-	-	(2,300,986)
Reclassification	-	-	-	160,000	-	-	160,000
Depreciation and amortization charges for the year	-	(5,251,603)	(8,044,741)	(4,474,146)	(2,654,828)	-	(20,425,318)
Balance at December 31, 2017, net of accumulated depreciation and amortization	P 62,614,860	P 11,198,416	P 10,833,966	P 13,675,745	P 14,882,872	P -	P 113,205,859

In 2019, 2018 and 2017, the Bank wrote-off certain furniture, fixtures and equipment with an aggregate book value of P0.1 million, P0.08 million and P0.09 million, respectively. Losses from such write-off are included as part of Others under Other Operating Expenses account in the statements of income (see Note 19.2).

In 2019, 2018 and 2017, the Bank also sold certain bank properties, furniture, fixture and equipment at P0.1 million, P3.2 million and P3.9 million, respectively. Gain recognized from such sales are presented as part of Gain on sale of non-financial assets under Other Operating Income in the statements of income (see Note 19.1).

In 2017, the Bank reclassified certain transportation equipment amounting to P0.2 million from Investment Property account to Bank Premises, Furniture, Fixtures and Equipment – net account due to change in use of these assets (see Note 12). There was no reclassification of assets in 2019 and 2018.

Depreciation and amortization on bank premises, furniture, fixtures and equipment are presented as part of Depreciation and amortization under Other Operating Expenses in the statements of income (see Note 19.2).

The gross carrying amount of fully depreciated property and equipment that are still in use as of December 31, 2019 and 2018 amounted to P112.2 million and P116.7 million, respectively.

The BSP requires that investment in bank premises, furniture, fixtures and equipment does not exceed 50% of the Bank's unimpaired capital. As of December 31, 2019 and 2018, the Bank has satisfactorily complied with this requirement.

12. INVESTMENT PROPERTIES

The gross carrying amounts and accumulated depreciation and impairment of investment properties at the beginning and end of 2019 and 2018 are shown below.

	Land	Building and Improvements	Total
December 31, 2019			
Cost	P 72,131,742	P 21,237,605	P 93,369,347
Allowance for impairment	(518,852)	-	(518,852)
Accumulated depreciation	-	(4,698,392)	(4,698,392)
Net carrying amount	**P 71,612,890**	**P 16,539,213**	**P 88,152,103**
December 31, 2018			
Cost	P 68,960,566	P 16,980,784	P 85,941,350
Allowance for impairment	(807,213)	-	(807,213)
Accumulated depreciation	-	(2,843,691)	(2,843,691)
Net carrying amount	P 68,153,353	P 14,137,093	P 82,290,446
January 1, 2018			
Cost	P 91,447,135	P 21,016,395	P 112,463,530
Allowance for impairment	(1,877,310)	-	(1,877,310)
Accumulated depreciation	-	(4,964,212)	(4,964,212)
Net carrying amount	P 89,569,825	P 16,052,183	P 105,622,008

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2019, 2018 and 2017 is shown below.

	Land	Building and Improvements	Total
Balance at January 1, 2019, net of accumulated depreciation and impairment	P 68,153,353	P 14,137,093	P 82,290,446
Additions	24,579,846	8,593,203	33,173,049
Disposals	(21,045,590)	(3,868,957)	(24,914,547)
Impairment loss for the year	(74,719)	-	(74,719)
Depreciation for the year	-	(2,322,126)	(2,322,126)
Balance at December 31, 2019, net of accumulated depreciation and impairment	**P 71,612,890**	**P 16,539,213**	**P 88,152,103**
Balance at January 1, 2018, net of accumulated depreciation and impairment	P 89,569,825	P 16,052,183	P 105,622,008
Additions	13,944,517	9,393,205	23,337,722
Disposals	(35,360,989)	(9,232,953)	(44,593,942)
Impairment loss for the year	-	(79,591)	(79,591)
Depreciation for the year	-	(1,995,751)	(1,995,751)
Balance at December 31, 2018, net of accumulated depreciation and impairment	P 68,153,353	P 14,137,093	P 82,290,446
Balance at January 1, 2017, net of accumulated depreciation and impairment	P 106,019,191	P 18,628,546	P 124,647,737
Additions	13,815,984	3,979,749	17,795,733
Disposals	(30,223,288)	(4,061,970)	(34,285,258)
Reclassifications	-	(160,000)	(160,000)
Impairment loss for the year	(42,062)	-	(42,062)
Depreciation for the year		(2,334,142)	(2,334,142)
Balance at December 31, 2017, net of accumulated depreciation and impairment	P 89,569,825	P 16,052,183	P 105,622,008

As of December 31, 2019 and 2018, foreclosed investment properties still subject to redemption period by the borrowers amounted to P24.1 million and P21.7 million, respectively.

Depreciation on investment properties are presented as part of Depreciation and amortization under Other Operating Expenses in the statements of income (see Note 19.2).

Fair value of the Bank's investment properties as of December 31, 2019, 2018 and 2017 amounted to P192.6 million, P173.3 million and P252.6 million, respectively (see Note 6.4).

In 2019, 2018 and 2017, gains on sale of investment properties amounted to P12.2 million, P33.7 million and P20.9 million, respectively, and are presented as part of Gain on sale of non-financial assets under Other Operating Income in the statements of income (see Note 19.1). Real property taxes and other litigation expenses related to these investment properties paid by the Bank and recognized as expense in 2019, 2018, and 2017 amounted to P0.2 million, P0.9 million and P0.4 million, respectively, and are presented as part of Litigation under Other Operating Expenses in the statements of income (see Note 19.2).

As of December 31, 2019 and 2018, there is no restriction on the realizability of investment properties or the remittance of income and proceeds of disposal therefrom. In addition, the Bank has not entered into a significant commitment to purchase, construct or develop any investment property in the near future.

13. OTHER RESOURCES

This account consists of the following as of December 31:

	Note	**2019**	2018
Deferred tax assets - net	21	**P 18,696,994**	P 12,083,046
Prepaid expenses		**4,416,835**	3,476,314
Architectural design		**4,284,000**	4,284,000
Computer software - net		**3,410,040**	8,981,177
Office supplies		**2,134,847**	1,935,668
Electronic wallet		**860,131**	775,744
Refundable deposits		**651,373**	615,001
Miscellaneous		**3,651,186**	1,898,657
		P 38,105,406	P 34,049,607

Miscellaneous assets include documentary stamps, electronic fund wallet and postage stamps.

Breakdown of other resources as to liquidity is shown below.

	2019	2018
Current	**P 11,714,373**	P 8,701,384
Non-current	**26,391,033**	25,348,223
	P 38,105,406	P 34,049,607

Movements of computer software is shown below.

	Note	**2019**	2018
Balance at beginning of year		**P 8,981,177**	P 9,776,001
Additions		**282,240**	4,549,160
Amortization	19.2	**(5,852,701)**	(5,343,984)
Balance at end of year		**P 3,410,716**	P 8,981,177

14. LEASES

The Bank has several leases covering the office space of its branches. Terms of the lease agreements range from three to 15 years under renewable options, and include escalation rates ranging from 5% to 10%. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected as a right-of-use asset under Bank Premises, Furnitures, Fixtures and Equipment (see Note 11) and a lease liability under Other Liabilities (see Note 17) in the 2019 statement of financial position.

The Bank recognized Right-of-use asset with average remaining term of five years as of December 31, 2019. The lease liability recognized amounted to P24.9 million as of December 31, 2019. The Bank incurred interest expense related to this lease liability amounting to P1.3 million, which is presented as part of Interest Expense on Others – net in the 2019 statement of income, and paid P5.8 million for lease payments.

The lease liability is secured by the related underlying assets. The maturity analysis of lease liability as of December 31, 2019 is as follows:

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Lease payments	P 5,890,325	P 3,381,980	P 3,542,947	P 3,723,698	P 3,815,421	P 9,222,781	P 29,577,152
Interest expense	(1,118,803)	(945,822)	(817,066)	(673,665)	(513,521)	(613,008)	(4,681,885)
Net present values	**P 4,771,522**	**P 2,436,158**	**P 2,725,881**	**P 3,050,033**	**P 3,301,900**	**P 8,609,773**	**P 24,895,267**

The Bank has elected not to recognize a lease liability for short-term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

The expenses relating to short-term leases amounted to P1.3 million and is presented as Rentals as part of Other Operating Expenses in the 2019 statement of income (see Note 19.2).

15. DEPOSIT LIABILITIES

The breakdown of deposit liabilities per classification follows:

	2019	2018
Demand	**P 11,466,550**	P 11,017,034
Savings	**1,940,370,672**	1,835,647,181
Time	**603,147,505**	611,068,502
	P 2,554,984,727	P 2,457,732,717

Deposit liabilities are in the form of savings and time deposits with annual interest rates ranging from 0.30% to 7.0% in 2019, 2018 and 2017. Demand deposits, on the other hand, do not bear interest. Interest expense incurred on savings deposits amounted to P5.7 million, P5.3 million and P5.1 million in 2019, 2018 and 2017, respectively. Interest expense incurred on time deposits amounted to P9.5 million, P8.6 million and P7.7 million in 2019, 2018 and 2017, respectively. These are presented as Interest Expense on Deposit Liabilities in the statements of income. Interest payable as of December 31, 2019 and 2018 amounted to P9.9 million and P8.6 million, respectively, and are presented as part of Accrued interest payable under Other Liabilities account in the statements of financial position (see Note 17).

Under existing BSP regulations, deposit liabilities are subject to regular and liquidity reserve of 4% and 8% for demand, savings and time deposit in 2019 and 2018, respectively. On April 6, 2012, the BSP issued an amendment to the existing provisions as to the eligibility of cash and deposit accounts with BSP as forms of reserve requirements. As indicated in the amendment, cash and other cash items are no longer considered as eligible reserves. The Bank is in compliance with these BSP regulations as of the end of each reporting period (see Note 7).

The maturity profile of deposit liabilities is shown below.

	2019	2018
Within one year	**P 2,511,876,781**	P 2,406,373,458
Beyond one year but less than five years	**43,107,946**	51,359,259
	P 2,554,984,727	P 2,457,732,717

16. BILLS PAYABLE

Bills payable pertain to the Bank's borrowed funds, which consist of obligations of the Bank arising from availment of rediscounting facilities from government banks, with annual interest rate ranging from 6.3% to 7.0% in 2019 and 2018 and from 3.0% to 4.0% in 2017. These payables have remaining maturities of less than one month in 2018. There are no outstanding bills payable as of December 31, 2019.

Interest expense on bills payable amounted to P0.3 million, P0.8 million and P0.1 million in 2019, 2018 and 2017, respectively, and are presented as Interest Expense on Bills Payable in the statements of income. Interest, which remained unpaid as of December 31, 2018 amounted to P0.1 million and is presented as part of Accrued interest payable under the Other Liabilities account in the 2018 statement of financial position (see Note 17). There is no related outstanding payable as of December 31, 2019.

Bills payable are collateralized by the assignment of certain loans and other receivables amounting to P150.0 million as of December 31, 2018 (see Notes 5.2 and 10).

Presented below is the supplemental information on the Bank's liability arising from financing activities:

	2019	2018
Balance at beginning of year	**P 65,000,000**	P 20,000,000
Cash flows from financing activities:		
Repayment of borrowings	**(65,000,000)**	(120,000,000)
Additions	**-**	165,000,000
Balance at end of year	**P -**	P 65,000,000

17. OTHER LIABILITIES

This account consists of:

	Notes	2019	2018
Retirement benefit obligation	20.2	**P 26,338,505**	P 7,762,375
Lease liability	2, 14	**24,895,267**	-
Accounts payable		**14,041,341**	11,908,513
Deferred income		**12,433,337**	10,150,290
Accrued expenses		**13,546,951**	9,921,086
Accrued interest payable	15, 16	**9,941,173**	8,731,115
Income tax payable		**7,657,819**	5,292,683
Gross receipts tax payable		**5,161,635**	4,449,754
Due to Treasurer of the Philippines		**1,425,694**	1,265,424
Withholding taxes payable		**1,171,225**	1,272,618
Dividends payable	18.3	**820,391**	781,945
Others	10, 24	**52,235**	214,215
		P 117,485,573	P 61,750,018

Others include fringe benefit taxes and provision for loan commitments [see Note 4.3.7(c)].

Breakdown of other liabilities as to liquidity is shown below.

	2019	2018
Current	**P 58,573,118**	P 43,837,353
Non-current	**58,912,455**	17,912,665
	P 117,485,573	P 61,750,018

18. EQUITY

18.1 Capital Management Objectives, Policies and Procedures

The Bank's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is regularly accounted for and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing, and the advantages and security afforded through a sound capital position.

(a) Regulatory Capital

The Bank's lead regulator, BSP, sets and monitors capital requirements of the Bank.

In implementing current capital requirements, BSP requires the Bank to maintain a prescribed ratio of 10% of qualifying regulatory capital to total risk-weighted assets including market risk and operational risk.

Under the relevant BSP regulations, the regulatory capital is analyzed into two tiers which are Tier 1 Capital plus Tier 2 Capital less allowable deductions from the total of Tier 1 and Tier 2 capital.

Tier 1 Capital and Tier 2 Capital are defined as follows:

(i) Tier 1 Capital includes the following:
a. paid-up common stock;
b. surplus and surplus reserves; and,
c. undivided profits (for domestic banks only).

Subject to deductions for:
a. treasury shares (if any);
b. unrealized losses on underwritten listed equity securities purchased;
c. unbooked valuation reserves, and other capital adjustments based on the latest BSP report of examination;
d. outstanding unsecured credit accommodations, both direct and indirect, to DOSRI;
e. goodwill; and,
f. deferred income tax

(ii) Tier 2 Capital includes:
a. dividends distributable (if any)
b. appraisal increment reserve – bank premises if any, as authorized by the Monetary Board of the BSP;
c. deposit for stock subscription on common stock; and,
d. general loan loss provision, limited to a maximum of 1.0% of credit risk-weighted assets.

The Bank's regulatory capital position as of December 31 is presented as follows:

	2019	2018
Tier 1 Capital	**P 579,141,412**	P 516,538,910
Tier 2 Capital	**23,316,371**	23,921,959
Total regulatory qualifying capital	**P 602,457,783**	P 540,460,869
Risk Weighted Assets		
Credit Risk Weighted Assets	**P2,564,509,359**	P 2,656,273,310
Operational Risk Weighted Assets	**420,817,728**	399,374,525
Total risk-weighted assets	**P2,985,327,087**	P 3,055,647,835
Capital adequacy ratios:		
Total regulatory capital expressed as percentage of total risk-weighted assets	**20.2%**	17.7%
Total Tier 1 expressed as percentage of total risk-weighted assets	**19.4%**	16.9%

As of December 31, 2019 and 2018, the Bank's capital adequacy ratios (CAR) are higher than the BSP minimum requirement of 10% on the ratio of capital accounts against the risk-weighted assets.

(b) 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 degrees of risk 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. The process of allocation of capital to specific operations and activities is undertaken independently of those responsible for the operation, and is subject to review by the Bank's ROC.

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. Account profitability is also taken, and 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.

(c) Minimum Capital Requirement

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regular net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects (mainly in the recognition of deferred tax assets). The Bank is compliant with P400.0 million minimum capital requirement of BSP for thrift banks as of December 31, 2019 and 2018.

18.2 Capital Stock

On April 25, 2016, the SEC approved the increase in authorized capital stock of the Bank from P950.0 million divided into 9,500,000 shares to P1.0 billion divided into 10,000,000 shares both with a par value of P100 per share, approved by the Bank's BOD and stockholders on March 15, 2015.

As of December 31, 2019 and 2018, total shares issued and outstanding are 3,677,392. As at the same dates, the Bank has 184 and 237 stockholders, respectively, owning 100 or more shares each of the Bank's capital stock. The Bank is still qualified to be public corporation based on its quasi-public registration with SEC as of December 31, 2019.

18.3 Surplus Free

On January 19, 2018, the BOD approved the P32.0 million or 10% cash dividend. On the same date, the BOD and stockholders also approved the P47.9 million or 15% stock dividends. Both are to be distributed based on the stockholders of record as of December 31, 2017. Such dividends were settled on March 18, 2018.

On January 24, 2017, the BOD approved the P18.0 million or 6% cash dividend. On the same date, the BOD and stockholders also approved the P20.9 million or 7% stock dividends. Both are to be distributed based on the stockholders of record as of December 31, 2016. Such dividends were settled on March 17, 2017.

The cash dividends still outstanding, which amounted to P0.8 million both as of December 31, 2019 and 2018, is presented as Dividends payable under Other Liabilities account in the statements of financial position (see Note 17).

18.4 Surplus Reserve

Pursuant to the requirements of the BSP under Circular No. 1011 (see Note 2.10), the Bank shall recognize general loan loss provisions equivalent to one percent of all outstanding loans as of the end of the reporting period, except for accounts considered as credit risk-free under the existing BSP regulations. In cases when the computed allowance for ECL on those exposures is less than the required one percent general loan loss provision, the deficiency is recognized through appropriation from the Bank's available Surplus. Such appropriation is considered as Tier 2 capital subject to the limit provided under the CAR framework. The accumulated amount of appropriation to surplus reserves for general loan loss portfolio as of December 31, 2019 and 2018 amounted to P15.0 million and P8.6 million, respectively.

19. OTHER OPERATING INCOME AND EXPENSES

19.1 Other Operating Income - net

	Notes	**2019**	2018	2017
Fees and commissions		**P 29,380,455**	P 34,848,153	P 35,685,393
Gain on sale of non-financial assets	11, 12	**12,229,667**	35,794,842	22,509,731
Foreign currency exchange gains (loss) - net		**4,592**	(877)	(677)
Miscellaneous		**8,886,158**	2,812,881	2,942,687
		P 50,500,872	P 73,454,999	P 61,137,134

Miscellaneous income includes commitment, processing and handling fees in relation to services rendered by the Bank.

19.2 Other Operating Expenses

	Notes	2019	2018	2017
Compensation expense	20.1	**P 127,266,025**	P 130,490,541	P 109,424,772
Depreciation and amortization	11, 12, 13	**27,365,940**	22,524,473	27,891,370
Taxes and licenses	12, 27(e)	**25,650,690**	24,889,858	21,412,137
Insurance		**11,835,631**	10,995,268	10,376,878
Security, clerical and messengerial		**11,714,845**	11,045,891	11,244,013
Postage, telephone, cables and telegrams		**4,792,917**	4,814,970	5,343,298
Power, light and water		**4,353,376**	4,280,828	4,019,301
Travelling		**3,814,927**	3,766,581	5,242,679
Stationery and supplies		**2,543,741**	2,497,871	2,416,577
Repairs and maintenance		**2,536,255**	2,586,231	2,284,530
Management and other professional fees		**2,309,099**	2,840,608	5,420,332
Fees and commissions		**2,117,659**	2,496,518	2,282,818
Rentals	14, 24.1	**1,269,809**	6,735,536	6,950,410
Fuel and lubricants		**1,076,219**	1,312,506	1,119,836
Litigation	12	**1,068,525**	1,508,904	1,928,789
Advertising and publicity		**870,002**	1,208,801	3,299,315
Others	11, 20.2, 27(g)	**15,797,572**	17,781,573	15,347,713
		P 246,383,232	P 251,776,958	P 236,004,768

Others include expenses related to information technology, training, notarial and meals.

20. EMPLOYEE BENEFITS

20.1 Compensation Expense

Details of this account are presented below (see Note 19.2).

	Notes	2019	2018	2017
Short-term employee benefits	23.1	**P 122,981,369**	P 113,932,455	P 106,863,313
Post-employment defined benefit	20.2	**4,284,656**	16,558,086	2,561,459
		P 127,266,025	P 130,490,541	P 109,424,772

20.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

The Bank maintains a funded, tax-qualified, noncontributory post-employment benefit plan that is being administered by trustee banks that are legally separated from the Bank. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60. Normal retirement benefit is an amount equivalent to 150% of the final monthly covered compensation for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation reports obtained from an independent actuary in 2019, 2018 and 2017.

The amount of retirement benefit obligation recognized as part of Other Liabilities account in the statements of financial position are determined as follows (see Note 17):

	2019	2018
Present value of the obligation	**P 74,184,393**	P 46,273,309
Fair value of plan assets	**(47,845,888)**	(38,510,934)
	P 26,338,505	P 7,762,375

The movements in the present value of the defined benefit obligation recognized in the financial statements are as follows:

	2019	2018
Balance at beginning of year	**P 46,273,309**	P 32,471,626
Current service cost	**4,284,656**	2,711,062
Interest expense	**3,734,256**	1,821,658
Past service cost	**-**	13,847,024
Remeasurements of actuarial losses (gains) arising from:		
Changes in financial assumptions	**18,567,261**	(1,224,513)
Experience adjustments	**4,360,479**	2,938,123
Changes in demographic assumptions	**(145,817)**	(464,671)
Benefits paid	**(2,889,751)**	(5,827,000)
Balance at end of year	**P 74,184,393**	P 46,273,309

The movements in the fair value of plan assets are presented below.

	2019	2018
Balance at beginning of year	**P 38,510,934**	P 43,683,250
Interest income	**3,304,443**	2,359,032
Gain (loss) on plan assets (excluding amounts included in net interest)	**1,157,887**	(4,265,807)
Benefits paid	**(2,889,751)**	(5,827,000)
Actual contributions	**7,762,375**	2,561,459
Balance at end of year	**P 47,845,888**	P 38,510,934

The composition of the fair value of plan assets at the end of the reporting period by category and risk characteristics is shown below.

	2019	2018
Cash and cash equivalents	**P 1,102,171**	P 544,786
Debt instruments	**30,065,827**	20,912,678
Equity instruments	**45,450**	44,550
Unquoted debt securities classified as loans	**500,000**	500,000
Investment in mutual fund	**8,187,178**	8,757,862
Investment in Unit Investment Trust Fund (UITF)	**8,486,986**	8,650,081
Accrued interest receivable	**321,936**	259,129
Others (market gains/losses, etc.)	**(777,961)**	(1,103,080)
	47,931,587	38,566,006
Accountabilities	**(85,699)**	(55,072)
	P 47,845,888	P 38,510,934

The fair values of the debt securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy). The Bank's investments in UITF is classified under Level 2.

The plan assets earned a net loss of P3.5 million in 2019, P1.91 million in 2018, respectively, and P0.01 million net gain in 2017.

Plan assets do not comprise any of the Bank's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

	2019	2018	2017
Reported in profit or loss:			
Current service cost	**P 4,284,656**	P 2,711,062	P 2,561,459
Net interest expense (income)	**429,813**	(537,374)	(13,236)
Past service cost	**-**	13,847,024	-
Interest expense on asset ceiling	**-**	79,610	976
	P 4,714,469	P 16,100,322	P 2,549,199

	2019	2018	2017
Reported in other comprehensive income:			
Actuarial losses (gains) arising from changes in:			
Financial assumptions	**P 18,567,261**	(P 1,224,513)	(P 20,938,481)
Experience adjustments	**4,360,479**	2,938,123	211,066
Changes in demographic assumptions	**(145,817)**	(464,671)	5,123,724
Return on plan assets (excluding amounts included in net interest expense)	**(1,157,887)**	4,265,807	2,199,113
Effect of asset ceiling test	**-**	(1,498,677)	1,399,954
	P 21,624,036	(P 4,016,069)	(P 12,004,624)

Current service cost and net interest expense (income), including the net interest expense on asset ceiling, are presented as part of Compensation expense and Others, respectively, under Other Operating Expenses and Interest Income – Others, respectively, in the statements of income (see Note 19.2).

Amounts recognized in other comprehensive income were included within item that will not be reclassified subsequently to profit or loss.

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

	2019	2018	2017
Discount rates	**5.4%**	8.1%	5.6%
Expected rate of salary increases	**6%**	6%	3.7%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 27 years for both males and females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

The plan exposes the Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan assets is concentrated on investment in debt securities, investments in mutual fund and UITF. Due to the long-term nature of the plan obligation, a level of continuing debt, mutual fund and UITF investments is an appropriate element of the Bank's long-term strategy to manage the plan efficiently.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Bank's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below.

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2019 and 2018:

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
2019			
Discount rate	**+100 bps / -100 bps**	**(P 9,298,600)**	**P 7,813,327**
Salary rate	**+100 bps / -100 bps**	**9,142,232**	**(7,837,212)**
2018			
Discount rate	+100 bps / -100 bps	(P 4,796,586)	P 4,102,826
Salary rate	+100 bps / -100 bps	4,399,762	(3,842,646)

The sensitivity analysis presented above is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Bank ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Bank actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

A large portion of the plan assets as of December 31, 2019 and 2018 consists of debt securities and investments in mutual fund and UITF. The Bank believes that debt securities and investments in mutual fund and UITF offer the best returns over the long term with an acceptable level of risk.

There has been no change in the Bank's strategies to manage its risks from previous periods.

(iii) Funding Arrangements and Expected Contributions

The plan is currently underfunded by P26.3 million based on the latest actuarial valuation.

The maturity profile of undiscounted expected benefit payments from the plan for the next ten years follows:

	2019	2018
Within one year	**P 3,653,523**	P 3,102,210
More than one year to five years	**22,533,422**	11,512,212
More than five years to ten years	**34,562,096**	38,338,783
	P 60,749,041	P 52,953,205

The weighted average duration of the defined benefit obligation at the end of the reporting periods is 11.5 years.

21. TAXES

The components of tax expense (income) reported in the statements of income and statements of comprehensive income follow:

	2019	2018	2017
Reported in statements of income			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	**P 28,641,765**	P 25,237,620	P 14,394,448
Final tax at 20%	**5,327,073**	3,753,591	4,464,409
	33,968,838	28,991,211	18,858,857
Deferred tax expense (income) relating to origination and reversal of temporary differences	**(2,067,289)**	(3,774,778)	788,439
	P 31,901,549	P 25,216,433	P 19,647,296
Reported in statements of comprehensive income			
Deferred tax expense (income) relating to origination and reversal of temporary differences	**(P 4,903,343)**	(P 2,521,120)	P 4,872,355

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in the statements of income is presented below.

	2019	2018	2017
Tax on pretax profit at 30%	**P 31,688,565**	P 25,198,433	P 19,171,986
Adjustment for income subjected to lower tax rates	**(2,663,621)**	(1,876,796)	(2,232,205)
Tax effects of:			
Non-deductible interest expense	**2,663,299**	1,876,796	2,232,205
Non-deductible other expenses	**213,306**	18,000	475,310
Tax expense	**P 31,901,549**	P 25,216,433	P 19,647,296

The net deferred tax assets relate to the following as of December 31 (see Note 13):

	Statements of Financial Position		Statements of Income			Statements Comprehensive Income		
	2019	2018	**2019**	2018	2017	**2019**	2018	2017
Allowance for impairment losses	**P 8,320,662**	P 6,328,572	**(P 1,992,090)**	(P 267,547)	P 1,602,273	**P -**	P -	P -
Retirement benefit obligation	**7,901,551**	2,328,712	**914,372**	(4,061,658)	(764,758)	**(6,487,211)**	(1,204,821)	3,601,387
Right-of-use asset	**(7,493,055)**	-	**(1,393,735)**	-	-	**-**	-	-
Lease liability	**7,468,580**	-	**1,061,526**	-	-	**-**	-	-
Accumulated depreciation on investment properties	**1,409,518**	853,107	**(556,411)**	636,157	(36,318)	**-**	-	-
Accrued vacation leaves	**1,091,305**	988,713	**(102,592)**	(81,670)	(10,094)	**-**	-	-
Foreign exchange losses	**(1,378)**	263	**1,641**	(60)	(2,664)	**-**	-	-
Unrealized fair market value losses on financial assets at FVOCI – net	**(189)**	1,583,679	**-**	-	-	**1,583,868**	(1,316,299)	1,270,968
Net Deferred Tax Assets	**P 18,696,994**	P 12,083,046						
Deferred Tax Expense (Income)			**(P 2,067,289)**	(P 3,774,778)	P 788,439	**(P 4,903,343)**	(P 2,521,120)	P 4,872,355

As at January 1, 2019, the adoption of PFRS 16 has resulted to a decrease in net deferred tax assets of the Bank amounting to P0.4 million from the recognition of Right-of-use asset and Lease liability [see Note 2.2(a)(iii)].

The Bank is subject to minimum corporate income tax (MCIT), which is computed at 2% of the Bank's gross income as defined under the tax regulations or to RCIT, whichever is higher. No MCIT was reported in 2019, 2018 and 2017 as the RCIT was higher than MCIT in those years.

In 2019, 2018 and 2017 the Bank opted to claim itemized deductions for the computation of its income tax due.

22. EARNINGS PER SHARE

Earnings per share were computed as follows:

	2019	2018	2017
Net profit	**P 73,727,001**	P 58,778,342	P 44,259,325
Divided by the weighted average number of outstanding common shares	**3,677,392**	3,677,392	3,677,392
Earnings per share	**P 20.05**	P 15.98	P 12.04

The Bank has no potentially dilutive instruments; thus, basic and dilutive earnings per share are the same.

23. RELATED PARTY TRANSACTIONS

The Bank's related parties include its stockholders and the Bank's key management personnel.

23.1 Key Management Compensation

Short-term benefits paid to key management employees amounted to P18.9 million, P18.2 million and P16.7 million in 2019, 2018 and 2017, respectively, which are presented as part of Compensation expense under Other Operating Expenses account in the statements of income (see Notes 19.2 and 20.1).

23.2 Directors, Officers, Stockholders and Related Interests

In the ordinary course of business, the Bank has loan and deposit transactions with certain DOSRI. Under existing policies of the Bank, DOSRI loans are made on substantially the same terms as loans granted to other individuals and businesses of comparable risks.
The General Banking Act and BSP regulations limit the amount of the loans granted by the Bank to a single borrower to 25% of equity. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the deposit and book value of their investment in the Bank. In the aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of the Bank, whichever is lower. The Bank, during the year, has unsecured portion of loans to DOSRI. The unsecured portions however, are microfinance loans, and though classified as unsecured, all have hold-out savings and with weekly amortizations.

Also, as of December 31, 2019 and 2018, certain related parties have deposits with the Bank. Total amount of deposits received from the related parties with outstanding loan balance above, subject to hold-out, amounted to P0.6 million and P0.8 million as of December 31, 2019 and 2018, respectively. Interest expense incurred from these deposits amounted to P0.06 million in 2019, P0.07 million in 2018 and P0.3 million in 2017.

24. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Bank:

24.1 Operating Lease Commitments

The Bank entered into several lease agreements under operating lease covering the office space of its branches. Terms of the lease agreements range from one year to 15 years under renewable options, and include escalation rates ranging from 5% to 10%. Other leases entered into include clauses to enable upward revision of the rental charged on an annual basis, based on prevailing market rates. The future minimum rental payable under this operating lease as of December 31, 2018 are as follows:

Within one year	P 5,794,452
Beyond one year but within five years	16,711,401
Beyond five years	13,038,202
	P 35,544,055

Total rent expense related to these operating leases amounted to P6.7 million in 2018 and P7.0 million in 2017 are presented as Rentals under Other Operating Expenses in the statements of income (see Note 19.2).

24.2 Others

The Bank is a defendant in various cases pending in courts for alleged claims against the Bank, the outcome of which are not fully determinable at present. Also, the Bank has unutilized credit lines from various local banks.

Additionally, the Bank has extended credit lines to borrowers. Unutilized credit line availments of the borrowers to the Bank as of December 31, 2019 and 2018 amounted to P27.5 million and P26.5 million, respectively. Contingent liabilities arising from these transactions are not reflected in the financial statements. The Bank recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable. The allowance for ECL for the unutilized credit line availments amounted to P0.1 million as of December 31, 2018 and is presented as part of Others under the Other Liabilities account (see Note 17). The Bank reversed the related ECL amounting to P0.1 million in 2019 and 2018, which is presented as reduction to the Impairment Losses - net in the statements of income (see Note 4.3.7).

25. EVENTS AFTER THE REPORT PERIOD

25.1 Eruption of Taal Volcano

On January 13, 2019, the provincial government of Batangas declared state of calamity in the province due to the eruption of Taal volcano. The eruption caused the evacuation of families and closure of several businesses within the 14-kilometer danger zone and nearby provinces such as Cavite and Laguna. The management determined that the eruption would significantly impact the credit capacity of the borrowers situated in the affected areas who have outstanding loans with the Bank. As such, the Bank assessed the credit risk on loans extended to the affected borrowers to have increased and reflected this in the allowance for credit losses as of December 31, 2019.

25.2 Impact of COVID-19

Subsequent to the end of the reporting period, the Bank and other Philippine business, and abroad, have been significantly exposed to the risks and uncertainties brought about by the outbreak of the new coronavirus disease, COVID-19, which management has determined to unfavorably impact the health, safety, logistics and productivity of its employees, and to adversely affect the current and potentially the future operations of the bank, particularly on its loan origination and management.

The financial impact of COVID-19 in the Bank's operations, and ultimately in its financial statements, is not yet clearly determinable as the current COVID-19 condition rapidly develops. However, the Bank's management does not expect risks to liquidity and going-concern issues and ensures business continuity.

Relative to this, the Bank has implemented strict measures, including protocols mandated by the Philippines Government, to mitigate the risks involved and alleviate the impact of COVID-19 to the Bank's financial condition and operations.

26. SUPPLEMENTAL INFORMATION REQUIRED BY THE BANGKO SENTRAL NG PILIPINAS

Presented below are the supplementary information required by the BSP under Section 174 (Appendix 55) of the BSP MORB to be disclosed as part of the notes to financial statements.

(a) Selected Performance Indicators

The following are some measures of the Bank's financial performance:

	2019	2018	2017
Return on average equity	**13.4%**	12.0%	9.5%
Return on average resources	**2.3%**	2.0%	1.6%
Net interest margin	**11.0%**	9.9%	9.6%
Net profit margin	**22.0%**	20.8%	17.4%
Interest rate coverage ratio	**613.1%**	569.9%	498.7%
Current ratio	**70.2%**	60.5%	60.4%
Acid test ratio	**69.7%**	60.0%	59.8%
Solvency ratio	**82.0%**	83.4%	82.7%
Asset-to-equity ratio	**554.9%**	605.2%	602.6%
Debt-to-equity ratio	**454.9%**	502.4%	463.8%
CAR	**20.2%**	17.7%	17.9%

(b) Capital Instruments Issued

The capital instrument issued by the Bank comprise only of common share (CET 1). Moreover, the Bank has 3,677,392 common shares, which were issued and outstanding as at December 31, 2019 and 2018 (see Note 18.2).

(c) Credit Security and Status of Receivables from Customers

The breakdown of the receivables from customers' portfolio (before allowance for impairment losses) as to secured and unsecured follows:

	2019	2018
Secured:		
Real estate mortgage	**P 1,095,692,890**	P 1,157,193,169
Chattel mortgage	**125,584,997**	100,705,873
Deposit hold-out	**50,867,756**	54,715,568
Agricultural guarantee fund pool	**34,226,904**	29,498,452
	1,306,372,547	1,342,113,062
Unsecured	**500,443,627**	543,845,973
	P 1,806,816,174	P 1,885,959,035

The breakdown of the receivables from customers' portfolio (before allowance for impairment losses) as to status follows:

	Performing	**Non-performing**	**Total Loan Portfolio**
2019:			
Gross carrying amount:			
Small and medium enterprise loans	P 742,093,147	P 21,318,890	P 763,358,037
Agra and other agri credit	293,950,331	27,312,549	321,262,880
Microenterprise loans	284,024,718	11,178,564	295,203,282
Loans to private corporations	207,434,230	-	207,434,230
Loans to individual for housing purposes	126,564,491	1,070,501	127,634,992
Loans to individual for consumption purposes	78,791,340	4,834,257	83,625,597
Loans to individual for other purposes	8,297,156	-	8,297,156
Total gross carrying amount	1,741,101,413	65,714,761	1,806,816,174
Allowance for ECL	(6,051,142)	(12,864,773)	(18,915,915)
Net carrying amount	**P 1,735,050,271**	**P 52,849,988**	**P 1,787,900,259**

	Performing	Non-performing	Total Loan Portfolio
2018:			
Gross carrying amount:			
Small and medium enterprise loans	P 698,151,653	P 15,727,210	P 713,878,863
Loans to private corporations	388,104,577	-	388,104,577
Agra and other agri credit	294,207,161	10,265,317	304,472,478
Microenterprise loans	281,424,517	6,880,011	288,304,528
Loans to individual for housing purposes	108,954,343	96,471	109,050,814
Loans to individual for consumption purposes	71,301,763	1,884,588	73,186,351
Loans to individual for other purposes	8,961,424	-	8,961,424
Total gross carrying amount	1,851,105,438	34,853,597	1,885,959,035
Allowance for ECL	(4,326,077)	(378,618)	(4,704,695)
Net carrying amount	P 1,846,779,361	P 34,474,979	P 1,881,254,340

(d) *Significant Credit Exposures*

The Bank's concentration of credit as to industry for its receivables from customers' portfolio follows:

	2019	2018
Retail trade	**P 477,121,479**	P 409,454,270
Agriculture, forestry and fishing	**331,387,795**	322,699,062
Real estate activities	**286,389,749**	277,002,403
Wholesale trade	**144,047,503**	130,908,329
Accommodation and food service activities	**140,040,402**	158,453,679
Consumption loans	**91,922,753**	82,147,773
Manufacturing	**84,232,700**	137,671,952
Construction	**72,259,476**	101,009,355
Transportation and storage	**69,764,887**	93,921,067
Education	**23,366,901**	28,301,707
Financial and insurance activities	**9,894,057**	18,849,722
Water supply, sewerage, waste management and remediation activities	**5,813,012**	5,568,402
Information and communication	**3,874,071**	3,817,428
Human health and social work activities	**3,714,345**	3,387,032
Administrative and support services	**2,783,657**	55,387,191
Arts, entertainment and recreation	**2,048,909**	2,182,316
Professional, scientific and technical services	**2,041,114**	1,496,567
Mining and quarrying	**987,453**	1,473,502
Electricity, gas, steam and air-conditioning supply	**-**	15,365
Other service activities	**55,125,911**	52,211,913
	P 1,806,816,174	P 1,885,959,035

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio. The Bank is in compliance with this loan concentration limit of the BSP as of the end of each reporting period.

(e) Information on Related Party Loans

As of December 31, 2019 and 2018, the Bank is in compliance with the existing BSP regulations on DOSRI. The following information relates to DOSRI loans of the Bank:

	2019	2018
Total DOSRI loans	**P 864,706**	P 834,202
Unsecured DOSRI loans	**250,426**	57,846
Interest income on DOSRI loans	**153,408**	135,292
% of total DOSRI loans to total loan portfolio	**0.0%**	0.0%
% of unsecured DOSRI loans to total DOSRI loans	**29%**	6.9%
% of past-due DOSRI loans to total DOSRI loans	**0.0%**	0.0%
% of non-performing DOSRI loans to total DOSRI loans	**0.0%**	0.0%

(f) Secured Liabilities and Assets Pledged as Security

Assets pledged by the Bank as security for liabilities are shown below.

	2019	2018
Aggregate amount of secured liabilities	**P -**	P 65,000,000
Aggregate amount of resources pledged as security	**P -**	P 65,000,000

(g) Contingencies and Commitments Arising from Off-balance Sheet Items

The summary of the Bank's commitments and contingent accounts is shown below.

	2019	2018
Committed credit lines	**P 27,470,000**	P 25,719,000
Items held for safekeeping	**4,133**	3,055
Items held for collateral	**1,583**	1,551
	P 27,475,716	P 25,723,606

27. SUPPLEMENTAL INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

The supplementary information on taxes, duties and license fees paid or accrued during the taxable year required under Revenue Regulation No. 15-2010 follows:

(a) Gross Receipt Tax

In lieu of value-added taxes, the Bank is subject to the gross receipts tax (GRT) imposed on all banks and non-bank financial intermediaries performing quasi-banking transactions pursuant to Section 121 of the Tax Code, as amended.

In 2019, the Bank reported total GRT amounting to P18,648,288, which is shown as part of Taxes and licenses under Other Operating Expenses account in the 2019 statement of income [see Note 27(e)].

Details of the tax bases of GRT and their corresponding tax rate follow:

Tax Rate	Tax Base	Amount
7%	P 50,505,686	P 3,535,398
5%	293,973,560	14,698,678
1%	41,421,245	414,212
	P 385,900,491	**P 18,648,288**

(b) Documentary Stamp Tax

In general, the Bank's documentary stamp tax (DST) transactions arise from the execution of debt instruments, security documents, certificates of deposits and bills of exchange.

For the year ended December 31, 2019, DST affixed amounted to P13,609,692 representing documentary stamps imposed mainly on debt instruments documents issued during the year, of which P9,604,927 were charged to the Bank's clients, hence, not reported as part of Taxes and licenses [see Note 27(e)].

(c) Taxes on Importations

The Bank has not paid or accrued any tax on importation as it has no importation for the year ended December 31, 2019.

(d) Excise Tax

The Bank did not have any transaction in 2019 which is subject to excise tax.

(e) Taxes and Licenses

Details of taxes and licenses presented under Other Operating Expenses account in the 2019 statement of income follow (see Note 19.2):

	Note		
GRT	27(a)	P	18,648,288
DST	27(b)		4,004,765
Business permits and other licenses			2,641,037
Real property tax			356,600
		P	**25,650,690**

(f) Withholding Taxes

Details of total withholding taxes for the year ended December 31, 2019 are shown below.

Compensation and employee benefits	P	4,988,558
Final		3,075,094
Expanded		1,501,683
	P	**9,565,335**

(g) Deficiency Tax Assessments and Tax Cases

In 2018, the Bank was assessed by the BIR for the taxable year 2017. The Bank received the results of the examination in 2019 and paid the deficiency taxes amounting to P0.7 million, including the interest of P0.1 million. The deficiency taxes paid are presented as part of Others under Other Operating Expense in the statements of income (see Note 19.2). As of December 31, 2019 and 2018, the Bank has no other final deficiency tax assessment from BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.

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