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AUDITED FINANCIAL STATEMENTS 2019

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **East West Banking Corporation** (the Bank) is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended **December 31, 2019 and 2018**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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.

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

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

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

JONATHAN T. GOTIANUN
Chairman

ANTONIO C. MONCUPA JR.
Chief Executive Officer

MINDA L. CAYABYAB
Financial Controller

Signed this 2nd day of April, 2020

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
East West Banking Corporation
East West Corporate Center
The Beaufort, 5th Avenue corner 23rd Street
Fort Bonifacio Global City
Taguig City

Report on the Audit of the Consolidated and Parent Company Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and parent company financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Adequacy of allowance for credit and impairment losses

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

The disclosures on the details of allowance for credit and impairment losses using the ECL model are included in Notes 3 and 15 to the financial statements.

Audit response

We obtained an understanding of the board approved methodologies and models used for the Group's and Parent Company's different credit exposures and assessed whether these considered the requirements of PFRS 9 to reflect an unbiased and probability-weighted outcome, and to consider time value of money and the best available forward-looking information.

We (a) assessed the Group's and the Parent Company's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) tested the definition of default and significant increase in credit risk criteria against historical analysis of accounts and credit risk management policies and practices in place, (c) tested the Group's and the Parent Company's application of internal credit risk rating system by reviewing the ratings of sample credit exposures; (d) assessed whether expected life is different from the contractual life by testing the maturity dates reflected in the Group's and the Parent Company's records and considering management's assumptions regarding future collections, advances, extensions, renewals and modifications; (e) tested loss given default by inspecting historical recoveries and related costs, write-offs and collateral valuations; (f) tested exposure at default considering outstanding commitments and repayment scheme; (g) checked the reasonableness of forward-looking information used for overlay through statistical test and corroboration using publicly available information and our understanding of the Group's and the Parent Company's lending portfolios and broader industry knowledge; and (h) tested the effective interest rate used in discounting the expected loss.

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

We recalculated impairment provisions on a sample basis. We checked the appropriateness of the transition adjustments and reviewed the completeness of the disclosures made in the financial statements.

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

Adoption of PFRS 16, Leases

Effective January 1, 2019, the Group and the Parent Company adopted PFRS 16, *Leases*, under the modified retrospective approach and resulted in significant changes in the Group's and Parent Company's accounting policy for leases. The Group's and the Parent Company's adoption of PFRS 16 is significant to our audit because the Group and the Parent Company have high volume of lease agreements; the recorded amounts are material to the financial statements; and adoption involves application of significant judgment and estimation in determining the lease term, including evaluating whether the Group and the Parent Company are reasonably certain to exercise options to extend or terminate the lease and determining the incremental borrowing rate. This resulted in the recognition of right of use assets amounting to |₱3.69 billion and ₱3.52 billion for the Group and the Parent Company, respectively, and lease liability amounting to ₱3.66 billion and ₱3.49 billion for the Group and the Parent Company, respectively, as of January 1, 2019 and the recognition of depreciation expense of ₱0.93 billion and ₱0.87 billion for the Group and the Parent Company, respectively, and interest expense of ₱0.27 billion and ₱0.25 billion for the Group and the Parent Company, respectively, for the year ended December 31, 2019.

The disclosures related to the adoption of PFRS 16 are included in Notes 2, 11 and 26 to the financial statements.

Audit response
We obtained an understanding of the Group's and the Parent Company's process in implementing the new standard on leases, including the determination of the population of the lease contracts covered by PFRS 16, the application of the short-term and low value assets exemptions, the selection of the transition approach and any election of available practical expedients.

We tested the completeness of the population of lease agreements by comparing the number of leases per operational report against the master lease schedule. On a test basis, we inspected lease agreements (i.e., lease agreements existing prior to the adoption of PFRS 16 and new lease agreements) from the master lease schedule, identified their contractual terms and conditions, and traced these contractual terms and conditions to the lease calculation prepared by management, which covers the calculation of the financial impact of PFRS 16, including the transition adjustments.

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

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

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Notes 36 and Revenue Regulations No. 15-2010 in Note 35 to the financial statements is presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of the Parent Company. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

SYCIP GORRES VELAYO & CO.

Veronica Arce

Veronica Mae A. Arce
Partner
CPA Certificate No. 0117208
SEC Accreditation No. 1740-A (Group A),
February 7, 2019, valid until February 6, 2022
Tax Identification No. 234-282-413
BIR Accreditation No. 08-001998-135-2018,
December 17, 2018, valid until December 16, 2021
PTR No. 8125206, January 7, 2020, Makati City

February 27, 2020

STATEMENTS OF FINANCIAL POSITION

	Consolidated		Parent Company	
	As of December 31			
	2019	2018	**2019**	2018
ASSETS				
Cash and Other Cash Items	**₱7,454,625**	₱7,185,241	**₱7,354,474**	₱7,097,652
Due from Bangko Sentral ng Pilipinas (Notes 7 and 16)	**34,287,302**	40,481,956	**33,590,486**	39,872,848
Due from Other Banks (Note 7)	**3,403,926**	10,233,240	**3,324,402**	10,087,675
Interbank Loans Receivable	**2,691,882**	5,862,670	**2,691,882**	5,862,670
Financial Assets at Fair Value Through Profit or Loss (FVTPL) (Notes 8 and 17)	**16,840,709**	4,338,794	**16,840,709**	4,338,794
Financial Assets at Fair Value Through Other Comprehensive Income (FVTOCI) (Notes 8 and 17)	**4,650,636**	248,207	**4,650,636**	248,207
Investment Securities at Amortized Cost (Notes 8 and 17)	**49,386,070**	36,510,546	**49,386,070**	36,510,546
Loans and Receivables (Notes 9, 15 and 27)	**267,647,738**	245,869,585	**241,859,400**	222,052,805
Investments in Subsidiaries (Note 10)	–	–	**3,992,449**	3,697,985
Investment in a Joint Venture (Note 10)	**694,114**	689,466	**694,114**	689,466
Property, Equipment and Right-of-Use Assets (Note 11)	**5,436,761**	2,655,809	**5,067,364**	2,389,521
Investment Properties (Notes 12 and 15)	**949,138**	921,153	**947,836**	919,782
Deferred Tax Assets (Note 24)	**2,821,217**	2,265,962	**2,387,704**	2,138,525
Goodwill and Other Intangible Assets (Note 13)	**6,897,500**	6,893,646	**6,856,791**	6,854,827
Other Assets (Notes 14 and 15)	**3,162,671**	3,182,714	**3,086,159**	3,066,562
TOTAL ASSETS	**₱406,324,289**	₱367,338,989	**₱382,730,476**	₱345,827,865
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 16 and 27)				
Demand	**₱88,757,787**	₱74,793,978	**₱89,587,063**	₱75,162,613
Savings	**98,027,632**	70,733,509	**76,154,416**	51,391,535
Time	**104,605,705**	126,915,196	**104,605,705**	126,915,196
Long-term Negotiable Certificates of Deposits	**13,335,031**	15,797,150	**13,335,031**	15,797,150
	304,726,155	288,239,833	**283,682,215**	269,266,494
Bills and Acceptances Payable (Note 17)	**30,949,753**	17,969,927	**30,949,753**	17,969,927
Accrued Taxes, Interest and Other Expenses (Note 18)	**3,033,033**	2,860,896	**2,753,308**	2,528,401
Cashier's Checks and Demand Draft Payable	**1,320,236**	895,717	**1,320,236**	895,717
Subordinated Debt (Note 19)	**6,219,011**	6,214,479	**4,979,340**	4,975,862
Income Tax Payable	**595,851**	222,410	**486,545**	127,936
Lease Liability (Notes 2 and 26)	**3,302,981**	–	**3,121,443**	–
Other Liabilities (Note 20)	**7,109,936**	8,278,553	**6,370,303**	7,406,354
TOTAL LIABILITIES	**357,256,956**	324,681,815	**333,663,143**	303,170,691
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Common Stock (Note 22)	**22,499,754**	22,499,754	**22,499,754**	22,499,754
Additional Paid in Capital (Note 22)	**5,065,059**	5,065,059	**5,065,059**	5,065,059
Surplus Reserves (Note 28)	**928,708**	921,655	**928,708**	921,655
Surplus (Note 28)	**20,580,707**	14,353,812	**20,580,707**	14,353,812
Fair Value Reserves on Financial Assets at Fair Value Through Other Comprehensive Income (FVTOCI)	**28,328**	(10,293)	**28,328**	(10,293)
Remeasurement Gains (Losses) on Retirement Plans (Note 25)	**(124,788)**	(77,991)	**(124,788)**	(77,991)
Cumulative Translation Adjustment	**89,565**	(94,822)	**89,565**	(94,822)
TOTAL EQUITY	**49,067,333**	42,657,174	**49,067,333**	42,657,174
TOTAL LIABILITIES AND EQUITY	**₱406,324,289**	₱367,338,989	**₱382,730,476**	₱345,827,865

See accompanying Notes to Financial Statements.

STATEMENTS OF INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018	2017	**2019**	2018	2017
	(Amounts in Thousands)					
INTEREST INCOME						
Loans and receivables (Notes 9 and 27)	**₱27,242,864**	₱23,108,172	₱21,087,498	**₱25,179,175**	₱21,578,452	₱19,270,469
Financial assets at air value through other comprehensive income and investment securities at amortized cost (Note 8)	**2,037,981**	1,029,352	507,051	**2,037,981**	1,029,352	507,051
Financial assets at fair value through profit or loss (Note 8)	**414,970**	118,827	315,107	**414,970**	118,827	315,107
Due from BSP and other banks and interbank loans receivable (Note 7)	**62,121**	101,759	110,353	**58,830**	100,011	108,830
	29,757,936	24,358,110	22,020,009	**27,690,956**	22,826,642	20,201,457
INTEREST EXPENSE						
Deposit liabilities (Note 16)	**6,798,551**	4,523,538	3,160,777	**5,864,723**	4,016,671	2,833,700
Subordinated debt, bills payable and other borrowings (Notes 17 and 19)	**1,224,863**	557,073	408,602	**1,155,059**	487,242	349,034
Lease liability (Notes 2 and Note 26)	**267,598**	–	–	**252,013**	–	–
	8,291,012	5,080,611	3,569,379	**7,271,795**	4,503,913	3,182,734
NET INTEREST INCOME	**21,466,924**	19,277,499	18,450,630	**20,419,161**	18,322,729	17,018,723
OTHER INCOME						
Service charges, fees and commissions (Note 23)	**5,236,443**	4,888,450	5,342,776	**4,330,952**	4,126,139	3,853,564
Trading and securities gain (loss) (Note 8)	**965,730**	(235,917)	63,973	**965,730**	(235,917)	63,973
Foreign exchange gain	**427,050**	738,597	378,705	**427,050**	738,597	378,705
Loss on asset foreclosure and dacion transactions	**(199,991)**	(212,896)	(236,353)	**(199,991)**	(212,896)	(236,353)
Gain on sale of assets (Notes 9, 11,12 and 14)	**94,840**	139,087	55,892	**94,392**	139,039	53,278
Trust income (Note 28)	**70,535**	51,333	46,759	**70,535**	51,333	46,759
Gain on capital transaction (Note 10)	**–**	–	665,000	**–**	–	665,000
Gain on sale of investment securities at amortized cost (Note 8)	**–**	–	317,443	**–**	–	317,443
Miscellaneous (Note 23)	**636,130**	851,075	568,738	**617,197**	844,764	545,299
TOTAL OPERATING INCOME	**28,697,661**	25,497,228	25,653,563	**26,725,026**	23,773,788	22,706,391
OPERATING EXPENSES						
Compensation and fringe benefits (Notes 25 and 27)	**5,624,044**	4,986,802	4,608,745	**5,199,685**	4,591,278	4,198,748
Provision for impairment and credit losses (Notes 9, 12, 14 and 15)	**4,042,472**	3,905,928	4,464,267	**3,822,366**	3,848,772	4,332,113
Taxes and licenses	**2,655,618**	2,326,683	1,980,710	**2,333,123**	2,053,250	1,729,062
Depreciation and amortization (Notes 11, 12 and 14)	**1,884,149**	1,077,209	1,056,234	**1,720,300**	961,611	939,894
Amortization of intangible assets (Note 13)	**146,676**	188,061	339,874	**143,256**	170,158	325,566
Rent (Note 26)	**107,121**	1,037,898	952,335	**83,986**	958,992	872,943
Miscellaneous (Note 23)	**5,987,527**	5,602,526	5,044,457	**5,657,443**	5,286,481	4,770,978
TOTAL OPERATING EXPENSES	**20,447,607**	19,125,107	18,446,622	**18,960,159**	17,870,542	17,169,304
INCOME BEFORE SHARE IN NET INCOME OF SUBSIDIARIES AND JOINT VENTURE	**8,250,054**	6,372,121	7,206,941	**7,764,867**	5,903,246	5,537,087
SHARE IN NET INCOME OF SUBSIDIARIES (Note 10)	**–**	–	–	**324,331**	241,520	1,181,247
SHARE IN NET LOSS OF A JOINT VENTURE (Note 10)	**(339,482)**	(395,816)	(449,050)	**(339,482)**	(395,816)	(449,050)
INCOME BEFORE INCOME TAX	**7,910,572**	5,976,305	6,757,891	**7,749,716**	5,748,950	6,269,284
PROVISION FOR INCOME TAX (Note 24)	**1,668,634**	1,468,241	1,707,192	**1,507,778**	1,240,886	1,218,585
NET INCOME	**₱6,241,938**	₱4,508,064	₱5,050,699	**₱6,241,938**	₱4,508,064	₱5,050,699
Basic Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 30)	**₱2.77**	₱2.00	₱2.24			
Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 30)	**₱2.77**	₱2.00	₱2.24			

See accompanying Notes to Financial Statements.

STATEMENTS OF COMPREHENSIVE INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018	2017	**2019**	2018	2017
	(Amounts in Thousands)					
NET INCOME FOR THE YEAR	**₱6,241,938**	₱4,508,064	₱5,050,699	**₱6,241,938**	₱4,508,064	₱5,050,699
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX						
Items that will not be reclassified to profit or loss in subsequent periods:						
Change in remeasurement gains (losses) of retirement liability (Note 25)	**(46,797)**	(110,124)	101,215	**(39,777)**	(109,638)	101,084
Change in fair value reserves on equity securities at FVTOCI (Note 8)	**(5,871)**	(1)	12	–	(1)	12
Share in changes in remeasurement gain (loss) of retirement liabilities of subsidiaries (Notes 10 and 25)	–	–	–	**(7,020)**	(486)	131
Share in changes in fair value reserves on equity securities of a joint venture (Note 10)		–	–	**(5,871)**	–	–
Items that may be reclassified to profit or loss in subsequent periods:						
Change in fair value reserves on debt securities at FVTOCI (Note 8)	**44,492**	(6,244)	–	**44,492**	(6,244)	–
Cumulative translation adjustment	**184,387**	(98,084)	(95,781)	**184,387**	(98,084)	(95,781)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**176,211**	(214,453)	5,446	**176,211**	(214,453)	5,446
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱6,418,149**	₱4,293,611	₱5,056,145	**₱6,418,149**	₱4,293,611	₱5,056,145

See accompanying Notes to Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

Consolidated

Year Ended December 31, 2019

	Equity Attributable to Equity Holders of the Parent Company							
	Common Stock	Additional Paid in Capital	Surplus Reserves	Surplus	Fair Value Reserves on Financial Assets at FVTOCI	Remeasurement Gains (Losses) on Retirement Plan	Cumulative Translation Adjustment	Total Equity
Balance at January 1, 2019	**₱22,499,754**	**₱5,065,059**	**₱921,655**	**₱14,353,812**	**(₱10,293)**	**(₱77,991)**	**(₱94,822)**	**₱42,657,174**
Effect of adoption of PFRS 16 (Note 2)	–	–	–	(7,990)	–	–	–	(7,990)
Balance at January 1, 2019, as restated	22,499,754	5,065,059	921,655	14,345,822	(10,293)	(77,991)	(94,822)	42,649,184
Net income	–	–	–	6,241,938	–	–	–	6,241,938
Other comprehensive income	–	–	–	–	38,621	(46,797)	184,387	176,211
Total comprehensive income	–	–	–	6,241,938	38,621	(46,797)	184,387	6,418,149
Transfer to surplus reserves (Note 28)	–	–	7,053	(7,053)	–	–	–	–
Appropriations during the year (Note 22)	–	–	–	–	–	–	–	–
Dividends declaration (Note 22)	–	–	–	–	–	–	–	–
Balance at December 31, 2019	**₱22,499,754**	**₱5,065,059**	**₱928,708**	**₱20,580,707**	**₱28,328**	**(₱124,788)**	**₱89,565**	**₱49,067,333**
Balance at January 1, 2018	₱14,999,836	₱5,209,061	₱52,143	₱18,713,129	(₱4,048)	₱32,133	₱3,262	₱39,005,516
Effect of the adoption of PFRS 9 (Note 2)	–	–	–	(497,951)	–	–	–	(497,951)
Balance as at January 1, 2018, as restated	14,999,836	5,209,061	52,143	18,215,178	(4,048)	32,133	3,262	38,507,565
Net income	–	–	–	4,508,064	–	–	–	4,508,064
Other comprehensive income	–	–	–	–	(6,245)	(110,124)	(98,084)	(214,453)
Total comprehensive income	–	–	–	4,508,064	(6,245)	(110,124)	(98,084)	4,293,611
Transfer to surplus reserves (Note 28)	–	–	5,133	(5,133)	–	–	–	–
Appropriations during the year (Note 22)	–	–	864,379	(864,379)	–	–	–	–
Dividends declaration (Note 22)	7,499,918	(144,002)	–	(7,499,918)	–	–	–	(144,002)
Balance at December 31, 2018	₱22,499,754	₱5,065,059	₱921,655	₱14,353,812	(₱10,293)	(₱77,991)	(₱94,822)	₱42,657,174
Balance at January 1, 2017	₱14,999,836	₱5,209,061	₱47,467	₱14,167,106	(₱4,060)	(₱69,082)	₱99,043	₱34,449,371
Net income	–	–	–	5,050,699	–	–	–	5,050,699
Other comprehensive income (loss)	–	–	–	–	12	101,215	(95,781)	5,446
Total comprehensive income	–	–	–	5,050,699	12	101,215	(95,781)	5,056,145
Transfer to surplus reserves (Note 28)	–	–	4,676	(4,676)	–	–	–	–
Dividends declaration (Note 22)	–	–	–	(500,000)	–	–	–	(500,000)
Balance at December 31, 2017	₱14,999,836	₱5,209,061	₱52,143	₱18,713,129	(₱4,048)	₱32,133	₱3,262	₱39,005,516

See accompanying Notes to Financial Statements.

Parent

Year Ended December 31, 2019

	Common Stock	Additional Paid in Capital	Surplus Reserves	Surplus	Fair Value Reserves on Financial Assets at Fair Value Through Other Comprehensive Income	Remeasurement Gains (Losses) on Retirement Plan	Cumulative Translation Adjustment	Total Equity
Balance at January 1, 2019	**₱22,499,754**	**₱5,065,059**	**₱921,655**	**₱14,353,812**	**(₱10,293)**	**(₱77,991)**	**(₱94,822)**	**₱42,657,174**
Effect of Adoption of PFRS 16 (Note 2)	–	–	–	**(7,990)**	–	–	–	**(7,990)**
Balance at January 1, 2019, as restated	**22,499,754**	**5,065,059**	**921,655**	**14,345,822**	**(10,293)**	**(77,991)**	**(94,822)**	**42,649,184**
Net income	–	–	–	**6,241,938**	–	–	–	**6,241,938**
Other comprehensive income	–	–	–	–	**38,621**	**(46,797)**	**184,387**	**176,211**
Total comprehensive income	–	–	–	**6,241,938**	**38,621**	**(46,797)**	**184,387**	**6,418,149**
Transfer to surplus reserves (Note 28)	–	–	**7,053**	**(7,053)**	–	–	–	–
Appropriations during the year (Note 22)	–	–	–	–	–	–	–	–
Dividends declaration (Note 22)	–	–	–	–	–	–	–	–
Balance at December 31, 2019	**₱22,499,754**	**₱5,065,059**	**₱928,708**	**₱20,580,707**	**₱28,328**	**(₱124,788)**	**₱89,565**	**₱49,067,333**
Balance at January 1, 2018	₱14,999,836	₱5,209,061	₱52,143	₱18,713,129	(₱4,048)	₱32,133	₱3,262	₱39,005,516
Effect of the adoption of PFRS 9 (Note 2)	–	–	–	(497,951)	–	–	–	(497,951)
Balance as at January 1, 2018, as restated	14,999,836	5,209,061	52,143	18,215,178	(4,048)	32,133	3,262	38,507,565
Net income	–	–	–	4,508,064	–	–	–	4,508,064
Other comprehensive income	–	–	–	–	(6,245)	(110,124)	(98,084)	(214,453)
Total comprehensive income	–	–	–	4,508,064	(6,245)	(110,124)	(98,084)	4,293,611
Transfer to surplus reserves (Note 28)	–	–	5,133	(5,133)	–	–	–	–
Appropriations during the year (Note 22)	–	–	864,379	(864,379)	–	–	–	–
Dividends declaration (Note 22)	7,499,918	(144,002)	–	(7,499,918)	–	–	–	(144,002)
Balance at December 31, 2018	₱22,499,754	₱5,065,059	₱921,655	₱14,353,812	(₱10,293)	(₱77,991)	(₱94,822)	₱42,657,174
Balance at January 1, 2017	₱14,999,836	₱5,209,061	₱47,467	₱14,167,106	(₱4,060)	(₱69,082)	₱99,043	₱34,449,371
Net income	–	–	–	5,050,699	–	–	–	5,050,699
Other comprehensive income (loss)	–	–	–	–	12	101,215	(95,781)	5,446
Total comprehensive income	–	–	–	5,050,699	12	101,215	(95,781)	5,056,145
Transfer to surplus reserves (Note 28)	–	–	4,676	(4,676)	–	–	–	–
Dividends declaration (Note 22)	–	–	–	(500,000)	–	–	–	(500,000)
Balance at December 31, 2017	₱14,999,836	₱5,209,061	₱52,143	₱18,713,129	(₱4,048)	₱32,133	₱3,262	₱39,005,516

See accompanying Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018	2017	**2019**	2018	2017
	(Amounts in Thousands)					
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱7,910,572**	₱5,976,305	₱6,757,891	**₱7,749,716**	₱5,748,950	₱6,269,284
Adjustments for:						
Provision for impairment and credit losses (Note 15)	**4,042,472**	3,905,928	4,464,267	**3,822,366**	3,848,772	4,332,113
Depreciation and amortization (Notes 11, 12 and 14)	**1,884,149**	1,077,209	1,056,234	**1,720,300**	961,611	939,894
Share in net loss of a joint venture (Note 10)	**339,482**	395,816	449,050	**339,482**	395,816	449,050
Amortization of intangible assets (Note 13)	**146,676**	188,061	339,874	**143,256**	170,158	325,566
Loss on asset foreclosure and dacion transactions (Note 32)	**199,991**	212,896	236,353	**199,991**	212,896	236,353
Gain on sale of assets (Notes 11, 12 and 14)	**(94,840)**	(139,087)	(55,892)	**(94,391)**	(139,039)	(53,278)
Amortization of debt issuance cost	**14,372**	–	–	**13,318**	–	–
Accretion of lease liabilities	**267,598**	–	–	**252,013**	–	–
Share in net income of subsidiaries (Note 10)	**–**	–	–	**(324,331)**	(241,520)	(1,181,247)
Gain on sale of investment securities at amortized cost (Note 8)	**–**	–	(317,443)	**–**	–	(317,443)
Gain on capital transaction (Note 10)	**–**	–	(665,000)	**–**	–	(665,000)
Changes in operating assets and liabilities:	**–**	–	–	**–**	–	–
Decrease (increase) in the amounts of:	**–**	–	–	**–**	–	–
Loans and receivables	**(28,507,915)**	(40,308,352)	(28,265,622)	**(26,227,448)**	(38,366,467)	(20,376,984)
Financial assets at FVTPL	**(12,501,915)**	(1,602,747)	(2,045,433)	**(12,501,915)**	(1,602,747)	(2,045,433)
Other assets	**(2,309)**	2,199	1,850	**8,025**	1,733	5,018
Increase (decrease) in the amounts of:						
Deposit liabilities	**16,476,482**	31,947,470	18,504,815	**14,405,881**	30,841,843	13,166,177
Cashier's checks and demand draft payable	**424,519**	(144,828)	(18,633)	**424,519**	(144,828)	(18,633)
Accrued taxes, interest and other expenses	**164,006**	331,558	662,409	**216,776**	187,531	590,648
Other liabilities	**(1,168,617)**	2,474,276	(613,856)	**(1,036,051)**	1,895,754	(683,555)
Net cash generated from operations	**(10,405,277)**	4,316,704	490,864	**(10,888,493)**	3,770,463	972,530
Income taxes paid	**(1,733,046)**	(1,538,160)	(1,871,098)	**(1,389,687)**	(1,289,920)	(1,325,553)
Net cash provided by (used in) operating activities	**(12,138,323)**	2,778,544	(1,380,234)	**(12,278,180)**	2,480,543	(353,023)
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sale of:						
Investment properties and other repossessed assets (Notes 12 and 14)	**2,289,904**	2,257,655	2,052,732	**2,289,904**	2,257,655	2,052,732
Financial assets at FVOCI (Note 8)	**614,655**	443,505	–	**614,655**	443,505	–
Property and equipment (Note 11)	**13,467**	27,540	35,253	**9,009**	20,298	32,316
Investment securities at amortized cost (Note 8)	**–**	–	11,756,331	**–**	–	11,756,331
Proceeds from maturity of investment securities at amortized cost	**2,439,729**	–	53,789	**2,439,729**	–	53,789

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018	2017	**2019**	2018	2017
	(Amounts in Thousands)					
Acquisitions of:						
Investment securities at amortized cost	**(₱15,315,252)**	(₱22,039,565)	(₱6,835,390)	**(15,315,252)**	(₱22,039,565)	(₱6,835,390)
Financial assets at FVOCI	**(5,055,641)**	(702,000)	–	**(5,055,641)**	(702,000)	–
Property and equipment (Note 11)	**(290,750)**	(341,241)	(368,361)	**(257,936)**	(302,486)	(278,185)
Capitalized software (Note 13)	**(150,530)**	(160,523)	(114,131)	**(145,220)**	(153,181)	(108,159)
Additional capital infusion in a joint venture	**(350,000)**	(250,000)	–	**(350,000)**	(250,000)	–
Net cash transferred from a business combination	–	–	(548,062)	–	–	(548,062)
Net cash provided by (used in) investing activities	**(15,804,418)**	(20,764,629)	6,032,161	**(15,770,752)**	(20,725,774)	6,125,372
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from bills and acceptances payable	**1,006,635,393**	613,830,961	243,061,250	**1,006,635,393**	613,830,961	243,061,250
Payments of bills and acceptances payable	**(993,655,567)**	(600,020,729)	(241,096,150)	**(993,655,567)**	(600,020,729)	(241,096,150)
Payment of lease liability	**(962,655)**	–	–	**(890,495)**		
Payment of direct costs on stock dividend issuance	–	144,000	–	–	144,000	–
Payment of subordinated debt (Note 19)	–	–	–	–	–	–
Dividend paid (Note 22)	–	–	(500,000)	–	–	(500,000)
Issuance of unsecured subordinated debt, net of issuance cost (Note 19)	–	–	1,237,834	–	–	–
Net cash provided by (used in) financing activities	**12,017,171**	13,954,232	2,702,934	**12,089,331**	13,954,232	1,465,100
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(15,925,570)**	(4,031,853)	7,354,861	**(15,959,601)**	(4,290,999)	7,237,449
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**7,185,241**	6,723,320	6,623,761	**7,097,652**	6,690,801	6,511,420
Due from Bangko Sentral ng Pilipinas	**40,481,956**	39,321,213	39,343,143	**39,872,848**	38,792,299	39,019,501
Due from other banks	**10,233,438**	9,362,992	6,970,645	**10,087,675**	9,341,309	6,940,924
Interbank loans receivable	**5,862,670**	12,387,633	7,502,748	**5,862,670**	12,387,633	7,502,748
	63,763,305	67,795,158	60,440,297	**62,920,845**	67,212,042	59,974,593
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**7,454,625**	7,185,241	6,723,320	**7,354,474**	7,097,652	6,690,801
Due from Bangko Sentral ng Pilipinas	**34,287,302**	40,481,956	39,321,213	**33,590,486**	39,872,848	38,792,299
Due from other banks	**3,403,926**	10,233,438	9,362,992	**3,324,402**	10,087,873	9,341,309
Interbank loans receivable	**2,691,882**	5,862,670	12,387,633	**2,691,882**	5,862,670	12,387,633
	₱47,837,735	₱63,763,305	₱67,795,158	**₱46,961,244**	₱62,921,043	₱67,212,042
NET OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS						
Interest received	**₱29,803,501**	₱22,903,190	₱21,972,257	**₱27,728,529**	₱21,330,238	₱20,243,005
Interest paid	**8,625,648**	4,600,953	3,526,487	**7,543,670**	4,114,526	3,155,575
Dividend received	**2,209**	3,777	4,555	**2,209**	3,777	4,555

See accompanying Notes to Financial Statements.

1. **Corporate Information**

East West Banking Corporation (EW or the Bank or the Parent Company) is a domestic universal bank which was registered with the SEC on March 22, 1994. The Bank was granted authority by the Bangko Sentral ng Pilipinas (BSP) to operate as a commercial bank and operate an expanded foreign currency deposit unit in 1994. Subsequently in 2012, the Parent Company was authorized by the BSP to operate as a universal bank. The Parent Company's common shares were listed and commenced trading in the Philippine Stock Exchange (PSE) on May 7, 2012 (Note 22).

As of December 31, 2019 and 2018, the Parent Company is effectively 77.85% and 77.28%, respectively owned by Filinvest Development Corporation (FDC). The Parent Company's ultimate parent company is A.L. Gotianun, Inc. The Parent Company's head office is located at East West Corporate Center, The Beaufort, 5th Avenue corner 23rd Street, Fort Bonifacio Global City, Taguig City.

Through its network of 467 and 466 branches as of December 31, 2019 and 2018, respectively, the Bank and its subsidiaries (the Group) provide a wide range of financial services to consumer and corporate clients, which includes deposit-taking, loan and trade finance, treasury, trust services, credit cards, cash management, custodial services, insurance services and leasing and finance.

2. **Summary of Significant Accounting Policies**

Basis of Presentation

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

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

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of all subsidiaries and the joint venture is the Philippine peso.

Statement of Compliance

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

Presentation of Financial Statements
The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 21.

Basis of Consolidation
The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company using consistent accounting policies. The following are the wholly-owned subsidiaries of the Parent Company as of December 31, 2019 and 2018:

		Effective Percentage of Ownership	
	Principal Activities	**2019**	2018
East West Rural Bank, Inc. (EWRB)	Consumer banking	**100.00**	100.00
East West Insurance Brokerage, Inc. (EWIB)	Non-life insurance brokerage	**100.00**	100.00
Quest Marketing and Integrated Services, Inc. (QMIS)	Sales and marketing	**100.00**	100.00
Assurance Solutions Insurance Agency (ASIA)*	General insurance and marketing	**100.00**	100.00
East West Leasing and Finance Corporation (EWLFC)*	Finance and leasing	**100.00**	100.00

** Non-operational since 2017*

All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in the consolidated financial statements.

The subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control and continues to be consolidated until the date when control ceases. Control is achieved when the Parent Company is exposed, or has rights, to variable return from its involvement with an entity and has the ability to affect those returns through its power over the entity. The Parent Company has power over the entity when it has existing rights that give it the current ability to direct relevant activities (i.e., activities that significantly affect the entity's returns). Consolidation of subsidiaries ceases when control is transferred out of the Parent Company. The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

Adoption of New and Amended PFRS

(a) Standards effective in 2019 that are Relevant to the Group

The accounting policies adopted are consistent with those of the previous financial year, except that the Group's has adopted the following new accounting pronouncements starting January 1, 2019:

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

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

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

The Group elected to use the following transition practical expedients:

- Applied the standard only to contracts that were previously identified as leases, applying the old standards at the date of initial recognition;
- Used the recognition exemptions for short-term leases and lease contracts for low-value assets;
- Relied on its assessment whether leases are onerous immediately before the date of initial recognition; and
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.

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

	Consolidated	Parent Company
Operating lease commitments as at December 31, 2018 (Note 26)	₱4,705,579	₱4,512,835
Less: Commitments relating to short-term leases and leases of low-value assets	(87,380)	(87,380)
Operating lease commitments, excluding those commitments relating to short-term leases and leases of low-value assets	4,618,199	4,425,455
Weighted average incremental borrowing rate at January 1, 2019	7.68%	7.60%
Discounted operating lease commitments/ Lease liability recognized as at January 1, 2019	**₱3,660,409**	**₱3,491,089**

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

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

The effect of adopting PFRS 16 on the statement of financial position as at January 1, 2019 follow:

Increase (Decrease)	Consolidated	Parent Company
Assets		
ROU assets under 'Property, Equipment and Right-of-Use Assets' (Note 11)	₱3,687,043	₱3,517,723
Prepaid rent under 'Other assets'	(34,765)	(34,765)
Deferred tax assets - net	(7,990)	(7,990)
	₱3,644,288	₱3,474,968
Liabilities and Equity		
Lease liability (Note 26)	₱3,660,409	₱3,491,089
Accrued rent	(8,131)	(8,131)
Retained earnings	(7,990)	(7,990)
	₱3,644,288	₱3,474,968

Other than the ₱7.99 million adjustment to beginning retained earnings, the adoption of PFRS 16 did not have any material impact on equity on January 1, 2019, since the Group elected to measure the right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet immediately before the date of initial application.

The carrying amounts and the movements during the period of the Group and the Parent Company's ROU asset and lease liabilities are presented in Notes 11 and 26, respectively.

Set out below are the amounts recognized in the statement of income of the Group and the Parent Company for the period ended December 31, 2019:

	Consolidated	Parent Company
Depreciation expense of ROU assets (Note 11)	₱932,522	₱865,644
Interest expense on lease liabilities (Note 26)	267,598	252,013
Rent expense on short-term leases and leases of low-value assets	107,121	83,986
Total amounts recognized in the statement of income	₱1,307,241	₱1,201,643

- IFRIC-23, *Uncertainty over Income Tax Treatments*

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

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

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

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

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

  These amendments had no impact on the consolidated financial statements of the Group as it does not have instruments with prepayment features.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

  The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

  These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

- *Annual Improvements to PFRSs* 2015-2017 Cycle

  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*

    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

    A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

    An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

    The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments had no impact on the consolidated financial statements of the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

  Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

(b) Standards Issued but not yet Effective

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

Effective beginning on or after January 1, 2020:

- Amendments to PFRS 3, *Definition of a Business*. The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also added guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies these amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

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

- Amendments to PAS 1, *Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*. The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*. The standard is a comprehensive new accounting standard for insurance contracts covering recognition, measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements, and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the FRSC deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

<u>Cash and Cash Equivalents</u>
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from Bangko Sentral ng Pilipinas (BSP) and other banks, and interbank loans and receivable (IBLR) with original maturities of three months or less from dates of placements and that are subject to insignificant risks of changes in value. Due from BSP includes the statutory reserves required by the BSP which the Group considers as cash equivalents wherein withdrawals can be made to meet the Group's cash requirements as allowed by the BSP.

Foreign Currency Transactions and Translation

Transactions and balances

For financial reporting purposes, the foreign currency-denominated monetary assets and liabilities in the RBU are translated in Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at the statement of financial position date and foreign currency-denominated income and expenses, at the prevailing exchange rate at the date of transaction. Foreign exchange differences arising from revaluation and translation of foreign currency-denominated assets and liabilities of the RBU are credited to or charged against operations in the period in which the rates change.

Non-monetary items that are measured in terms of historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

FCDU

As at the reporting date, the assets and liabilities of the FCDU of the Parent Company are translated into the Parent Company's presentation currency (the Philippine Peso) at PDS closing rate prevailing at the statement of financial position date, and their income and expenses are translated at Bankers Association of the Philippines (BAP) weighted average rate for the year. Exchange differences arising on translation are taken to the statement of comprehensive income under 'Cumulative translation adjustment'. Upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.

Fair Value Measurement

The Group measures certain financial instruments such as financial assets at FVTPL, financial assets at FVTOCI and derivative financial instruments at fair value at each statement of financial position date. Also, fair values of financial instruments carried at amortized cost and investment properties carried at cost are measured for disclosure purposes.

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

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

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

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

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

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

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

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

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

External appraisers are involved for valuation of significant non-financial assets, such as investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy (Note 5).

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

The Group recognizes financial instruments when, and only when, the Group becomes a party to the contractual terms of the financial instruments.

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date, i.e., the date that an asset is delivered to or by the Group. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Group, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Group. Securities transactions and related commission income and expense are recorded also on a settlement date basis. Deposits, amounts due to banks and customers, and loans and receivables are recognized when cash is received by the Group or advanced to the borrowers.

Derivatives are recognized on trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. Trade date accounting refers to (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

'Day 1' Difference

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

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

Under PFRS 9, the classification of a financial asset depends on the characteristics of its contractual cash flows and the business model under which the asset is held.

Contractual cash flow characteristics test
The Group assesses the contractual terms of financial assets to identify whether they meet the ‘solely payments of principal and interest’ (SPPI) test. Principal, for the purpose of this test, is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset.

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than *de minimis* exposure to risks or volatility in the contractual cash flows that are unrelated to a basis lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

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

The Group’s business model is not assessed on an instrument-on-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity’s key management personnel
- The risks that affect the performance of the business model, and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated
- The expected frequency, value and timing of sales are also important aspects of the Group’s assessment.

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

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

- the contractual terms of the instrument give rise on specified dates to cash flows that are SPPI on the principal amount outstanding; and
- the asset is held within the Group’s business model whose objective is to hold assets in order to collect contractual cash flows.

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 credit losses, with the calculated interest recognized as Interest income in the statement of income. The Group classified 'Cash and other cash items', 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Investment securities at amortized cost', 'Loans and receivables as financial assets at amortized cost' and other financial assets (i.e., security deposits, downpayment/advance payments to suppliers and returned cash and other cash items) under 'Other assets'.

The Group may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch that would arise had the financial asset been measured at amortized cost. As of December 31, 2019 and 2018, the Group has not made such designation.

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

Debt securities at FVTOCI
Debt securities at FVTOCI are those that meet both of the following conditions:
- the contractual terms of the financial asset give rise to cash flows that are SPPI on the outstanding principal amount;
- the asset is held within a business model whose objective is both to sell or hold the financial asset in order to both collect contractual cash flows.

Debt securities at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for sale or disposal costs. Gains and losses arising from changes in fair value are recognized in other comprehensive income as 'Change in net unrealized gains (losses) on debt securities at FVTOCI'. The effective yield component and foreign exchange gains (losses) of debt securities at FVTOCI are reported on the statement of income. The ECL arising from impairment of such investments are recognized in OCI with a corresponding charge to 'Provision on credit and impairment losses' in the statement of income.

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

Equity securities at FVTOCI
Equity securities designated as at FVTOCI are those that the Group made an irrevocable election to present in OCI the subsequent changes in fair value. The designation is made on instrument-by-instrument basis. Equity securities at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for sale or disposal costs. Gains and losses arising from changes in fair value are recognized in other comprehensive income as 'Change in fair value reserves on equity securities at FVTOCI. When the asset is disposed of, the cumulative gain or loss previously recognized in 'Change in fair value reserves on equity securities at FVTOCI is not reclassified to profit or loss, but is reclassified directly to 'Surplus'. Equity securities at FVTOCI are not subject to impairment assessment.

Dividends earned on holding these equity instruments are recognized in the statement of income when the Group's right to receive the dividends is established, unless the dividends clearly represent recovery of a part of the cost of the investment. Dividends earned are recognized in the statement of income under 'Miscellaneous income'.

Financial assets at FVTPL
Debt instruments that do not meet the amortized cost or FVTOCI criteria, or that meet the criteria but the Group has chosen to designate as at FVTPL at initial recognition, are measured at fair value through profit or loss. Equity investments are classified as at FVTPL, unless the Group designates an investment that is not held for trading as at FVTOCI at initial recognition. Derivative assets classified as at FVTPL are those that are not designated under hedge accounting treatment.

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

Financial assets at FVTPL are initially measured at fair value without considering transaction costs. Subsequently, Financial assets at FVTPL are re-measured fair value, and fair value gains and losses on these instruments are recognized as 'Trading and securities gain' in the statement of income. Interest earned on these investments is reported in the statement of income under 'Interest income' while dividend income is reported in the statement of income under 'Miscellaneous income' when the right of payment has been established. Quoted market prices, when available, are used to determine the fair value of these financial instruments. If quoted market prices are not available, their fair values are estimated based on inputs provided by the BSP, Bureau of Treasury and investment bankers. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques.

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the PDS closing rate at the statement of financial position date. The foreign exchange component forms part of its fair value gain or loss. For financial assets classified as at FVTPL, the foreign exchange component is recognized in the statement of income. For equity financial assets designated as at FVTOCI, any foreign exchange component is recognized in OCI. For foreign currency-denominated debt instruments classified as at amortized cost and as at FVTOCI, the foreign exchange gains and losses are determined based on the amortized cost of the asset and are recognized in the statement of income.

Reclassification of financial assets
Subsequent to initial recognition, the Group may reclassify financial assets only if the objective of its business model for managing those financial assets changes.

The Group is required to reclassify the following financial assets:

- from amortized cost or FVTOCI to FVTPL, if the objective of the business model changes so that the amortized cost or FVTOCI criteria are no longer met
- from FVTPL to amortized cost or FVTOCI, if the objective of the business model changes so that the amortized cost or FVTOCI criteria start to be met and the characteristics of the instruments contractual cash flows are SPPI
- from amortized cost to FVTOCI if the business model changes so that the objective becomes both to collect contractual cash flows and to sell or from FVTOCI to amortized cost if the business model becomes solely for the collection of contractual cash flows.

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

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

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or is designated as at FVTPL.
A financial liability is held for trading if:

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

Management may designate a financial liability at FVTPL upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis; or
- The liabilities are part of a group of financial liabilities which are managed, and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows, or it is clear, with little or no analysis, that it would not be separately recorded.

As of December 31, 2019 and 2018, the Group's financial liabilities at FVTPL include derivative liabilities.

Financial liabilities at amortized cost
Issued financial instruments or their components, which are not designated as at FVTPL, are classified as financial liabilities at amortized cost under Deposit liabilities, Bills and acceptances payable, Subordinated debt or other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Financial liabilities are initially measured at cost plus transaction costs. Subsequently, these financial instruments are measured at amortized cost using the effective interest method, except for:

a. financial liabilities at FVTPL which are measured at fair value; and
b. financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

Amortized cost is calculated by taking into account any discount or premium on the issuance and fees that are an integral part of the Effective Interest Rate (EIR).

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

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

Staging assessment
For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced SICR since initial recognition. The Group recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced SICR since initial recognition, evidenced by missed payments (for monthly amortizing exposures) and/or the significant increase in the likelihood of default. The Group recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

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

For the movement of accounts to better stages (i.e. from Stage 2 or 3 to Stage 1 or 2):

- Financial instruments are moved to better stages when there is significant improvement to the credit risk such that the criteria for assessment of the better stage are met and there is consistent evidence of good credit behavior by the borrower.

Financial assets that are credit-impaired on initial recognition are classified as purchased or originated credit-impaired (POCI) assets. These are recorded at fair value at initial recognition and interest income is subsequently recognized based on a credit-adjusted EIR. ECL is only recognized or released to the extent that there is a subsequent change in the ECLs.

Definition of "default" and "cure"
For the calculation of ECL, the Group defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes: 1) 91 days past due for amortizing exposures; or 2) non-collection of full amounts at maturity date for non-amortizing loans or bullet-payment loans. As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate likelihood of non-payment when an account is under litigation. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted. An instrument is

considered to be no longer in default (i.e., cured) when it no longer meets any of the default criteria and there is sufficient evidence to support full collection thru payments received for at least 6 months.

Credit risk at initial recognition
The Group has an internal credit assessment process to determine the credit risk of exposures at initial recognition. The Group has separate models for its key portfolios in which the customers are rated using internal credit rating grades. The models incorporate both qualitative and quantitative information.

Significant increase in credit risk (SICR)
The Group monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month ECL or lifetime ECL, the Group assesses whether there has been a SICR since initial recognition. A set of defined empirical-based rules and expert judgment that discriminate good and bad credit make up the SICR model. For corporate loans and investments to debt-type instruments, accounts are considered to have a SICR if the equivalent Probability of default (PD) exceeds the Group's set threshold. The Group also considers an account to have a SICR if contractual payments are more than thirty (30) days past due or the account is considered "watchlist".

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

Assessment of ECL on a collective basis
The Group calculates ECL either on an individual or collective basis. The Group performs collective impairment by grouping exposures into smaller homogenous portfolios based on a combination of borrower and account characteristics. Accounts with similar attributes (i.e., type of facility) are pooled together for calculating provisions based on the ECL models.

ECL parameters and methodologies
ECL is a function of the PD, Exposure at default (EAD) and Loss given default (LGD), with consideration for the expected timing of the loss, and is estimated by incorporating forward-looking economic information through the use of statistical techniques and/or experienced credit judgment.

The PD represents the likelihood that a credit exposure will not be repaid and will go into default in either a 12-month horizon for Stage 1 or within the remaining life of the exposure for Stage 2. The PD for each individual instrument is modelled based on historical data and is adjusted for current market conditions and reasonable and supportable information about future economic conditions. The Group segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristics of the portfolio, behavior of the accounts and materiality of the portfolio as compared to the total portfolio.

EAD is modelled on historical data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet and undrawn amounts from irrevocable committed credit lines, EAD includes an estimate of any further amounts to be drawn at the time of default (i.e., credit conversion factor). LGD is the amount that may not be recovered in the event of default and is modelled based on historical net cash flow recoveries from collections and the sale of foreclosed assets.

Economic overlays
The Group incorporates economic overlays into its assessment of SICR and its measurement of ECL. A broad range of economic overlays are considered as economic inputs, such as GDP growth, inflation rates, unemployment rates and interest rates. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect these, quantitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

The Group's loans and receivables consists of different portfolios, such as auto, corporate, credit card receivables, mortgage loans, as well as other receivables (e.g., personal, branch, emerging enterprise lending, and Department of Education (DepEd) loans). In compliance with PFRS 9, the Group has developed ECL parameters and methodologies for each portfolio, using historical data as well as forward-looking inputs and assumptions.

Undrawn Loan Commitments
Undrawn loan commitments and letters of credit are commitments under which over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. The nominal contractual value of undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position. Starting January 1, 2018, these contracts are in the scope of the ECL requirements where the Group estimates the expected portion of the undrawn loan commitments that will be drawn over their expected life. The ECL related to financial guarantees and undrawn amounts of irrevocable loan commitments is recognized in 'Other liabilities'.

Financial guarantees
Financial guarantees are initially recognized at fair value. Subsequent to initial recognition, the Group's liability under each financial guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement and the amount of related ECL.

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

For financial assets classified and measured at amortized cost such as 'Loans and receivables', 'Due from other banks' and 'Investment securities at amortized cost', the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. For individually assessed financial assets, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment. The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to 'Provision for impairment and credit losses' in the statement of income. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. Interest income continues to be recognized based on the original EIR of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If a write-off is later recovered, a recovery income in recognized and is recorded as 'Miscellaneous income' in the statement of income.

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

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

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

Derecognition of Financial Assets and Financial Liabilities

Financial assets

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

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

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial assets are written off either partially or fully only when the Group has stopped pursuing the recovery.

Financial liabilities

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

Repurchase agreements

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

Offsetting Financial Instruments

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

Property and Equipment

Land is stated at cost less any impairment in value and depreciable properties including buildings, leasehold improvements and furniture, fixtures and equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the assets to their working condition and location for their intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs, and maintenance are normally charged against operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of the assets. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any accumulated impairment in value are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives (EUL) of the property, equipment and ROU assets.

	Group	Parent
Buildings	25-40 years	30-40 years
Major furniture, fixtures and equipment	3-5 years	3-5 years
ROU asset	2-5 years	2-5 years

The EUL of the vaults of EWRB is 20 years. The cost of the leasehold improvements is amortized over the shorter of the covering lease term or the EUL of the improvements of 10 years.

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

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

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of the asset given up. Foreclosed properties are recorded as ‘Investment properties’ upon: (a) entry of judgment in case of judicial foreclosure; (b) execution of the Sheriff’s Certificate of Sale in case of extra-judicial foreclosure; or (c) notarization of the Deed of Dacion in case of dation in payment (dacion en pago). Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and any impairment in value. Investment properties comprise completed property and property under construction or re-development (land, buildings and malls) that are held to earn rentals or capital appreciation or both and that are not occupied by the Company. Investment properties also include right-of-use assets involving real properties that are subleased to other entities.

For those right-of-use assets that qualify as investment properties, i.e., those land and buildings that are subleased by the Company, these are classified under investment properties in accordance with paragraph 48 of PFRS 16. Consistent with the Company’s policy regarding the measurement of investment properties, these assets are subsequently measured at cost less amortization and impairment in value.

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

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

Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the investment properties but not to exceed 10 years for both buildings and condominium units.

Foreclosed properties of land or building are classified under Investment properties from foreclosure date.

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

Other repossessed assets

Other repossessed assets comprise of repossessed vehicles which are measured at cost less accumulated depreciation and impairment. Depreciation is calculated on a straight-line basis using the remaining useful life from the time of acquisition of the asset. The useful life of other repossessed assets is estimated to be five (5) years.

The carrying values of other properties acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts (see accounting policy on Impairment of Nonfinancial Assets).

Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition-related costs incurred are expensed in the statement of income.

When the Group acquires a business, it assesses the financial assets acquired and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

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

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Investments in Subsidiaries

Investments in subsidiaries in the Parent Company's separate financial statements are accounted for under the equity method.

Under the equity method, an investment in subsidiary is carried in the statement of financial position at cost plus post-acquisition changes in the Parent Company's share of the net assets of the subsidiary. Post-acquisition changes in the share of net assets of the subsidiaries include the share in the: (a) income or losses; and (b) remeasurement of retirement plans. Dividends received are treated as a reduction in the carrying amount of the investments. The statement of income reflects the share of the results of operations of the subsidiary. Where there has been a change recognized directly in the equity of the subsidiary, the Parent Company recognizes its share of any changes and thus, when applicable, discloses in the statement of changes in equity. If the Parent Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the Parent Company discontinues recognizing its share in further losses.

Investment in a Joint Venture

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

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

The Group's investment in a joint venture is accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the joint venture since the acquisition date. The statement of income reflects the Group's share of the results of operations of the joint venture. Any change in OCI of the investee is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the joint venture, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity.

Unrealized gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture. The aggregate of the Group's share of profit or loss of a joint venture is shown on the face of the statement of income and represents profit or loss after tax.

On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

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

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

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

Intangible Assets

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

The useful lives of intangible assets are assessed to be either finite or indefinite.

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

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually or more frequently, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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

Intangible assets include goodwill, branch licenses, customer relationship, core deposits and capitalized software (Note 13).

Goodwill
Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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

Customer relationship and core deposits
Customer relationship and core deposits are the intangible assets acquired by the Group through business combination. These intangible assets are initially measured at their fair value at the date of acquisition. The fair value of these intangible assets reflects expectations about the probability that the expected future economic benefits embodied in the asset will flow to the Group.

Following initial recognition, customer relationship and core deposits are measured at cost less accumulated amortization and any accumulated impairment losses. Customer relationship related to the credit cards business is amortized on a straight-line basis over its useful life of 40 years while the customer relationship related to the auto loans business and core deposits are amortized on a straight-line basis over its useful life of 13 and 10 years, respectively (Note 13).

Capitalized software
Capitalized software acquired separately is measured at cost on initial recognition. Following initial recognition, capitalized software is carried at cost less accumulated amortization and any accumulated impairment losses. The capitalized software is amortized on a straight-line basis over its estimated useful life of 5-10 years.

Card Acquisition Costs
Card acquisition costs represent capitalized commissions paid to third-party brokers for successfully originated credit card accounts, which are amortized over two years, the average relationship life with customers.

Impairment of Nonfinancial Assets
An assessment is made at each statement of financial position date whether there is any indication of impairment of property and equipment, investment properties, other repossessed assets and intangible assets, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated at the higher of the

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

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged against the statement of income in the period in which it arises, unless the asset is carried at a revalued amount in which case the impairment loss is charged against the revaluation increment of the said asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to current operations, unless the asset is carried at a revalued amount in which case the reversal of the impairment loss is credited to the revaluation increment of the said asset.

The following criteria are also applied in assessing impairment of specific assets:

Property and equipment, investment properties and other repossessed assets
The carrying values of the property and equipment and investment properties are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or CGUs are written down to their recoverable amounts.

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

Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

Branch licenses
Branch licenses are tested for impairment annually at the statement of financial position date either individually or at the CGU level, as appropriate.

Other intangible assets
Other intangible assets such as customer relationship, core deposits and capitalized software are assessed for impairment whenever there is an indication that they may be impaired.

<u>Revenue Recognition</u>
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. Revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

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

Service charges and penalties

Applicable beginning January 1, 2018
Service charges and penalties earned over a period of time are accrued over that period as the customer simultaneously receives and consumes the benefits provided by the Group. Service charges and penalties are measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring promised services to a customer and excludes amounts collected on behalf of third parties.

Applicable prior to January 1, 2018
Service charges and penalties are recognized only upon collection or accrued when there is a reasonable degree of certainty as to its collectability.

Customer loyalty programmes

Applicable beginning January 1, 2018
Award credits under customer loyalty programmes are accounted for as a separately identifiable component of the transaction in which they are granted. The Parent Company allocates a portion of the consideration received from interchange from credit cards to the reward points. This allocation is based on the estimated stand-alone selling prices. The amount allocated to the customer loyalty program is deferred, and is recognized as revenue when loyalty points are redeemed or the likelihood of the customer redeeming the loyalty points becomes remote. Income generated from customer loyalty programmes is recognized as part of 'Service charges, fees and commissions' in the statement of income.

Applicable prior to January 1, 2018
Award credits under customer loyalty programmes are accounted for as a separately identifiable component of the transaction in which they are granted. The fair value of the consideration received in respect of the initial sale is allocated between the award credits and the other components of the sale. Income generated from customer loyalty programmes is recognized as part of 'Service charges, fees and commissions' in the statement of income.

Interest income
For all financial instruments measured at amortized cost and debt instruments classified as financial assets at FVTOCI, interest income is recorded at the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in the carrying amount is recorded as interest income. Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Beginning January 1, 2018, when a financial asset becomes credit-impaired and is, therefore, classified as Stage 3, interest income is calculated by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis. Under PAS 39, once the recorded value of a financial asset or group of similar financial assets carried at amortized cost has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

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

Commissions earned on credit cards
Commissions earned on credit cards are taken up as income upon receipt from member establishments of charges arising from credit availments by credit cardholders. These commissions are computed based on certain agreed rates and are deducted from amounts remittable to member establishments.

Purchases by credit cardholders, collectible on an installment basis, are recorded at the cost of the items purchased plus certain percentage of cost. The excess over cost is credited to Unearned discount and is shown as a deduction from Loans and receivables in the statement of financial position.

The unearned discount is taken to income over the installment terms and is computed using the effective interest method.

Gain on sale of assets
Income from sale of assets include any gains or losses on the retirement or disposal of property and equipment, investment properties, and other repossessed assets. The gain or loss arising from the derecognition is recognized in the statement of income in the year of retirement or disposal.

Other income
Income from sale of services or properties is recognized when control of the such services or properties are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Expense Recognition
Expenses are recognized in the statement of income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in the statement of income:

- on the basis of a direct association between the costs incurred and the earning of specific items of income;
- on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- immediately when the expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the statement of financial position as an asset.

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

Leases

Policies applicable beginning January 1, 2019
The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

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

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

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

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

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

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

Policies applicable prior to January 1, 2019
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

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

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

Group as lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term. Contingent rents are recognized as an expense in the period in which they are incurred.

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

Retirement Cost
Defined benefit plan
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Defined benefit costs comprise the following:

- Service cost;
- Net interest on the net defined benefit liability or asset; and
- Remeasurements of net defined benefit liability or asset

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

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

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

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

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination benefit
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes the related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee leave entitlement
Employee entitlement to annual leave is recognized as a liability when the employees render the services that increase their annual leave entitlement. The cost of accumulating annual leave is measured as the additional amount that the Group expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

Provisions and Contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at pre-tax rate that reflects current market assessments of the time value of money and where, appropriate, the risk specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as Interest expense in the statement of income.

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

Debt Issue Costs

Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments (other than debt instruments designated at FVTPL) are deferred and amortized over the terms of the instruments using the effective interest method. Unamortized debt issuance costs are included in the measurement of the related carrying value of the debt instruments in the statement of financial position.

Income Taxes

Current taxes

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

Deferred taxes

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

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of Minimum Corporate Income Tax (MCIT) over the regular income tax and unused Net Operating Loss Carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits from excess MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

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

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

Equity

Capital stock is measured at par value for all shares issued. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

When the shares are sold at a premium, the difference between the proceeds and the par value is credited to Additional paid in capital account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Group, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Direct cost incurred related to the equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are charged to ‘Additional paid in capital’ account. If additional paid-in capital is not sufficient, the excess is charged against ‘Surplus’.

Surplus represents accumulated earnings of the Group less dividends declared.

Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when declared and approved by the Board of Directors (the Board or BOD) of the Parent Company and approved by the BSP. Dividends for the year that are declared and approved after the statement of financial position date, if any, are dealt with as an event after the financial reporting date and disclosed accordingly.

Earnings Per Share (EPS)

Basic EPS is determined by dividing the net income for the year attributable to common shares by the weighted average number of common shares outstanding during the year while diluted EPS is computed by dividing net income for the year attributable to common shares by the weighted average number of outstanding and dilutive potential common shares. Basic and diluted EPS are given retroactive adjustments for any stock dividends declared and stock rights exercised in the current year, if any. The Group does not have dilutive potential common shares.

Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is one that provides products or services within a particular economic environment that is subject to risks and returns that are different from those segments operating in other economic environments.

The Group’s operations are organized according to the nature of products and services provided. Financial information on business segments is presented in Note 6.

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

Fiduciary Activities
Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Parent Company acts in a fiduciary capacity such as nominee, trustee or agent.

3. Significant Accounting Judgments and Estimates

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

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

Unless otherwise stated, below significant judgements and estimates apply as of and for the years ended December 31, 2019, 2018 and 2017:

Judgments

a) *Determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates – Applicable beginning January 1, 2019*
Upon adoption of the Interpretation, the Group has assessed whether it has any uncertain tax position. The Group applies significant judgement in identifying uncertainties over its income tax treatments. The Group determined, based on its tax compliance review, that it is probable that its income tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. Accordingly, the interpretation did not have an impact on the consolidated financial statements of the Group.

b) *Determination of the lease term for lease contracts with renewal and termination options (Bank as a lessee – Applicable beginning January 1, 2019)*
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options, the Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization of the leased asset).

Upon adoption of PFRS 16, the Group determined that generally, the options to extend or terminate the lease to extend or terminate the lease are not included in the determination of the lease term. These optional periods are not enforceable, as the Group cannot enforce the extension of the lease without the agreement from the lessor, and therefore, the Group does not have the right to use the asset beyond the non-cancellable period.

c) *Contingencies*
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsels handling the Group's defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on its financial position.

It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (Note 29).

d) *Evaluation of business model in managing financial assets and sale of investment securities at amortized cost*
The Group manages its financial assets based on business models that maintain adequate level of financial assets to match expected cash outflows and maintain adequate level of high-quality liquid assets while maintaining a strategic portfolio of financial assets for investment and trading activities consistent with its risk appetite.

The Group's business model allows for financial assets to be held to collect contractual cash flows even when sales of certain financial assets occur. PFRS 9, however, emphasizes that if more than infrequent and more than insignificant sales are made out of a portfolio of financial assets carried at amortized cost, the entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group considers the following:

- sales or derecognition of debt instrument under any of the circumstances spelled out under the relevant BSP Circulars on PFRS 9;
- sales in preparation for funding a potential aberrant behavior in the depositors' withdrawal pattern triggered by news of massive withdrawals or massive withdrawal already experienced by other systemically important banks in the industry;
- sales attributable to an anticipated or in reaction to major events in the local and/or international arena that may adversely affect the collectability of the debt instrument and seen to prospectively affect adversely the behavior of deposits or creditors;
- sales attributable to a change in the Group's strategy based on the final version of PFRS 9; and
- sales that the Asset-Liability Management Committee (ALCO) deems appropriate to be consistent with managing the Group's balance sheet based upon but are not limited to the set risk limits and target ratios that have been approved by the BOD.

e) *Testing the cash flow characteristics of financial assets*
In determining the classification of financial assets under PFRS 9, the Group assesses whether the contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest 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.

f) *Determination of joint control over EW Ageas Life*
Control is presumed to exist when an investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. On the other hand, joint control is presumed to exist when the investors contractually agree on the sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Based on the provisions of the joint venture arrangement between the Parent Company and Ageas (Note 10), both parties have to agree in order for any resolution to be passed relating to the joint venture entity's relevant activities. This joint arrangement is classified as a joint venture since the parties have rights to the net assets of the joint venture entity.

Estimates

a) *Estimating the incremental borrowing rate – Applicable beginning January 1, 2019*
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR for lease liabilities is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment. The IBR therefore reflects what the Parent Company and EWRB 'would have to pay', which requires estimation where no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Parent Company and EWRB estimate their respective IBRs for lease liabilities using observable inputs (by reference to prevailing risk-free rates) adjusted to take into account the entity's credit risk (i.e., credit spread).

The carrying amount of the lease liabilities as of December 31, 2019 is disclosed in Note 26.

b) *Fair values of derivatives*
Management applies valuation techniques to determine the fair value of derivatives that are not quoted in active market. Valuation techniques are used to determine fair values which are validated and periodically reviewed by qualified independent personnel. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, the models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to develop estimates and assumptions. Changes in assumptions about these factors could affect reported fair values of derivatives. The Group uses judgements to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

Fair value measurements of financial instruments (including derivatives) as of December 31, 2019 and 2018 are disclosed in Note 5.

c) *Expected credit losses on financial assets*

Applicable Beginning January 1, 2018
The measurement of credit losses under PFRS 9 across all categories of financial assets requires significant judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a SICR. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and interdependencies. Significant elements of the models include, among others:

- segmenting the Group's credit risk exposures;
- the Group's definition of default;
- determining the method to estimate ECL;
- identifying exposures with significant deterioration in credit quality;
- determining assumptions to be used in the ECL model such as the counterparty credit risk rating;
- the expected life of the financial asset and expected recoveries from defaulted accounts; and
- incorporating forward-looking information (called overlays) in calculating ECL.

<u>Applicable prior to January 1, 2018</u>
The Group reviews its loans and receivables and investment portfolios at each statement of financial position date to assess whether impairment loss should be recorded in the statement of income, i.e., whether there is objective evidence of impairment on the receivables. Judgment by management is required in the estimation of the amount of future cash flows when determining the impairment loss. Such estimates are based on assumptions about a number of factors (e.g., financial condition of the borrowers, estimated future cash flows from loans, and estimated net selling prices of the collateral) and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Group also provides a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted.

The carrying values of loans and receivables and the related allowance are disclosed in Notes 9 and 15, while the carrying values of debt financial assets and the related are disclosed in Notes 8 and 15

d) *Impairment of non-financial assets (excluding goodwill)*
The Group assesses impairment on non-financial assets and considers the following impairment indicators:

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

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

The carrying values of the investment properties, and intangible assets (excluding goodwill), and other non-financial assets recorded in 'Other Assets' of the Group and the Parent Company are disclosed in Notes 12, 13, and 14.

e) *Impairment of goodwill*
The Group determines whether goodwill is impaired at least on an annual basis. Goodwill is written down for impairment where the net present value of the forecasted future cash flows from the CGU is insufficient to support its carrying value. The Group has used the cost of equity as the discount rate for the value in use (VIU) computation. The Group determined the cost of equity using the capital asset pricing model.

The recoverable amount of the CGU has been determined based on a VIU calculation using cash flow projections from financial budgets approved by the BOD covering a five-year period. Future cash flows from the CGU are estimated based on the theoretical annual income of the CGU. Average growth rate was derived from the average increase in annual income during the last 5 years. The discount rate applied reflects the current market assessment of the risk specific to each CGU. Key assumptions in VIU calculation of CGUs are most sensitive to the following assumptions: a) interest margin; b) discount rates; c) market share during the budget period; and d) projected growth rates used to extrapolate cash flows beyond the budget period.

The carrying value of goodwill of the Group are disclosed in Note 13.

f) *Recognition of deferred tax assets*
Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable income will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Key assumptions used in forecast of future taxable income include loan portfolio and deposit growth rates.

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

The recognized and unrecognized net deferred tax assets of the Group and of the Parent Company are disclosed in Note 24.

g) *Retirement obligation*
The cost of defined benefit retirement plans, and the present value of the defined benefit obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management considers the interest rates of government bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the Philippines and is modified accordingly with estimates of mortality improvements. Future salary increases, and pension increases are based on historical annual merit, market and promotional increase and future inflation rates.

The present value of the defined benefit obligation of the Group and of the Parent Company and details about the assumptions used are disclosed in Note 25.

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

Risk Management

To ensure that corporate goals and objectives, and business and risk strategies are achieved, the Parent Company utilizes a risk management process that is applied throughout the organization in executing all business activities. Employees' functions and roles fall into one of the three categories where risk must be managed: business units, operating units and governance units.

The Parent Company's activities are principally related to the use of financial instruments and are exposed to credit risk, liquidity risk, operational risk and market risk, the latter being subdivided into trading and non-trading risks. Forming part of a coherent risk management system are the risk concepts, control tools, analytical models, statistical methodologies, historical researches and market analysis, which are being employed by the Parent Company. These tools support the key risk process that involves identifying, measuring, controlling and monitoring risks.

Risk Management Structure

a. Board of Directors (BOD)

The Parent Company's risk culture is practiced and observed across the Group, putting the prime responsibility on the BOD. It establishes the risk culture and the risk management organization and incorporates the risk process as an essential part of the strategic plan of the Group. The BOD approves the Parent Company's articulation of risk appetite which is used internally to help management understand the tolerance for risk in each of the major risk categories, its measurement and key controls available that influence the Parent Company's level of risk taking. All risk management policies and policy amendments, risk-taking limits such as but not limited to credit and trade transactions, market risk limits, counterparty limits, trader's limits and activities are based on the Parent Company's established approving authorities which are approved by the Parent Company's BOD. At a high level, the BOD also approves the Parent Company's framework for managing risk.

b. Executive Committee

This is a BOD level committee, which reviews the bankwide credit strategy, profile and performance. It approves the credit risk-taking activities based on the Parent Company's established approving authorities and likewise reviews and endorses credit-granting activities, including the Internal Credit Risk Rating System.

All credit proposals beyond the credit approving limit of the Loan and Investments Committee passes through this committee for final approval.

c. Loan and Investments Committee

This committee is headed by the Chairman of the Parent Company whose primary responsibility is to oversee the Parent Company's credit risk-taking activities and overall adherence to the credit risk management framework, review business/credit risk strategies, quality and profitability of the Parent Company's credit portfolio and recommend changes to the credit evaluation process, credit risk acceptance criteria and the minimum and target return per credit or investment transaction. All credit risk-taking activities based on the Parent Company's established approving authorities are evaluated and approved by this committee. It establishes an infrastructure by ensuring business units have the right systems and, adequate and competent manpower support to effectively manage its credit risk.

d. Asset-Liability Management Committee (ALCO)
ALCO, a management level committee, meets on a weekly basis and is responsible for the overall management of the Parent Company's market, liquidity, and financial position related risks. It monitors the Parent Company's liquidity position and reviews the impact of strategic decisions on liquidity. It is responsible for managing liquidity risks and ensuring exposures remain within established tolerance levels. The ALCO's primary responsibilities include, among others, (a) ensuring that the Parent Company and each business unit holds sufficient liquid assets of appropriate quality and in appropriate currencies to meet short-term funding and regulatory requirements, (b) managing financial position and ensuring that business strategies are consistent with its liquidity, capital and funding strategies, (c) establishing asset and/or liability pricing policies that are consistent with the financial position objectives, (d) recommending market and liquidity risk limits to the Risk Management Committee and BOD, and (e) approving the assumptions used in contingency and funding plans. It also reviews cash flow forecasts, stress testing scenarios and results, and implements liquidity limits and guidelines.

e. Risk Management Committee (RMC)
RMC is a BOD level committee that convenes monthly and is primarily responsible to assist the BOD in managing the Parent Company's risk-taking activities. This is performed by the committee by institutionalizing risk policies and overseeing the Parent Company's risk management system. It develops and recommends risk appetite and tolerances for the Parent Company's major risk exposures to the BOD. Risk management principles, strategies, framework, policies, processes, and initiatives and any modifications and amendments thereto are reviewed and approved by RMC. It oversees and reports to the BOD the effectiveness of the risk management system, overall risk profile, and compliance with the risk appetite and tolerances that the BOD approved.

f. Risk Management Subcommittee (RMSC)
RMSC is a management level committee that convenes, at least four times in a year, and is responsible to assist RMC in fulfilling its responsibilities in managing the Parent Company's risk-taking activities. This is performed by the committee by implementing the risk management principles, strategies, framework, policies, processes, and initiatives across the Parent Company. It leads the effective conduct of risk and capital management. It oversees and directs the management of the Parent Company's overall risk profile. The committee likewise oversees risk incidents, control gaps, and control deficiencies and management actions in implementing the corresponding corrective actions.

g. Audit Committee (Audit Com)
The Audit Com assists the BOD in fulfilling its responsibilities for overseeing senior management in establishing and maintaining an adequate, effective and efficient internal control framework. It ensures that systems and processes are designed to provide reasonable assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets. It is tasked to discuss with management the Parent Company's major risk exposures and ensures accountability on the part of management to monitor and control such exposures including the Parent Company's risk assessment and risk management policies. The Audit Com oversees the internal audit function and is responsible for monitoring and reviewing its effectiveness while ensuring its independence.

h. Corporate Governance and Compliance Committee (CGCC)
The CGCC leads the Parent Company in defining and fulfilling the corporate governance policies and attaining best practices while overseeing the implementation of the Parent Company's compliance program, money laundering and terrorist financing prevention program and ensuring that regulatory compliance issues are resolved expeditiously. In addition to its governance role,

the CGCC also assumes the nomination function whereby it reviews and evaluates the qualifications of all persons nominated to the BOD, all direct reports of the President and Chief Executive Officer (CEO), Heads of Governance Units regardless of rank, and other positions of the Parent Company requiring appointment by the BOD. The committee oversees the annual performance evaluation of the BOD, its committees, and individual directors and conducts an annual self-evaluation of its performance as prescribed under and in accordance with the Corporate Governance Manual and Securities and Exchange Commission (SEC) Code of Corporate Governance for Publicly Listed Companies.

i. Related Party Transactions (RPT) Committee
The RPT Committee assists the BOD in ensuring that the transactions with related parties of the Parent Company are handled in a sound and prudent manner, with integrity and in compliance with the applicable laws and regulations to protect the interest of depositors, creditors and other stakeholders. It also ensures that related party transactions are conducted on an arm's length basis and that no stakeholder is unduly disadvantaged by such transactions.

j. Asset Impairment Committee (AIC)
AIC is a management level committee that convenes at least two times in a year and shall officially represent the Parent Company's source of experienced credit judgement insofar as the asset impairment exercise is concerned. This experienced credit judgment is tapped to provide guidance under the following, but not limited to, conditions: 1) The result of the calculation is assessed to be unreasonable that it is considered as not fairly representative of the Parent Company's historical experience, current, and prospective credit condition or other conditions deemed relevant in reasonably determining the Parent Company's assets' recoverable value; 2) There is an adverse change in the prevailing or foreseen prospective economic condition relative to the embedded presumption in the existing impairment framework; and 3) The data set in the calculation parameters is not available or insufficient to complete the calculation.

k. Risk Management Division (RMD)
RMD performs an independent risk governance function within the Parent Company. RMD is tasked with identifying, measuring, controlling and monitoring existing and emerging risks inherent in the Parent Company's overall portfolio (on- or off-balance sheet). RMD develops and employs risk assessment tools to facilitate risk identification, analysis and measurement. It is responsible for developing and implementing the framework for policies and practices to assess and manage enterprise-wide market, credit, operational, and all other risks of the Parent Company.

It also develops and endorses risk tolerance limits for BOD approval, as endorsed by the RMC, and monitors compliance with approved risk tolerance limits. Finally, it regularly apprises the BOD, through the RMC, the results of its risk monitoring.

l. Internal Audit (IA)
IA provides an independent assessment of the adequacy of the Parent Company's internal controls, risk management, governance framework and execution/operational practices. Internal audit activities are conducted in accordance with the International Standards for the Professional Practice of Internal Auditing (ISPPIA) and the Code of Ethics. IA has adopted a risk assessment methodology, which provides a sound basis in the selection of areas of coverage and frequency of audit for the preparation of the annual audit plan. IA employs a risk-based audit approach that examines both the adequacy of the policies and the Parent Company's compliance with the procedures while assuring audit coverage of the areas identified as representing the greatest current risk. It discusses the results of assessments with management, and reports its findings and recommendations to the Audit Com. IA's activities are suitably designed to provide the BOD

with reasonable assurance that significant financial and operating information is materially complete, reliable and accurate; internal resources are adequately protected; and employee performance is in compliance with the Parent Company's policies, standards, procedures and applicable laws and regulations.

m. Compliance Division
Compliance Division is vested with the responsibility of overseeing the design of the Parent Company's Compliance Program and coordinating its effective implementation towards the sound management of Business and Compliance Risks. It also manages the implementation of the Money Laundering and Terrorist Financing Program. Its mandate is to ensure that the Parent Company is compliant with relevant and applicable laws, rules, regulations, codes of conduct and standards of good practice while avoiding an overly risk-averse environment that inhibits business growth. It serves as the Parent Company's central point of contact with banking regulators.

The major risk types identified by the Group are disclosed in the following section:

Credit Risk
Credit risk refers to the potential loss of earnings or capital arising from an obligor/s, customer/s or counterparty's failure to perform and/or to meet the terms of any contract with the Group. Credit risks may last for the entire tenor and set at the full amount of a transaction and in some cases, may exceed the original principal exposures. The risk may arise from lending, trade financing, trading, investments and other activities undertaken by the Group. To identify and assess this risk, the Group has: 1) approval process per borrower or business and/or product segment; and 2) structured and standardized credit rating for corporate, credit cards, auto and mortgage loans, and risk acceptance criteria for other consumer loans. For large corporate credit transactions, the Parent Company has a comprehensive procedure for credit evaluation, risk assessment and well-defined concentration limits, which are established for each type of borrower. The Group's credit risk is managed at the portfolio level, which may be on an overall or by product perspective.

Credit Concentration
Excessive concentration of lending plays a significant role in the weakening of asset quality. The Group reduces this risk by diversifying its loan portfolios across various sectors and borrowers. The Group believes that good diversification across economic sectors and geographic areas, among others, will enable it to ride through business cycles without causing undue harm to its asset quality.

The Group's loan portfolio is in line with the Group's policy of not having significant concentrations of exposure to specific industries or group of borrowers. Management of risk concentration is by client/counterparty, by industry sector, and by geographical location. For risk concentration monitoring purposes, the financial assets are broadly categorized into loans and receivables, loans and advances to banks, and investment securities. The Group ensures compliance with BSP's limit on exposure to any single person or group of connected persons by closely monitoring large exposures and top 20 borrowers for both single and group accounts.

Aside from ensuring compliance with BSP's limit on exposures to any single person or group of connected persons, it is the Parent Company's policy to keep the expected loss (determined based on the credit risk rating of the account) of large exposure accounts to, at most, one and a half percent (1.50%) of their aggregate outstanding balance. This is to maintain the quality of the Group's large exposures. With this, accounts with better risk grades are given priority in terms of being granted a bigger share in the Group's loan facilities.

Aligned with the Manual of Regulations for Banks definition, the Group considers its loan portfolio concentrated if it has exposures of more than thirty percent (30.00%) to an industry.

Credit Concentration Profile as of December 31, 2019 and 2018

Maximum exposure to credit risk

The tables below provide the analysis of the maximum exposure to credit risk of the Group and the Parent Company's financial instruments, excluding those where the carrying values are reflected in the statement of financial position and related notes already represent the financial instrument's maximum exposure to credit risk, before and after taking into account collateral held or other credit enhancement (in millions):

	Consolidated							
	2019				2018			
	Maximum Exposure to Credit Risk [A]	**Fair Value of Collateral [B]**	**Financial Effect of Collateral [C]**	**Net Exposure [D] = [A] – [C]**	Maximum Exposure to Credit Risk [A]	Fair Value of Collateral [B]	Financial Effect of Collateral [C]	Net Exposure [D] = [A] – [C]
Loans and receivables:								
Receivables from customers*								
Corporate lending	**₱70,659**	**₱58,920**	**₱9,687**	**₱60,972**	₱72,933	₱24,959	₱8,173	₱64,760
Consumer lending	**190,054**	**126,481**	**98,515**	**91,539**	166,855	95,420	70,161	96,694
	₱260,713	**₱185,401**	**₱108,202**	**₱152,511**	₱239,788	₱120,379	₱ 78,334	₱ 161,454

**Excludes unamortized premium*

	Parent Company							
	2019				2018			
	Maximum Exposure to Credit Risk [A]	**Fair Value of Collateral [B]**	**Financial Effect of Collateral [C]**	**Net Exposure [D] = [A] – [C]**	Maximum Exposure to Credit Risk [A]	Fair Value of Collateral [B]	Financial Effect of Collateral [C]	Net Exposure [D] = [A] – [C]
Loans and receivables:								
Receivables from customers*								
Corporate lending	**₱70,580**	**₱58,920**	**₱9,687**	**₱60,893**	₱72,849	₱24,959	₱8,173	₱64,676
Consumer lending	**162,959**	**126,481**	**98,515**	**64,444**	142,409	95,363	70,107	72,302
	₱233,539	**₱185,401**	**₱108,202**	**₱125,337**	₱215,258	₱120,322	₱78,280	₱136,978

**Excludes unamortized premium*

Credit risk, in respect of derivative financial products, is limited to those with positive fair values which are included under financial assets at FVTPL (Note 5). As a result, the maximum credit risk is limited to the amounts on the statements of financial position plus commitments to customers such as unused commercial letters of credit, outstanding guarantees and others as disclosed in Note 36 to the financial statements.

For off-balance sheet items, the figures presented below as reported to BSP summarize the Group's and the Parent Company's maximum exposure to credit risk (amounts in millions):

	2019					2018				
	Notional Principal Amount	**Credit Conversion Factor**	**Credit Equivalent Amount**	**Credit Risk Mitigation**	**Net Credit Exposure**	Notional Principal Amount	Credit Conversion Factor	Credit Equivalent Amount	Credit Risk Mitigation	Net Credit Exposure
Off-balance sheet items*										
Direct credit substitutes	**₱889**	**100%**	**₱889**	**₱–**	**₱889**	₱762	100%	₱762	₱–	₱762
Transaction-related contingencies	**2,338**	**50%**	**1,169**	**–**	**1,169**	2,075	50%	1,038	–	1,038
Trade-related contingencies arising from movement of goods and commitments with an original maturity of up to one (1) year										
Guarantees	**5,637**	**20%**	**1,127**	**–**	**1,127**	4,010	20%	802	–	802
Letters of credit	**1,865**	**20%**	**373**	**–**	**373**	2,249	20%	450	–	450
	₱10,729		**₱3,558**	**₱–**	**₱3,558**	₱9,096		₱3,052	₱–	₱3,052

*For all other off-balance sheet exposures (see Note 29), credit conversion factor is 0.00%.

Collateral and other credit enhancements

Collaterals are taken into consideration during the loan application process as they offer an alternative way of collecting from the client should a default occur. The percentage of loan value attached to the collateral offered is part of the Group's lending guidelines. Such percentages take into account safety margins for foreign exchange rate exposure/fluctuations, interest rate exposure, and price volatility.

Collaterals are valued according to existing credit policy standards and, following the latest appraisal report, serve as the basis for the amount of the secured loan facility. Premium security items are collaterals that have the effect of reducing the estimated credit risk for a facility. The primary consideration for enhancements falling under such category is the ease of converting them to cash.

The Group is not permitted to sell or re-pledge the collateral in the absence of default by the owner of the collateral. It is the Group's policy to dispose foreclosed assets in an orderly fashion. The proceeds of the sale of the foreclosed assets, included under 'Investment Properties', are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

As part of the Group's risk control on security/collateral documentation, standard documents are made for each security type and deviation from the pro-forma documents are subject to legal review prior to implementation.

Credit collaterals profile

The table below provides the collateral profile of the outstanding loan portfolio of Group and the Parent Company:

	Consolidated				**Parent Company**			
	2019		2018		**2019**		2018	
	Gross Amount	**%**	Gross Amount	%	**Gross Amount**	**%**	Gross Amount	%
Loans secured by:								
Chattel	**₱97,766,172**	**36.33**	₱76,929,965	31.18	**₱97,501,762**	**40.10**	₱76,929,965	34.53
Real estate	**29,913,466**	**11.12**	26,084,403	10.57	**29,844,796**	**12.28**	26,064,028	11.70
Others*	**7,213,909**	**2.68**	17,354,964	7.04	**7,213,908**	**2.97**	17,104,795	7.67
	134,893,547	**50.13**	120,369,332	48.79	**134,560,466**	**55.35**	120,098,788	53.90
Unsecured	**134,211,748**	**49.87**	126,363,591	51.21	**108,568,056**	**44.65**	102,706,591	46.10
	₱269,105,295	**100.00**	₱246,732,923	100.00	**₱243,128,522**	**100.00**	₱222,805,379	100.00

**Consists of government securities, corporate bonds, shares of stock, hold-out on deposits, assignment of receivables etc.*

As for the computation of credit risk weights, hold-out on deposits with the Parent Company, Home Guaranty cover, and Philippine sovereign guarantees are the only credit risk mitigants considered as eligible.

Large exposures and top 20 borrowers

The table below summarizes the top 20 borrowers and large exposures of the Group and the Parent Company:

	2019			
	Top 20 Borrowers		**Large Exposures***	
	Single Borrowers	**Group Borrowers**	**Single Borrowers**	**Group Borrowers**
Aggregate Exposure (in billions)	**₱30.00**	**₱35.00**	**₱17.66**	**₱23.16**
Composite Risk Rating	**2.95**	**3.24**	**2.07**	**2.54**
Total Credit Loss/Aggregate Exposure	**1.09%**	**1.19%**	**0.83%**	**0.94%**

**Large exposures refer to exposures to a counterparty or a group of related counterparties equal to or greater than 5.00% of the Parent Company's qualifying capital.*

	2018			
	Top 20 Borrowers		Large Exposures*	
	Single Borrowers	Group Borrowers	Single Borrowers	Group Borrowers
Aggregate Exposure (in billions)	₱30.83	₱36.06	₱17.99	₱25.07
Composite Risk Rating	2.92	3.19	1.93	2.64
Total Credit Loss/Aggregate Exposure	0.97%	1.08%	0.29%	0.84%

**Large exposures refer to exposures to a counterparty or a group of related counterparties equal to or greater than 5.00% of the Parent Company's qualifying capital.*

The credit exposures, after due consideration of the allowed credit enhancements, are considered to be the maximum credit exposure to any client or counterparty.

Concentration by industry

An analysis of concentration of credit risk for financial assets (grossed up for any allowance for credit losses and unearned premiums) of the Group and the Parent Company by industry as of December 31, 2019 and 2018 is shown below:

	Consolidated 2019					
	Loans and Receivables		**Loans and Advances to Banks***	**Investment Securities****	**Other Financial Assets*****	
	Amount	**%**				**Total**
Private households with employed persons	**₱143,790,034**	**55.15**	**₱–**	**₱–**	**₱–**	**₱143,790,034**
Government and foreign sovereign	**–**	**0.00**	**–**	**58,794,838**	**–**	**58,794,838**
Financial intermediaries	**10,873,160**	**4.17**	**40,383,203**	**402,301**	**–**	**51,658,664**
Wholesale and retail trade, repair of motor vehicles	**41,179,879**	**15.8**	**–**	**–**	**–**	**41,179,879**
Real estate, renting and business activity	**28,079,403**	**10.77**	**–**	**22,007**	**–**	**28,101,410**
Electricity, gas, steam and air-conditioning supply	**7,327,647**	**2.81**	**–**	**9,403,667**	**–**	**16,731,314**
Manufacturing	**9,098,860**	**3.49**	**–**	**130**	**–**	**9,098,990**
Accommodation and food service activities	**3,245,335**	**1.24**	**–**	**–**	**–**	**3,245,335**
Transportation and storage	**2,663,253**	**1.02**	**–**	**–**	**–**	**2,663,253**
Construction	**2,120,126**	**0.81**	**–**	**–**	**–**	**2,120,126**
Other service activities	**1,726,380**	**0.66**	**–**	**–**	**–**	**1,726,380**
Holding	**–**	**0.00**	**–**	**1,736,451**	**–**	**1,736,451**
Agriculture, fisheries and forestry	**895,037**	**0.34**	**–**	**–**	**–**	**895,037**
Administrative and support service activities	**742,479**	**0.28**	**–**	**–**	**–**	**742,479**
Others****	**8,972,035**	**3.46**	**–**	**520,286**	**471,074**	**9,963,395**
	260,713,628	**100.00**	**40,383,203**	**70,879,680**	**471,074**	**372,447,585**
Allowance for credit losses (Note 15)	**6,241,306**		**93**	**2,265**	**–**	**6,243,664**
Total	**₱254,472,322**		**₱40,383,110**	**₱70,877,415**	**₱471,074**	**₱366,203,921**

* *Includes Due from BSP, Due from Other Banks and IBLR.*
** *Includes financial assets at FVTPL, financial assets at FVOCI and investment securities at amortized cost.*
*** *Includes other financial assets presented under 'Other assets' and commitments and contingent accounts*
**** *Includes Arts and recreation activities, mining and quarrying, human health and social activities, education, and information and communication.*

	Consolidated 2018					
	Loans and Receivables		Loans and Advances to Banks*	Investment Securities**	Other Financial Assets***	
	Amount	%				Total
Private households with employed persons	₱149,908,516	62.52	₱–	₱–	₱–	₱149,908,516
Government and foreign sovereign	–	0.00	–	27,292,353	–	27,292,353
Financial intermediaries	9,123,464	3.80	56,578,064	422,666	–	66,124,194
Real estate, renting and business activity	25,621,211	10.68	–	–	–	25,621,211
Wholesale and retail trade, repair of motor vehicles	23,878,879	9.96	–	–	–	23,878,879
Electricity, gas, steam and air-conditioning supply	8,289,398	3.46	–	10,862,162	–	19,151,560
Manufacturing	9,064,981	3.78	–	–	–	9,064,981
Accommodation and food service activities	2,836,975	1.18	–	–	–	2,836,975
Transportation and storage	–	0	–	–	–	–
Construction	2,789,923	1.16	–	–	–	2,789,923
Other service activities	1,981,153	0.83	–	18,401	–	1,999,554
Holding	–	0.00	–	1,978,060	–	1,978,060
Agriculture, fisheries and forestry	1,039,881	0.43	–	–	–	1,039,881
Administrative and support service activities	1,059,402	0.44	–	–	–	1,059,402
Others****	4,193,941	1.75	–	526,800	497,659	5,218,400
	239,787,724	100.00	56,578,064	41,100,442	497,659	337,963,889
Allowance for credit losses (Note 15)	5,926,031		198	2,895	–	5,929,124
	₱233,861,693		₱56,577,866	₱41,097,547	₱497,659	₱332,034,765

* *Includes Due from BSP, Due from Other Banks and IBLR.*
** *Includes financial assets at FVTPL, financial assets at FVOCI and investment securities at amortized cost.*
*** *Includes other financial assets presented under 'Other assets' and commitments and contingent accounts*
**** *Includes Arts and recreation activities, mining and quarrying, human health and social activities, education, and information and communication.*

	Parent Company 2019					
	Loans and Receivables*		Loans and Advances to Banks*	Investment Securities**	Other Financial Assets***	Total
	Amount	%				
Private households with employed persons	**₱143,790,034**	**61.57**	**₱–**	**₱–**	**₱–**	**₱143,790,034**
Government and foreign sovereign	**–**	**0.00**	**–**	**58,794,838**	**–**	**58,794,838**
Financial intermediaries	**9,835,732**	**4.21**	**39,606,863**	**402,301**	**–**	**49,844,896**
Real estate, renting and business activity	**28,062,885**	**12.02**	**–**	**22,007**	**–**	**28,084,892**
Wholesale and retail trade, repair of motor vehicles	**20,818,121**	**8.91**	**–**	**–**	**–**	**20,818,121**
Electricity, gas, steam and air-conditioning supply	**7,322,815**	**3.14**	**–**	**9,403,667**	**–**	**16,726,482**
Manufacturing	**9,093,953**	**3.89**	**–**	**130**	**–**	**9,094,083**
Accommodation and food service activities	**3,245,335**	**1.39**	**–**	**–**	**–**	**3,245,335**
Transportation and storage	**2,663,253**	**1.14**	**–**	**–**	**–**	**2,663,253**
Construction	**2,116,689**	**0.91**	**–**	**–**	**–**	**2,116,689**
Holdings	**–**	**0.00**	**–**	**1,736,451**	**–**	**1,736,451**
Other service activities	**1,725,386**	**0.74**	**–**	**–**	**–**	**1,725,386**
Agriculture, fisheries and forestry	**882,341**	**0.38**	**–**	**–**	**–**	**882,341**
Administrative and support service activities	**742,479**	**0.32**	**–**	**–**	**–**	**742,479**
Others****	**3,239,705**	**1.38**	**–**	**520,286**	**467,813**	**4,227,804**
	233,538,728	**100.00**	**39,606,863**	**70,879,680**	**467,813**	**344,493,084**
Allowance for credit losses (Note 15)	**5,788,737**		**93**	**2,265**	**–**	**5,791,095**
Total	**₱227,749,991**		**₱39,606,770**	**₱70,877,415**	**₱467,813**	**₱338,701,989**

* *Includes Due from BSP, Due from Other Banks and IBLR.*
** *Includes financial assets at FVTPL, financial assets at FVOCI and investment securities at amortized cost.*
*** *Includes other financial assets presented under 'Other assets' and commitments and contingent accounts*
**** *Includes Arts and recreation activities, mining and quarrying, human health and social activities, education, and information and communication.*

	Parent Company 2018					
	Loans and Receivables*		Loans and Advances to Banks**	Investment Securities***	Other Financial Assets****	Total
	Amount	%				
Private households with employed persons	₱125,329,092	55.36	₱–	₱–	₱–	₱125,329,092
Government and foreign sovereign	–	0.00	–	27,292,353	–	27,292,353
Financial intermediaries	9,123,464	4.03	55,823,391	411,666	–	65,358,521
Real estate, renting and business activity	25,621,211	11.32	–	–	–	25,621,211
Wholesale and retail trade, repair of motor vehicles	23,878,879	10.55	–	–	–	23,878,879
Electricity, gas, steam and air-conditioning supply	8,289,398	3.66	–	10,874,162	–	19,163,560
Manufacturing	9,064,981	4.00	–	–	–	9,064,981
Accommodation and food service activities	2,836,975	1.25	–	–	–	2,836,975
Construction	2,789,923	1.23	–	–	–	2,789,923
Holding	–	0.00	–	1,978,060	–	1,978,060
Other service activities	1,981,153	0.88	–	18,401	–	1,999,554
Agriculture, fisheries and forestry	1,279,432	4.57	–	–	–	1,279,432
Administrative and support service activities	1,059,402	0.47	–	–	–	1,059,402
Others****	4,003,794	2.68	–	525,800	495,756	5,025,350
	215,257,704	100.00	55,823,391	41,100,442	495,756	312,677,293
Allowance for credit losses (Note 15)	5,515,615		198	2,895	–	5,518,708
	₱209,742,089		₱55,823,193	₱41,097,547	₱495,756	₱307,158,585

* *Includes Due from BSP, Due from Other Banks and IBLR.*
** *Includes financial assets at FVTPL, financial assets at FVOCI and investment securities at amortized cost.*
*** *Includes other financial assets presented under 'Other assets' and commitments and contingent accounts*
**** *Includes Arts and recreation activities, mining and quarrying, human health and social activities, education, and information and communication.*

Geographic Segmentation

The distribution of the Group's and Parent Company's financial assets by geographic region as of December 31, 2019 and 2018 follows:

	Consolidated 2019				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Other Financial Assets***	Total
Philippines	**₱260,713,628**	**₱37,142,557**	**₱50,453,061**	**₱371,620**	**₱348,680,866**
Asia (excluding Philippines)	**–**	**346,745**	**15,677,122**	**–**	**16,023,867.05**
Australia	**–**	**82,377**	**–**	**–**	**82,376.61**
Europe	**–**	**297,885**	**404,213**	**99,454**	**801,552.23**
North America	**–**	**–**	**2,364,038**	**–**	**2,364,038**
South America	**–**	**–**	**–**	**–**	**–**
USA	**–**	**2,513,639**	**1,981,246**	**–**	**4,494,885.19**
	260,713,628	**40,383,203**	**70,879,680**	**471,074**	**372,447,585**
Allowance for credit losses (Note 15)	**6,241,306**	**93**	**2,265**		**6,243,664**
	₱254,472,322	**₱40,383,110**	**₱70,877,415**	**₱471,074**	**₱366,203,921**

* *Includes Due from BSP, Due from Other Banks and IBLR.*
** *Includes financial assets at FVTPL, financial assets at FVOCI and investment securities at amortized cost.*
*** *Includes other financial assets presented under 'Other assets'*

	Consolidated 2018				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Other Financial Assets***	Total
Philippines	₱239,787,724	₱41,660,242	₱24,772,311	₱320,098	₱306,540,375
Asia (excluding Philippines)	–	1,485,373	12,158,127	–	13,643,500
Australia	–	181,552	–	–	181,552
Europe	–	334,667	–	177,561	512,228
North America	–	–	2,117,891	–	2,117,891
South America	–	–	–	–	–
USA	–	12,916,230	2,052,113	–	14,968,343
	239,787,724	56,578,064	41,100,442	497,659	337,963,889
Allowance for credit losses (Note 15)	5,926,031	198	2,895	–	5,929,124
	₱233,861,693	₱56,577,866	₱41,097,547	₱497,659	₱332,034,765

* *Includes Due from BSP, Due from Other Banks and IBLR.*
** *Includes financial assets at FVTPL, financial assets at FVOCI and investment securities at amortized cost.*
*** *Includes other financial assets presented under 'Other assets'*

	Parent Company 2019				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Other Financial Assets*****	**Total**
Philippines	**₱233,538,728**	**₱36,366,217**	**₱50,453,061**	**₱368,359**	**₱320,726,365**
Asia (excluding Philippines)	**–**	**346,745**	**15,677,122**	**–**	**16,023,867**
Australia	**–**	**82,377**	**–**	**–**	**82,377**
Europe	**–**	**297,885**	**404,213**	**99,454**	**801,552**
North America	**–**	**–**	**2,364,038**	**–**	**2,364,038**
South America	**–**	**–**	**–**	**–**	**–**
USA	**–**	**2,513,639**	**1,981,246**	**–**	**4,494,885**
	233,538,728	**39,606,863**	**70,879,680**	**467,813**	**344,493,084**
Allowance for credit losses (Note 15)	**5,788,737**	**93**	**2,265**	**–**	**5,791,095**
	₱227,749,991	**₱39,606,770**	**₱70,877,415**	**₱467,813**	**₱338,701,989**

* *Includes Due from BSP, Due from Other Banks and IBLR.*
** *Includes financial assets at FVTPL, financial assets at FVOCI and investment securities at amortized cost.*
*** *Includes other financial assets presented under 'Other assets'*

	Parent Company 2018				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Other Financial Assets***	Total
Philippines	₱215,257,704	₱40,905,569	₱24,772,311	₱318,195	₱281,253,779
Asia (excluding Philippines)	–	1,485,373	12,158,127	–	13,643,500
Australia	–	181,552	–	–	181,552
Europe	–	334,667	–	177,561	512,228
North America	–	–	2,117,891	–	2,117,891
South America	–	–	–	–	–
USA	–	12,916,230	2,052,113	–	14,968,343
	215,257,704	55,823,391	41,100,442	495,756	312,677,293
Allowance for credit losses (Note 15)	5,515,615	198	2,895	–	5,518,708
	₱209,742,089	₱55,823,193	₱41,097,547	₱495,756	₱307,158,585

* *Includes Due from BSP, Due from Other Banks and IBLR.*
** *Includes financial assets at FVTPL, financial assets at FVOCI and investment securities at amortized cost.*
*** *Includes other financial assets presented under 'Other assets'*

The following summarizes the Group's credit risk management practices and the relevant quantitative and qualitative financial information regarding the credit exposures according to the Group's portfolios:

<u>Internal Credit Risk Rating System</u>
Beginning January 1, 2018, the Parent Company's employs a credit scoring system for borrowers to assess risks relating to the borrower and the loan exposure. Borrower risk is evaluated by considering (a) quantitative factors, such as financial condition and (b) qualitative factors, such as management quality and industry outlook.

The Parent Company's new rating system assesses default risk based on financial profile, management capacity, industry performance, and other factors deemed relevant. Credit rating that exceeds the defined threshold, thus signaling significant risk, among other account-level profile and performance factors, define whether the accounts are classified in either Stage 1, Stage 2, or Stage 3 per PFRS 9 loan impairment standards.

The credit rating for each borrower is reviewed annually. A more frequent review is warranted in cases where the borrower has a higher risk profile or when there are extraordinary or adverse developments affecting the borrower, the industry and/or the Philippine Economy.

The consumer loan portfolio of the Group is composed of the following product lines: credit cards, auto, mortgage, salary, personal and branch loans. Each of these products has established credit risk guidelines and systems for managing credit risk across all business. For credit cards, auto and mortgage loans, application and behavioral scoring models are in place that primarily consider demographic variables and payment behavior, respectively, for the assessment of the likelihood of default by the borrower. For the other consumer loans, minimum risk acceptance criteria were set for each portfolio according to the nature of the product and the target market and is used for the evaluation of the credit quality of borrowers at origination.

For purposes of comparison of different exposure types, the credit portfolios (corporate and consumer) of the Parent Company are benchmarked against marketable corporate debt securities (using the Standard & Poor's (S&P) global study on corporate exposures) based on credit risk rating and corresponding PDs.

The Parent Company assigns credit risk using the following credit score master scale:

Credit quality	Description	Credit rating
Investment Grade	These accounts are of the highest quality and are likely to meet financial obligations.	AAA to AA+ AA AA- A+ A A- BBB+ BBB
Standard Grade	These accounts may be vulnerable to adverse business, financial and economic conditions but are expected to meet financial obligations.	BBB- BB+ BB BB- B+ B B-
Substandard Grade	These accounts are vulnerable to non-payment but for which default has not yet occurred.	CCC+ to C-
Non-Performing	These refer to accounts which are in default or those that demonstrate objective evidence of impairment.	Default

External Ratings

The Group also uses external ratings, such as S&P's, Moody's, and Fitch, to evaluate its counterparties and in its assignment of credit risk weights to its banking book exposures. Transactions falling under this category are normally of the following nature: placements with other banks, money market lending, debt security investments, and to some extent, equity security investments.

Credit rating grades of gross carrying amounts of financial assets

The credit quality by class of the Group's loans and receivables (gross of allowance for credit losses and unamortized premium) as of December 31, 2019 and 2018 are as follows:

	2019			
	Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Corporate loans*				
Investment Grade	**₱9,554,163**	**₱71,285**	**₱–**	**₱9,625,448**
Standard Grade	**2,228,579**	**54,802,909**	**–**	**57,031,488**
Non-Performing	**–**	**–**	**4,002,312**	**4,002,312**
	11,782,742	**54,874,194**	**4,002,312**	**70,659,248**
Auto loans				
Investment Grade	**9,281,738**	**60,515**	**–**	**9,342,253**
Standard Grade	**62,358,272**	**14,583,686**	**–**	**76,941,958**
Substandard Grade	**–**	**3,370,718**	**–**	**3,370,718**
Non-Performing	**–**	**–**	**4,340,568**	**4,340,568**
	71,640,010	**18,014,919**	**4,340,568**	**93,995,497**
Credit cards				
Investment Grade	**6,879,207**	**7,870**	**–**	**6,887,077**
Standard Grade	**18,017,352**	**6,562,449**	**–**	**24,579,801**
Substandard Grade	**218,026**	**2,189,419**	**–**	**2,407,445**
Non-Performing	**–**	**–**	**1,389,553**	**1,389,553**
	25,114,585	**8,759,738**	**1,389,553**	**35,263,876**
Mortgage loans				
Standard Grade	**17,430,632**	**3,060,111**	**–**	**20,490,743**
Substandard Grade	**–**	**812,807**	**–**	**812,807**
Non-Performing	**–**	**–**	**970,893**	**970,893**
	17,430,632	**3,872,918**	**970,893**	**22,274,443**
Other Consumer Loans**				
Investment Grade	**189,825**	**1,889**	**–**	**191,714**
Standard Grade	**31,688,818**	**1,986,460**	**–**	**33,675,278**
Substandard Grade	**1,733,997**	**91,727**	**–**	**1,825,724**
Non-Performing	**–**	**–**	**2,827,848**	**2,827,848**
	33,612,640	**2,080,076**	**2,827,848**	**38,520,564**
Unquoted Debt Securities				
Non-Performing			**344,188**	**344,188**
	–	**–**	**344,188**	**344,188**
Other receivables***				
Investment Grade	**441,122**	**1,560**	**–**	**442,682**
Standard Grade	**1,146,002**	**1,401,154**	**–**	**2,547,156**
Substandard Grade	**86,083**	**621,618**	**–**	**707,701**
Non-Performing	**–**	**–**	**1,889,932**	**1,889,932**
	1,673,207	**2,024,332**	**1,889,932**	**5,587,471**
Total	**₱161,253,816**	**₱89,626,177**	**₱15,765,294**	**₱266,645,287**

**Include Corporate loans and emerging enterprise loans*
***Include Branch loans, DepEd loans, Employee loans, Salary loans, Personal loans,*
**** Include Accrued interest receivables, Accounts receivables and Sales contract receivables.*

	2018			
	Gross carrying amount			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans*				
Investment Grade	₱43,915,940	₱2,411,668	₱–	₱46,327,608
Standard Grade	583,449	25,314,187	–	25,897,636
Non-Performing	–	–	708,121	708,121
	44,499,389	27,725,855	708,121	72,933,365
Auto loans				
Investment Grade	6,720,140	537,268	–	7,257,408
Standard Grade	47,873,590	14,389,374	–	62,262,964
Substandard Grade	1,109,281	4,020,393	–	5,129,674
Non-Performing	–	–	3,147,676	3,147,676
	55,703,011	18,947,035	3,147,676	77,797,722
Credit cards				
Investment Grade	355,076	5,937	–	361,013
Standard Grade	19,521,196	4,656,198	–	24,177,394
Substandard Grade	670,295	4,477,202	–	5,147,497
Non-Performing	–	–	1,254,595	1,254,595
	20,546,567	9,139,337	1,254,595	30,940,499
Mortgage loans				
Standard Grade	16,015,679	2,668,758	–	18,684,437
Substandard Grade	9,611	865,060	–	874,671
Non-Performing	–	–	731,750	731,750
	16,025,290	3,533,818	731,750	20,290,858
Other Consumer Loans**				
Investment Grade	122,302	2,876	–	125,178
Standard Grade	31,786,165	1,448,573	–	33,234,738
Substandard Grade	843,897	56,261	–	900,158
Non-Performing	–	–	3,565,206	3,565,206
	32,752,364	1,507,710	3,565,206	37,825,280
Unquoted Debt Securities				
Non-Performing	–	–	341,890	341,890
	–	–	341,890	341,890
Other receivables***				
Investment Grade	883,839	31,177	–	915,016
Standard Grade	533,380	795,907	–	1,329,287
Substandard Grade	31,164	1,074,183	–	1,105,347
Non-Performing	–	–	2,737,004	2,737,004
	1,448,383	1,901,267	2,737,004	6,086,654
Total	₱170,975,004	₱62,755,022	₱12,486,242	₱246,216,268

**Include Corporate loans and emerging enterprise loans*
***Include Branch loans, DepEd loans, Employee loans, Salary loans, Personal loans,*
**** Include Accrued interest receivables, Accounts receivables and Sales contract receivables.*

The credit quality by class of the Parent Company's loans and receivables (gross of allowance for credit losses and unamortized premium) as of December 31, 2019 and 2018 are as follows:

	2019			
	Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Corporate loans*				
Investment Grade	**₱9,554,163**	**₱71,285**	**₱–**	**₱9,625,448**
Standard Grade	**2,228,579**	**54,802,909**	**–**	**57,031,488**
Non-Performing	**–**	**–**	**3,923,176**	**3,923,176**
	11,782,742	**54,874,194**	**3,923,176**	**70,580,112**
Auto loans				
Investment Grade	**9,281,738**	**60,515**	**–**	**9,342,253**
Standard Grade	**62,358,272**	**14,583,686**	**–**	**76,941,958**
Substandard Grade	**–**	**3,370,718**	**–**	**3,370,718**
Non-Performing	**–**	**–**	**4,340,568**	**4,340,568**
	71,640,010	**18,014,919**	**4,340,568**	**93,995,497**

(Forward)

	2019			
	Gross carrying amount			
	Stage 1	Stage 2	Stage 3	Total
Credit cards				
Investment Grade	**₱6,879,207**	**₱7,870**	**₱–**	**₱6,887,077**
Standard Grade	**18,017,352**	**6,562,449**	**–**	**24,579,801**
Substandard Grade	**218,026**	**2,189,419**	**–**	**2,407,445**
Non-Performing	**–**	**–**	**1,389,553**	**1,389,553**
	25,114,585	**8,759,738**	**1,389,553**	**35,263,876**
Mortgage loans				
Standard Grade	**17,430,632**	**3,060,111**	**–**	**20,490,743**
Substandard Grade	**–**	**812,807**	**–**	**812,807**
Non-Performing	**–**	**–**	**970,893**	**970,893**
	17,430,632	**3,872,918**	**970,893**	**22,274,443**
Other Consumer Loans**				
Investment Grade	**19,119**	**599**	**–**	**19,718**
Standard Grade	**8,809,887**	**271,553**	**–**	**9,081,440**
Substandard Grade	**1,203,379**	**68,212**	**–**	**1,271,591**
Non-Performing	**–**	**–**	**1,052,051**	**1,052,051**
	10,032,385	**340,364**	**1,052,051**	**11,424,800**
Unquoted Debt Securities				
Non-Performing	**–**	**–**	**334,188**	**334,188**
	–	**–**	**334,188**	**334,188**
Other receivables***				
Investment Grade	**436,609**	**1,554**	**–**	**438,163**
Standard Grade	**1,131,715**	**1,315,018**	**–**	**2,446,733**
Substandard Grade	**69,439**	**543,570**	**–**	**613,009**
Non-Performing	**–**	**–**	**1,787,547**	**1,787,547**
	1,637,763	**1,860,142**	**1,787,547**	**5,285,452**
Total	**₱137,638,117**	**₱87,722,275**	**₱13,797,976**	**₱239,158,368**

**Include Corporate loans and emerging enterprise loans*
***Include Branch loans, DepEd loans, Employee loans, Salary loans, Personal loans,*
**** Include Accrued interest receivables, Accounts receivables and Sales contract receivables.*

	2018			
	Gross carrying amount			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans*				
Investment Grade	₱43,915,940	₱2,411,668	₱–	₱46,327,608
Standard Grade	558,512	25,314,187	–	25,872,699
Non-Performing	–	–	648,372	648,372
	44,474,452	27,725,855	648,372	72,848,679
Auto loans				
Investment Grade	6,720,140	537,268	–	7,257,408
Standard Grade	47,873,590	14,389,374	–	62,262,964
Substandard Grade	1,109,281	4,020,393	–	5,129,674
Non-Performing	–	–	3,147,676	3,147,676
	55,703,011	18,947,035	3,147,676	77,797,722
Credit cards				
Investment Grade	355,076	5,937	–	361,013
Standard Grade	19,521,196	4,656,198	–	24,177,394
Substandard Grade	670,295	4,477,202	–	5,147,497
Non-Performing	–	–	1,254,595	1,254,595
	20,546,567	9,139,337	1,254,595	30,940,499
Mortgage loans				
Standard Grade	16,015,679	2,668,758	–	18,684,437
Substandard Grade	9,611	865,060	–	874,671
Non-Performing	–	–	731,750	731,750
	16,025,290	3,533,818	731,750	20,290,858

	2018			
	Gross carrying amount			
	Stage 1	Stage 2	Stage 3	Total
Other Consumer Loans**				
Investment Grade	₱11,411	₱830	₱–	₱12,241
Standard Grade	11,521,123	460,710	–	11,981,833
Substandard Grade	–	–	–	–
Non-Performing	–	–	1,385,872	1,385,872
	11,532,534	461,540	1,385,872	13,379,946
Unquoted Debt Securities				
Non-Performing	–	–	341,890	341,890
	–	–	341,890	341,890
Other receivables***				
Investment Grade	883,413	31,177	–	914,590
Standard Grade	474,430	740,961	–	1,215,391
Substandard Grade	8,082	990,858	–	998,940
Non-Performing	–	–	2,660,083	2,660,083
	1,365,925	1,762,996	2,660,083	5,789,004
Total	₱149,647,779	₱61,570,581	₱10,170,238	₱221,388,598

**Include Corporate loans and emerging enterprise loans*
***Include Branch loans, DepEd loans, Employee loans, Salary loans, Personal loans,*
**** Include Accrued interest receivables, Accounts receivables and Sales contract receivables.*

The credit quality by class of the Group's financial assets other than loans and receivables (gross of allowance for credit losses) as of December 31, 2019 and 2018 are as follows:

	2019			
	Gross carrying amount			
Credit Score	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Due from BSP				
Investment Grade	**₱34,287,302**	**₱–**	**₱–**	**₱34,287,302**
	34,287,302	**–**	**–**	**34,287,302**
Due from other banks				
Investment Grade	**3,404,019**	**–**	**–**	**3,404,019**
	3,404,019	**–**	**–**	**3,404,019**
IBLR				
Investment Grade	**2,691,882**	**–**	**–**	**2,691,882**
	2,691,882	**–**	**–**	**2,691,882**
Financial assets at FVTPL				
Investment Grade	**16,840,709**	**–**	**–**	**16,840,709**
	16,840,709	**–**	**–**	**16,840,709**
Financial assets at FVTOCI				
Investment Grade	**4,650,636**	**–**	**–**	**4,650,636**
	4,650,636	**–**	**–**	**4,650,636**
Investment securities at amortized cost				
Investment Grade	**48,820,301**	**–**	**–**	**48,820,301**
Standard Grade	**–**	**568,034**		**568,034**
	48,820,301	**568,034**	**–**	**49,388,335**
Other financial assets*				
Non-Performing	**–**	**–**	**471,074**	**471,074**
	–	**–**	**471,074**	**471,074**
Total	**₱110,694,849**	**₱568,034**	**₱471,074**	**₱111,733,957**

**Includes security deposits, derivative assets, downpayments and advanced payments, returned cash and other cash items (RCOCI)*

Credit Score	2018 Gross carrying amount Stage 1	Stage 2	Stage 3	Total
Due from BSP				
Investment Grade	₱40,481,956	₱–	₱–	₱40,481,956
	40,481,956	–	–	40,481,956
Due from other banks				
Investment Grade	10,118,636	–	–	10,118,636
Standard Grade	78,635	36,167	–	114,802
	10,197,271	36,167		10,233,438
IBLR				
Investment Grade	5,862,670	–	–	5,862,670
	5,862,670	–	–	5,862,670
Financial assets at FVTPL				
Investment Grade	4,338,794	–	–	4,338,794
	4,338,794	–	–	4,338,794
Financial assets at FVTOCI				
Investment Grade	248,207	–	–	248,207
	248,207	–	–	248,207
Investment securities at amortized cost				
Investment Grade	4,161,409	–	–	4,161,409
Standard Grade	31,911,062	440,970	–	32,352,032
	36,072,471	440,970	–	36,513,441
Other financial assets&				
Non-Performing	–	–	497,659	497,659
	–	–	497,659	497,659
Total	₱97,201,369	₱477,137	₱497,659	₱98,176,165

**Includes security deposits, derivative assets, downpayments and advanced payments, returned cash and other cash items (RCOCI)*

The credit quality by class of the Parent Company's financial assets other than loans and receivables (gross of allowance for credit losses) as of December 31, 2019 and 2018 are as follows:

Credit Score	**2019** **Gross carrying amount** **Stage 1**	**Stage 2**	**Stage 3**	**Total**
Due from BSP				
Investment Grade	**₱33,590,486**	**₱–**	**₱–**	**₱33,590,486**
	33,590,486	**–**	**–**	**33,590,486**
Due from other banks				
Investment Grade	**3,324,495**	**–**	**–**	**3,324,495**
	3,324,495	**–**	**–**	**3,324,495**
IBLR				
Investment Grade	**2,691,881**	**–**	**–**	**2,691,881**
	2,691,881	**–**	**–**	**2,691,881**
Financial assets at FVTPL				
Investment Grade	**16,840,709**	**–**	**–**	**16,840,709**
	16,840,709	**–**	**–**	**16,840,709**
Financial assets at FVTOCI				
Investment Grade	**4,650,636**	**–**	**–**	**4,650,636**
	4,650,636	**–**	**–**	**4,650,636**
Investment securities at amortized cost				
Investment Grade	**48,820,301**	**–**	**–**	**48,820,301**
Standard Grade	**–**	**568,034**		**568,034**
	48,820,301	**568,034**	**–**	**49,388,335**
Other financial assets*				
Non-Performing	**–**	**–**	**467,813**	**467,813**
	–	**–**	**467,813**	**467,813**
Total	**₱109,918,508**	**₱568,034**	**₱467,813**	**₱110,954,355**

**Includes security deposits, derivative assets, downpayments and advanced payments, returned cash and other cash items (RCOCI)*

	2018 Gross carrying amount			
Credit Score	Stage 1	Stage 2	Stage 3	Total
Due from BSP				
Investment Grade	₱39,872,848	₱–	₱–	₱39,872,848
	39,872,848	–	–	39,872,848
Due from other banks				
Investment Grade	9,973,071	–	–	9,973,071
Standard Grade	78,635	36,167	–	114,802
	10,051,706	36,167		10,087,873
IBLR				
Investment Grade	5,862,670	–	–	5,862,670
	5,862,670	–	–	5,862,670
Financial assets at FVTPL				
Investment Grade				
Standard Grade	4,338,794	–	–	4,338,794
	4,338,794	–	–	4,338,794
Financial assets at FVTOCI				
Investment Grade	248,207	–	–	248,207
	248,207	–	–	248,207
Investment securities at amortized cost				
Investment Grade	4,161,409	440,970	–	4,602,379
Standard Grade	31,911,062	–	–	31,911,062
	36,072,471	440,970	–	36,513,441
Other financial assets*				
Non-Performing	–	–	495,756	495,756
	–	–	495,756	495,756
Total	96,446,696	477,137	495,756	97,419,589

**Includes security deposits, derivative assets, downpayments and advanced payments, returned cash and other cash items (RCOCI)*

Analysis of movements of gross carrying amounts

The movements in the Group's total loans and receivables (excluding unamortized premium and allowance for credit and impairment losses) in 2019 and 2018 follow:

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of year	**₱170,975,004**	**₱62,755,022**	**₱12,486,242**	**₱246,216,268**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**88,804,240**	**–**	**–**	**88,804,240**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**39,585,980**	**4,928,556**	**44,514,536**
Movements in receivable balance	**(69,623,600)**	**(35,070,326)**	**(4,789,223)**	**(109,483,149)**
Write-offs (Note 15)	**–**	**–**	**(3,386,116)**	**(3,386,116)**
Transfers from Stage 1	**(37,073,103)**	**32,893,909**	**4,179,194**	**–**
Transfers from Stage 2	**7,863,069**	**(10,879,365)**	**3,016,296**	**–**
Transfers from Stage 3	**308,206**	**340,957**	**(649,163)**	**–**
Others	**–**	**–**	**(20,492)**	**(20,492)**
Balance at end of year	**₱161,253,816**	**₱89,626,177**	**₱15,765,294**	**₱266,645,287**

	2018			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	₱140,993,732	₱66,080,465	₱12,576,416	₱219,650,613
Newly originated assets that remained in Stage 1 as at December 31, 2018	102,241,678	–	–	102,241,678
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	38,247,884	4,364,206	42,612,090
Movements in receivable balance	(71,598,288)	(39,848,063)	(4,461,058)	(115,907,409)
Write-offs (Note 15)	–	–	(3,309,482)	(3,309,482)
Transfers from Stage 1	(17,632,389)	16,080,572	1,551,817	–
Transfers from Stage 2	16,372,451	(18,131,531)	1,759,080	–
Transfers from Stage 3	597,820	325,695	(923,515)	–
Others	–	–	928,778	928,778
Balance at end of year	₱170,975,004	₱62,755,022	₱12,486,242	₱246,216,268

The breakdown of the total gross carrying amounts of the Group's loans and receivables (before taking into account any allowance for credit and impairment losses, and unamortized premium) in 2019 and 2018 is as follows:

	2019			
	Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Corporate loans*				
Balance at beginning of year	**₱44,499,389**	**₱27,725,855**	**₱708,121**	**₱72,933,365**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**9,661,527**	**–**	**–**	**9,661,527**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**32,310,377**	**1,019,914**	**33,330,291**
Movements in receivable balance	**(23,201,266)**	**(21,976,984)**	**(87,685)**	**(45,265,935)**
Write-offs (Note 15)	**–**	**–**	**–**	**–**
Transfers from Stage 1	**(19,677,647)**	**17,442,939**	**2,234,708**	**–**
Transfers from Stage 2	**500,739**	**(628,412)**	**127,673**	**–**
Transfers from Stage 3	**–**	**419**	**(419)**	**–**
	11,782,742	**54,874,194**	**4,002,312**	**70,659,248**
Auto loans				
Balance at beginning of year	**55,703,011**	**18,947,035**	**3,147,676**	**77,797,722**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**37,045,472**	**–**	**–**	**37,045,472**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**2,974,896**	**685,001**	**3,659,897**
Movements in receivable balance	**(15,244,675)**	**(7,571,699)**	**(1,347,740)**	**(24,164,114)**
Write-offs (Note 15)	**–**	**–**	**(343,480)**	**(343,480)**
Transfers from Stage 1	**(11,946,498)**	**11,312,699**	**633,799**	**–**
Transfers from Stage 2	**6,054,127**	**(7,652,763)**	**1,598,636**	**–**
Transfers from Stage 3	**28,573**	**4,751**	**(33,324)**	**–**
	71,640,010	**18,014,919**	**4,340,568**	**93,995,497**
Credit cards				
Balance at beginning of year	**20,546,567**	**9,139,337**	**1,254,595**	**30,940,499**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**8,438,224**	**–**	**–**	**8,438,224**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**2,399,833**	**2,517,334**	**4,917,167**
Movements in receivable balance	**(2,727,506)**	**(3,320,805)**	**(687,780)**	**(6,736,091)**
Write-offs (Note 15)	**–**	**–**	**(2,295,923)**	**(2,295,923)**
Transfers from Stage 1	**(1,240,877)**	**895,888**	**344,989**	**–**
Transfers from Stage 2	**90,831**	**(356,770)**	**265,939**	**–**
Transfers from Stage 3	**7,346**	**2,255**	**(9,601)**	**–**
	25,114,585	**8,759,738**	**1,389,553**	**35,263,876**

(Forward)

	2019			
	Gross carrying amount			
	Stage 1	Stage 2	Stage 3	Total
Mortgage loans				
Balance at beginning of year	**₱16,025,290**	**₱3,533,818**	**₱731,750**	**₱20,290,858**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**4,640,968**	**–**	**–**	**4,640,968**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**61,303**	**10,552**	**71,855**
Movements in receivable balance	**(1,945,746)**	**(555,659)**	**(227,808)**	**(2,729,213)**
Write-offs (Note 15)	**–**	**–**	**(25)**	**(25)**
Transfers from Stage 1	**(2,337,252)**	**2,233,310**	**103,942**	**–**
Transfers from Stage 2	**995,831**	**(1,406,797)**	**410,966**	**–**
Transfers from Stage 3	**51,541**	**6,943**	**(58,484)**	**–**
	17,430,632	**3,872,918**	**970,893**	**22,274,443**
Other consumer loans**				
Balance at beginning of year	**32,752,364**	**1,507,710**	**3,565,206**	**37,825,280**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**27,516,265**	**–**	**–**	**27,516,265**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**1,606,616**	**406,197**	**2,012,813**
Movements in receivable balance	**(25,444,991)**	**(1,338,294)**	**(1,317,940)**	**(28,101,225)**
Write-offs (Note 15)	**–**	**–**	**(732,569)**	**(732,569)**
Transfers from Stage 1	**(1,506,687)**	**673,657**	**833,030**	**–**
Transfers from Stage 2	**110,607**	**(402,734)**	**292,127**	**–**
Transfers from Stage 3	**185,082**	**33,121**	**(218,203)**	**–**
	33,612,640	**2,080,076**	**2,827,848**	**38,520,564**
Unquoted debt securities classified as loans and receivables				
Balance at beginning of year	**–**	**–**	**341,890**	**341,890**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**–**	**–**	**–**	**–**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**–**		
Movements in receivable balance	**–**	**–**	**2,298**	**2,298**
Write-offs (Note 15)	**–**	**–**	**–**	**–**
Transfers from Stage 1	**–**	**–**	**–**	**–**
Transfers from Stage 2	**–**	**–**	**–**	**–**
Transfers from Stage 3	**–**	**–**	**–**	**–**
	–	**–**	**344,188**	**344,188**
Other receivables***				
Balance at beginning of year	**1,448,383**	**1,901,267**	**2,737,004**	**6,086,654**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**1,501,784**	**–**	**–**	**1,501,784**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**232,955.13**	**289,557.84**	**522,513**
Movements in receivable balance	**(1,059,416)**	**(306,885)**	**(1,122,568)**	**(2,488,869)**
Write-offs (Note 15)	**–**	**–**	**(14,119)**	**(14,119)**
Transfers from Stage 1	**(364,142)**	**335,416**	**28,726**	**–**
Transfers from Stage 2	**110,934**	**(431,889)**	**320,955**	**–**
Transfers from Stage 3	**35,664**	**293,468**	**(329,132)**	**–**
Others	**–**	**–**	**(20,492)**	**(20,492)**
	1,673,207	**2,024,332**	**1,889,932**	**5,587,471**
Total	**₱161,253,816**	**₱89,626,177**	**₱15,765,294**	**₱266,645,287**

**Include Corporate loans and emerging enterprise loans*
***Include Branch loans, DepEd loans, Employee loans, Salary loans and Personal loans*
****Include Accrued interest receivables, Accounts receivables and Sales contract receivables.*

	2018			
	Gross carrying amount			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans*				
Balance at beginning of year	₱23,094,858	₱38,681,901	₱563,051	₱62,339,810
Newly originated assets that remained in Stage 1 as at December 31, 2019	28,055,547	–	–	28,055,547
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	22,333,323	229,913	22,563,236
Movements in receivable balance	(18,606,280)	(21,013,856)	(405,092)	(40,025,228)
Write-offs (Note 15)	–	–	–	–
Transfers from Stage 1	(662,812)	486,024	176,788	–
Transfers from Stage 2	12,618,076	(12,761,537)	143,461	–
Transfers from Stage 3	–	–	–	–
	44,499,389	27,725,855	708,121	72,933,365
Auto loans				
Balance at beginning of year	51,647,534	11,116,603	3,343,717	66,107,854
Newly originated assets that remained in Stage 1 as at December 31, 2019	26,265,766	–	–	26,265,766
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	5,211,600	359,470	5,571,070
Movements in receivable balance	(11,758,466)	(6,684,620)	(1,480,888)	(19,923,974)
Write-offs (Note 15)	–	–	(222,994)	(222,994)
Transfers from Stage 1	(12,564,824)	12,095,112	469,712	–
Transfers from Stage 2	2,073,687	(2,876,458)	802,771	–
Transfers from Stage 3	39,314	84,798	(124,112)	–
	55,703,011	18,947,035	3,147,676	77,797,722
Credit cards				
Balance at beginning of year	18,670,128	8,126,101	1,571,575	28,367,804
Newly originated assets that remained in Stage 1 as at December 31, 2019	20,850,713	–	–	20,850,713
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	5,261,405	1,510,775	6,772,180
Movements in receivable balance	(16,526,270)	(5,669,122)	(149,057)	(22,344,449)
Write-offs (Note 15)	–	–	(2,705,749)	(2,705,749)
Transfers from Stage 1	(3,883,811)	3,352,147	531,664	–
Transfers from Stage 2	1,328,410	(1,943,026)	614,616	–
Transfers from Stage 3	107,397	11,832	(119,229)	–
	20,546,567	9,139,337	1,254,595	30,940,499
Mortgage loans				
Balance at beginning of year	14,794,271	2,728,178	590,852	18,113,301
Newly originated assets that remained in Stage 1 as at December 31, 2019	4,456,477	–	–	4,456,477
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	2,158,087	53,166	2,211,253
Movements in receivable balance	(2,985,286)	(1,250,320)	(254,567)	(4,490,173)
Write-offs (Note 15)	–	–	–	–
Transfers from Stage 1	(285,306)	–	285,306	–
Transfers from Stage 2	–	(164,312)	164,312	–
Transfers from Stage 3	45,134	62,185	(107,319)	–
	16,025,290	3,533,818	731,750	20,290,858
Other consumer loans**				
Balance at beginning of year	31,261,135	5,047,249	5,411,554	41,719,938
Newly originated assets that remained in Stage 1 as at December 31, 2019	21,393,719	–	–	21,393,719
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	1,477,555	402,093	1,879,648
Movements in receivable balance	(20,383,232)	(5,011,172)	(1,392,882)	(26,787,286)
Write-offs (Note 15)	–	–	(380,739)	(380,739)
Transfers from Stage 1	(129,609)	45,144	84,465	–
Transfers from Stage 2	204,437	(213,412)	8,975	–
Transfers from Stage 3	405,914	162,346	(568,260)	–
	32,752,364	1,507,710	3,565,206	37,825,280

	2018			
	Gross carrying amount			
	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities classified as loans and receivables				
Balance at beginning of year	₱–	₱–	₱403,288	₱403,288
Newly originated assets that remained in Stage 1 as at December 31, 2019	–	–	–	–
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	–	(61,398)	(61,398)
Movements in receivable balance	–	–	–	–
Write-offs (Note 15)	–	–	–	–
Transfers from Stage 1	–	–	–	–
Transfers from Stage 2	–	–	–	–
Transfers from Stage 3	–	–	–	–
	–	–	341,890	341,890
Other receivables* **				
Balance at beginning of year	1,525,806	380,433	692,379	2,598,618
Newly originated assets that remained in Stage 1 as at December 31, 2019	1,219,456	–	–	1,219,456
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	1,805,914	1,808,789	3,614,703
Movements in receivable balance	(1,338,754)	(218,973)	(717,174)	(2,274,901)
Write-offs (Note 15)	–	–	–	–
Transfers from Stage 1	(106,027)	102,145	3,882	–
Transfers from Stage 2	147,841	(172,786)	24,945	–
Transfers from Stage 3	61	4,534	(4,595)	–
Others	–	–	928,778	928,778
	1,448,383	1,901,267	2,737,004	6,086,654
Total	₱170,975,004	₱62,755,022	₱12,486,242	₱246,216,268

**Include Corporate loans and emerging enterprise loans*
***Include Branch loans, DepEd loans, Employee loans, Salary loans and Personal loans*
****Include Accrued interest receivables, Accounts receivables and Sales contract receivables.*

The movements in the Parent Company's total loans and receivables (excluding unamortized premium and allowance for credit and impairment losses) in 2019 and 2018 follow:

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of year	**₱149,647,779**	**₱61,570,581**	**₱10,170,238**	**₱221,388,598**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**68,566,082**	**–**	**–**	**68,566,082**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**38,079,516**	**4,552,656**	**42,632,172**
Movements in receivable balance	**(52,247,336)**	**(34,217,037)**	**(3,702,530)**	**(90,166,903)**
Write-offs (Note 15)	**–**	**–**	**(3,241,089)**	**(3,241,089)**
Transfers from Stage 1	**(36,266,612)**	**32,575,211**	**3,691,401**	**–**
Transfers from Stage 2	**7,793,792**	**(10,605,461)**	**2,811,669**	**–**
Transfers from Stage 3	**144,412**	**319,465**	**(463,877)**	**–**
Others	**–**	**–**	**(20,492)**	**(20,492)**
Balance at end of year	**₱137,638,117**	**₱87,722,275**	**₱13,797,976**	**₱239,158,368**

	2018			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	₱120,386,155	₱66,780,695	₱12,202,578	₱199,369,428
Newly originated assets that remained in Stage 1 as at December 31, 2018	82,153,718	–	–	82,153,718
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	36,770,274	3,859,317	40,629,591
Movements in receivable balance	(51,749,939)	(40,260,620)	(6,521,514)	(98,532,073)
Write-offs (Note 15)	–	–	(3,160,844)	(3,160,844)
Transfers from Stage 1	(17,509,702)	16,036,240	1,473,462	–

(Forward)

	2018			
	Stage 1	Stage 2	Stage 3	Total
Transfers from Stage 2	₱16,171,278	(₱17,922,283)	₱1,751,005	₱–
Transfers from Stage 3	196,269	166,275	(362,544)	–
Others	–	–	928,778	928,778
Balance at end of year	₱149,647,779	₱61,570,581	₱10,170,238	₱221,388,598

The breakdown of the total gross carrying amounts of the Parent Company's loans and receivables (before taking into account any allowance for credit and impairment losses and unamortized premium) in 2019 and 2018 is as follows:

	2019			
	Gross carrying amount			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Corporate loans*				
Balance at beginning of year	**₱44,474,452**	**₱27,725,855**	**₱648,372**	**₱72,848,679**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**9,648,297**	**–**	**–**	**9,648,297**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**32,310,377**	**1,019,914**	**33,330,291**
Movements in receivable balance	**(23,163,099)**	**(21,976,984)**	**(107,072)**	**(45,247,155)**
Write-offs (Note 15)	**–**	**–**	**–**	**–**
Transfers from Stage 1	**(19,677,647)**	**17,442,939**	**2,234,708**	**–**
Transfers from Stage 2	**500,739**	**(628,412)**	**127,673**	**–**
Transfers from Stage 3	**–**	**419**	**(419)**	**–**
	11,782,742	**54,874,194**	**3,923,176**	**70,580,112**
Auto loans				
Balance at beginning of year	**55,703,011**	**18,947,035**	**3,147,676**	**77,797,722**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**37,045,472**	**–**	**–**	**37,045,472**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**2,974,896**	**685,001**	**3,659,897**
Movements in receivable balance	**(15,244,675)**	**(7,571,699)**	**(1,347,740)**	**(24,164,114)**
Write-offs (Note 15)	**–**	**–**	**(343,480)**	**(343,480)**
Transfers from Stage 1	**(11,946,498)**	**11,312,699**	**633,799**	**–**
Transfers from Stage 2	**6,054,127**	**(7,652,763)**	**1,598,636**	**–**
Transfers from Stage 3	**28,573**	**4,751**	**(33,324)**	**–**
	71,640,010	**18,014,919**	**4,340,568**	**93,995,497**
Credit cards				
Balance at beginning of year	**20,546,567**	**9,139,337**	**1,254,595**	**30,940,499**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**8,438,224**	**–**	**–**	**8,438,224**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**2,399,833**	**2,517,334**	**4,917,167**
Movements in receivable balance	**(2,727,506)**	**(3,320,805)**	**(687,780)**	**(6,736,091)**
Write-offs (Note 15)	**–**	**–**	**(2,295,923)**	**(2,295,923)**
Transfers from Stage 1	**(1,240,877)**	**895,888**	**344,989**	**–**
Transfers from Stage 2	**90,831**	**(356,770)**	**265,939**	**–**
Transfers from Stage 3	**7,346**	**2,255**	**(9,601)**	**–**
	25,114,585	**8,759,738**	**1,389,553**	**35,263,876**
Mortgage loans				
Balance at beginning of year	**16,025,290**	**3,533,818**	**731,750**	**20,290,858**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**4,640,968**	**–**	**–**	**4,640,968**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**61,303**	**10,552**	**71,855**
Movements in receivable balance	**(1,945,746)**	**(555,659)**	**(227,808)**	**(2,729,213)**
Write-offs (Note 15)	**–**	**–**	**(25)**	**(25)**
Transfers from Stage 1	**(2,337,252)**	**2,233,310**	**103,942**	**–**
Transfers from Stage 2	**995,831**	**(1,406,797)**	**410,966**	**–**
Transfers from Stage 3	**51,541**	**6,943**	**(58,484)**	**–**
	17,430,632	**3,872,918**	**970,893**	**22,274,443**

(Forward)

	2019			
	Gross carrying amount			
	Stage 1	Stage 2	Stage 3	Total
Other consumer loans**				
Balance at beginning of year	**₱11,532,534**	**₱461,540**	**₱1,385,872**	**₱13,379,946**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**7,373,572**	**–**	**–**	**7,373,572**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**130,451**	**85,705**	**216,156**
Movements in receivable balance	**(8,239,991)**	**(485,293)**	**(226,501)**	**(8,951,785)**
Write-offs (Note 15)	**–**	**–**	**(593,089)**	**(593,089)**
Transfers from Stage 1	**(704,943)**	**355,584**	**349,359**	**–**
Transfers from Stage 2	**43,117**	**(133,649)**	**90,532**	**–**
Transfers from Stage 3	**28,096**	**11,731**	**(39,827)**	**–**
	10,032,385	**340,364**	**1,052,051**	**11,424,800**
Unquoted debt securities classified as loans and receivables				
Balance at beginning of year	**–**	**–**	**341,890**	**341,890**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**–**	**–**	**–**	**–**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**–**		
Movements in receivable balance	**–**	**–**	**(7,702)**	**(7,702)**
Write-offs (Note 15)	**–**	**–**	**–**	**–**
Transfers from Stage 1	**–**	**–**	**–**	**–**
Transfers from Stage 2	**–**	**–**	**–**	**–**
Transfers from Stage 3	**–**	**–**	**–**	**–**
	–	**–**	**334,188**	**334,188**
Other receivables***				
Balance at beginning of year	**1,365,925**	**1,762,996**	**2,660,083**	**5,789,004**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**1,419,549**	**–**	**–**	**1,419,549**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**202,656**	**234,150**	**436,806**
Movements in receivable balance	**(926,319)**	**(306,597)**	**(1,097,927)**	**(2,330,843)**
Write-offs (Note 15)	**–**	**–**	**(8,572)**	**(8,572)**
Transfers from Stage 1	**(359,395)**	**334,791**	**24,604**	**–**
Transfers from Stage 2	**109,147**	**(427,070)**	**317,923**	**–**
Transfers from Stage 3	**28,856**	**293,366**	**(322,222)**	**–**
Others	**–**	**–**	**(20,492)**	**(20,492)**
	1,637,763	**1,860,142**	**1,787,547**	**5,285,452**
	₱137,638,117	**₱87,722,275**	**₱13,797,976**	**₱239,158,368**

**Include Corporate loans and emerging enterprise loans*
***Include Branch loans, DepEd loans, Employee loans, Salary loans and Personal loans*
****Include Accrued interest receivables, Accounts receivables and Sales contract receivables.*

	2018			
	Gross carrying amount			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans*				
Balance at beginning of year	₱22,538,224	₱38,681,901	₱563,051	₱61,783,176
Newly originated assets that remained in Stage 1 as at December 31, 2019	28,055,547	–	–	28,055,547
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	22,333,323	229,913	22,563,236
Movements in receivable balance	(18,074,583)	(21,013,856)	(464,841)	(39,553,280)
Write-offs (Note 15)	–	–	–	–
Transfers from Stage 1	(662,812)	486,024	176,788	–
Transfers from Stage 2	12,618,076	(12,761,537)	143,461	–
Transfers from Stage 3	–	–	–	–
	44,474,452	27,725,855	648,372	72,848,679

(Forward)

	2018			
	Gross carrying amount			
	Stage 1	Stage 2	Stage 3	Total
Auto loans				
Balance at beginning of year	₱51,647,534	₱11,116,603	₱3,343,717	₱66,107,854
Newly originated assets that remained in Stage 1 as at December 31, 2019	26,265,766	–	–	26,265,766
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	5,211,600	359,470	5,571,070
Movements in receivable balance	(11,758,466)	(6,684,620)	(1,480,888)	(19,923,974)
Write-offs (Note 15)	–	–	(222,994)	(222,994)
Transfers from Stage 1	(12,564,824)	12,095,112	469,712	–
Transfers from Stage 2	2,073,687	(2,876,458)	802,771	–
Transfers from Stage 3	39,314	84,798	(124,112)	–
	55,703,011	18,947,035	3,147,676	77,797,722
Credit cards				
Balance at beginning of year	18,670,128	8,126,101	1,571,575	28,367,804
Newly originated assets that remained in Stage 1 as at December 31, 2019	20,850,713	–	–	20,850,713
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	5,261,405	1,510,775	6,772,180
Movements in receivable balance	(16,526,270)	(5,669,122)	(149,057)	(22,344,449)
Write-offs (Note 15)	–	–	(2,705,749)	(2,705,749)
Transfers from Stage 1	(3,883,811)	3,352,147	531,664	–
Transfers from Stage 2	1,328,410	(1,943,026)	614,616	–
Transfers from Stage 3	107,397	11,832	(119,229)	–
	20,546,567	9,139,337	1,254,595	30,940,499
Mortgage loans				
Balance at beginning of year	14,794,271	2,728,178	590,852	18,113,301
Newly originated assets that remained in Stage 1 as at December 31, 2019	4,456,477	–	–	4,456,477
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	2,158,087	53,166	2,211,253
Movements in receivable balance	(2,985,286)	(1,250,320)	(254,567)	(4,490,173)
Write-offs (Note 15)	–	–	–	–
Transfers from Stage 1	(285,306)	–	285,306	–
Transfers from Stage 2	–	(164,312)	164,312	–
Transfers from Stage 3	45,134	62,185	(107,319)	–
	16,025,290	3,533,818	731,750	20,290,858
Other consumer loans**				
Balance at beginning of year	11,512,810	5,761,657	4,892,011	22,166,478
Newly originated assets that remained in Stage 1 as at December 31, 2019	1,318,258	–	–	1,318,258
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	2,878	3,254	6,132
Movements in receivable balance	(1,296,756)	(5,300,960)	(3,281,105)	(9,878,821)
Write-offs (Note 15)	–	–	(232,101)	(232,101)
Transfers from Stage 1	(4,072)	586	3,486	–
Transfers from Stage 2	2,102	(2,962)	860	–
Transfers from Stage 3	192	341	(533)	–
	11,532,534	461,540	1,385,872	13,379,946
Unquoted debt securities classified as loans and receivables				
Balance at beginning of year	–	–	393,288	393,288
Newly originated assets that remained in Stage 1 as at December 31, 2019	–	–	–	–
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	–	(51,398)	(51,398)
Movements in receivable balance	–	–	–	–
Write-offs (Note 15)	–	–	–	–
Transfers from Stage 1	–	–	–	–
Transfers from Stage 2	–	–	–	–
Transfers from Stage 3	–	–	–	–
	–	–	341,890	341,890

	2018			
	Gross carrying amount			
	Stage 1	Stage 2	Stage 3	Total
Other receivables* **				
Balance at beginning of year	₱1,223,188	₱366,255	₱848,084	₱2,437,527
Newly originated assets that remained in Stage 1 as at December 31, 2019	1,206,957	–	–	1,206,957
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	1,802,981	1,702,739	3,505,720
Movements in receivable balance	(1,108,578)	(341,742)	(839,658)	(2,289,978)
Write-offs (Note 15)	–	–	–	–
Transfers from Stage 1	(108,877)	102,371	6,506	–
Transfers from Stage 2	149,003	(173,988)	24,985	–
Transfers from Stage 3	4,232	7,119	(11,351)	–
Others	–	–	928,778	928,778
	1,365,925	1,762,996	2,660,083	5,789,004
Total	₱149,647,779	₱61,570,581	₱10,170,238	₱221,388,598

**Include Corporate loans and emerging enterprise loans*
***Include Branch loans, DepEd loans, Employee loans, Salary loans and Personal loans*
****Include Accrued interest receivables, Accounts receivables and Sales contract receivables.*

Credit Risk Weighting as of December 31, 2019, and 2018

Total credit risk exposure after risk mitigation

The table below shows the different credit risk exposures of the Group and of the Parent Company after credit risk mitigation, by risk weight applied in accordance with BSP Circular No. 538:

	Consolidated							
	2019							
	Capital	**Risk Buckets**						
	Deduction	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Total**
Credit risk exposure after risk mitigation								
On-balance sheet assets	**₱11,609,246**	**₱57,435,164**	**₱6,210,279**	**₱39,773,465**	**₱14,761,346**	**₱235,077,023**	**₱9,593,811**	**₱362,851,088**
Off-balance sheet assets	–	–	–	–	–	**3,557,318**	–	**3,557,318**
Counterparty in the banking book (derivatives and repo-style transactions)	–	–	–	**6,765,843**	–	–	–	**6,764,843**
Counterparty in the trading book (derivatives and repo-style transactions)	–	–	–	–	–	–	–	–
Credit-linked notes in the banking book	–	–	–	–	–	–	–	–
Securitization exposures	–	–	–	–	–	–	–	–
	11,609,246	**57,435,164**	**6,210,279**	**46,539,308**	**14,761,346**	**238,634,341**	**9,593,811**	**373,173,249**
Credit Risk Weighted Assets	**₱–**	**₱–**	**₱1,242,056**	**₱23,269,654**	**₱11,071,010**	**₱238,634,341**	**₱14,390,717**	**₱288,607,277**

	Consolidated							
	2018							
	Capital	Risk Buckets						
	Deduction	0%	20%	50%	75%	100%	150%	Total
Credit risk exposure after risk mitigation								
On-balance sheet assets	₱10,081,365	₱54,696,997	₱13,560,929	₱32,978,620	₱12,814,255	₱216,587,746	₱8,695,975	₱339,334,531
Off-balance sheet assets	–	–	–	–	–	–	–	–
Counterparty in the banking book (derivatives and repo-style transactions)	–	–	–	–	–	–	–	–
Counterparty in the trading book (derivatives and repo-style transactions)	–	–	–	–	–	–	–	–
Credit-linked notes in the banking book	–	–	–	–	–	–	–	–
Securitization exposures	–	–	–	–	–	–	–	–
	10,081,365	54,696,997	13,560,929	32,978,620	12,814,255	216,587,746	8,695,975	339,334,522
Credit Risk Weighted Assets	₱–	₱–	₱2,712,186	₱16,489,310	₱9,610,691	₱216,587,746	₱13,043,963	₱258,443,896

	Parent Company							
	2019							
	Capital	Risk Buckets						
	Deduction	0%	20%	50%	75%	100%	150%	Total
Credit risk exposure after risk mitigation								
On-balance sheet assets	**₱13,872,545**	**₱56,639,974**	**₱6,207,698**	**₱39,773,465**	**₱14,758,120**	**₱211,515,466**	**₱7,755,980**	**₱336,650,703**
Off-balance sheet assets	–	–	–	–	–	**3,557,318**	–	**3,557,318**
Counterparty in the banking book (derivatives and repo-style transactions)	–	–	–	**6,764,843**	–	–	–	**6,764,843**
Counterparty in the trading book (derivatives and repo-style transactions)	–	–	–	–	–	–	–	–
Credit-linked notes in the banking book	–	–	–	–	–	–	–	–
Securitization exposures	–	–	–	–	–	–	–	–
	13,872,545	**56,639,974**	**6,207,698**	**46,538,308**	**14,758,120**	**215,072,784**	**7,755,980**	**346,972,864**
Credit Risk Weighted Assets	**₱–**	**₱–**	**₱1,241,540**	**₱23,269,154**	**₱11,068,590**	**₱215,072,784**	**₱11,633,970**	**₱₱262,286,038**

	Parent Company							
	2018							
	Capital	Risk Buckets						
	Deduction	0%	20%	50%	75%	100%	150%	Total
Credit risk exposure after risk mitigation								
On-balance sheet assets	₱13,462,964	₱54,015,994	₱13,545,234	₱32,978,630	₱12,814,255	₱193,634,472	₱7,671,811	₱314,660,396
Off-balance sheet assets	–	–	–	–	–	–	–	–
Counterparty in the banking book (derivatives and repo-style transactions)	–	–	–	–	–	–	–	–
Counterparty in the trading book (derivatives and repo-style transactions)	–	–	–	–	–	–	–	–
Credit-linked notes in the banking book	–	–	–	–	–	–	–	–
Securitization exposures	–	–	–	–	–	–	–	–
	13,462,964	54,015,994	13,545,234	32,978,630	12,814,255	193,634,472	7,671,811	314,660,396
Credit Risk Weighted Assets	₱–	₱–	₱2,709,047	₱16,489,315	₱9,610,691	₱193,634,472	₱11,507,717	₱233,951,242

Liquidity Risk

Liquidity risk is the risk that sufficient funds are unavailable to adequately meet all maturing liabilities, including demand deposits and off-balance sheet commitments. The main responsibility of daily asset liability management lies with the Parent Company's Treasury Group, specifically the Liquidity Desk, which are tasked to manage the balance sheet and have thorough understanding of the risk elements involved in the respective businesses. Only the Parent Company and EWRB are potentially exposed to liquidity risk exposures, where their liquidity risk management are monitored by their respective ALCOs. Resulting analysis of the balance sheet along with the recommendation is presented during the weekly ALCO meeting where deliberations, formulation of actions and decisions are made to minimize risk and maximize returns. Discussions include actions taken in the previous ALCO meeting, economic and market status and outlook, liquidity risk, pricing and interest rate structure, limit status and utilization. To ensure that both the Parent Company and EWRB have sufficient liquidity at all times, the respective ALCO formulates a contingency funding plan which sets out the amount and the sources of funds (such as unutilized credit facilities) available to both entities and the circumstances under which such funds will be used.

By way of the Maximum Cumulative Outflow (MCO) limit, the Group is able to manage its long-term liquidity risks by placing a cap on the outflow of cash on a cumulative basis. The Group takes a multi-tiered approach to maintaining liquid assets. The Group's principal source of liquidity is comprised of Cash and other cash items, Due from BSP, Due from other banks and IBLR with maturities of less than one year. In addition to regulatory reserves, the Parent Company maintains a sufficient level of secondary reserves in the form of liquid assets such as short-term trading and investment securities that can be realized quickly.

Analysis of financial assets and liabilities by remaining contractual maturities
The tables below show the maturity profile of the financial assets and liabilities of the Group and of the Parent Company, based on its internal methodology that manages liquidity based on combined behavioral assumptions and contractual undiscounted cash flows:

	Consolidated						
	2019						
	On demand	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	Beyond 1 year	Total
Financial Assets							
Cash and cash equivalents*	₱47,930,735	₱–	₱–	₱–	₱–	₱–	₱47,930,735
Investments and trading securities**	–	16,798,853	4,767,752	965,046	1,917,694	76,637,754	101,087,099
Loans and receivables***	–	38,312,283	28,706,658	25,139,779	36,810,868	176,038,512	305,008,100
Other assets	–	202,744	–	–	–	268,330	471,074
	₱47,930,735	₱55,313,880	₱33,474,410	₱26,104,825	₱38,728,562	₱252,944,596	₱454,497,008
Financial Liabilities							
Deposit liabilities****	₱186,785,419	₱41,474,984	₱33,948,750	₱3,016,758	₱10,414,946	₱50,579,214	₱326,220,071
Bills and acceptances payable	36,823	29,950,625	979,817	–	–	–	₱30,967,265
Subordinated debt	–	5,000,000	17,188	17,188	34,375	1,714,063	6,782,814
Lease liability	–	95,882	181,290	269,204	506,353	2,834,572	3,887,301
Other liabilities	135,461	642,712	–	–	4,138,426	42,570	4,959,169
Contingent liabilities*****	–	2,620,104	662,157	929,804	1,828,252	–	6,040,317
	₱186,957,703	₱79,784,307	₱35,789,202	₱4,232,954	₱16,922,352	₱55,170,419	₱378,856,937

* Consist of cash and cash other items, due from BSP, due from other banks and IBLR
** Consist of financial assets at FVTPL, investment securities at amortized cost, financial assets at FVTOCI and interest receivables from investment securities at amortized cost
*** Consist of loans and receivables, sales contract receivables, bills purchased, accrued interest receivables, accounts receivables, and unearned discounts classified as financial assets
**** Consist of demand and savings deposit, time certificate of deposit, long term negotiable certificates of deposit and interest payable for these deposit liabilities
***** Consists of stand-by letters of credit and forecasted utilization from credit cards lines

	Consolidated						
	2018						
	On demand	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	Beyond 1 Year	Total
Financial Assets							
Cash and cash equivalents*	₱63,925,280	₱–	₱–	₱–	₱–	₱–	₱63,925,280
Investments and trading securities**	–	4,297,290	–	848,483	205,062	55,363,145	60,713,980
Loans and receivables***	–	28,139,474	26,088,504	24,859,831	31,102,365	169,308,836	279,499,010
Other assets	–	212,221	–	–	–	285,438	497,659
	₱63,925,280	₱32,648,985	₱26,088,504	₱25,708,314	₱31,307,427	₱224,957,419	₱404,635,929
Financial Liabilities							
Deposit liabilities****	₱145,527,487	₱55,557,971	₱57,731,075	₱903,873	₱1,807,600	₱31,978,442	₱293,506,449
Bills and acceptances payable	895,717	19,401,414	32,679	9,234	–	–	20,339,044
Subordinated debt	–	–	–	–	–	6,238,617	6,238,617
Other liabilities	154,375	628,519	–	–	4,243,093	43,519	5,069,506
Contingent liabilities*****	–	1,793,831	–	–	–	–	1,793,831
	₱146,577,579	₱77,381,735	₱57,763,754	₱913,107	₱6,050,693	₱38,260,578	₱326,947,447

* Consist of cash and cash other items, due from BSP, due from other banks and IBLR
** Consist of financial assets at FVTPL, investment securities at amortized cost, financial assets at FVTOCI and interest receivables from investment securities at amortized cost
*** Consist of loans and receivables, sales contract receivables, bills purchased, accrued interest receivables, accounts receivables, unearned discounts and other assets classified as financial assets
**** Consist of demand and savings deposit, time certificate of deposit, long term negotiable certificates of deposit and interest payable for these deposit liabilities
***** Consists of stand-by letters of credit and interest rate swap receivables

	Parent Company						
	2019						
	On demand	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	Beyond 1 year	Total
Financial Assets							
Cash and cash equivalents*	₱46,413,873	₱–	₱–	₱–	₱–	₱–	₱46,413,873
Investments and trading securities**	–	16,798,853	4,767,752	965,046	1,917,694	76,637,754	101,087,099
Loans and receivables***	–	37,353,958	26,829,878	22,346,587	31,261,862	156,680,035	274,472,320
Other assets	–	202,743	–	–	–	265,070	467,813
	₱46,413,873	₱54,355,554	₱31,597,630	₱23,311,633	₱33,179,556	₱233,582,859	₱422,441,105
Financial Liabilities							
Deposit liabilities****	₱165,741,479	₱41,474,984	₱33,948,750	₱3,016,758	₱10,414,946	₱50,579,214	₱305,176,132
Bills and acceptances payable	36,823	29,950,625	979,817	–	–	–	30,967,265
Subordinated debt	–	5,000,000	–	–	–	–	5,000,000
Lease liability		85,797	171,189	254,053	476,051	2,674,581	3,661,671
Other liabilities	111,694	546,084	–	–	3,542,869	42,572	4,243,219
Contingent liabilities*****	–	2,620,104	662,157	929,804	1,828,252	–	6,040,317
	₱165,889,996	₱79,677,594	₱35,761,913	₱4,200,615	₱16,262,118	₱53,296,367	₱355,088,604

* Consist of cash and cash other items, due from BSP, due from other banks and IBLR
** Consist of financial assets at FVTPL, investment securities at amortized cost, financial assets at FVTOCI and interest receivables from investment securities at amortized cost
*** Consist of loans and receivables, sales contract receivables, bills purchased, accrued interest receivables, accounts receivables, unearned discounts and other assets classified as financial assets
**** Consist of demand and savings deposit, time certificate of deposit, long term negotiable certificates of deposit and interest payable for these deposit liabilities
***** Consists of stand-by letters of credit and interest rate swap receivables

	Parent Company						
	2018						
	On demand	Up to 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	Beyond 1 year	Total
Financial Assets							
Cash and cash equivalents*	₱62,881,364	₱–	₱–	₱–	₱–	₱–	₱62,881,364
Investments and trading securities**	–	4,297,290	–	848,483	205,062	55,363,145	60,713,980
Loans and receivables***	–	27,215,159	24,269,497	22,162,571	25,670,619	151,695,287	251,013,133
Other assets	–	212,893	–	–	–	282,863	495,756
	₱62,881,364	₱31,725,342	₱24,269,497	₱23,011,054	₱25,875,681	₱207,341,295	₱375,104,233
Financial Liabilities							
Deposit liabilities****	₱126,554,148	₱55,557,971	₱57,731,075	₱903,873	₱1,807,600	₱31,978,442	₱274,533,110
Bills and acceptances payable	895,717	19,401,414	32,679	9,234			20,339,044
Subordinated debt	–	–	–	–	–	5,000,000	5,000,000
Other liabilities	154,510	619,132	–	–	3,402,260	42,321	4,218,223
Contingent liabilities*****	–	1,793,831	–	–	–	–	1,793,831
	₱127,604,375	₱77,372,348	₱57,763,754	₱913,107	₱5,209,860	₱37,020,763	₱305,884,208

* Consist of cash and cash other items, due from BSP, due from other banks and IBLR
** Consist of financial assets at FVTPL, investment securities at amortized cost, financial assets at FVTOCI and interest receivables from investment securities at amortized cost
*** Consist of loans and receivables, sales contract receivables, bills purchased, accrued interest receivables, accounts receivables, unearned discounts and other assets classified as financial assets
**** Consist of demand and savings deposit, time certificate of deposit, long term negotiable certificates of deposit and interest payable for these deposit liabilities
***** Consists of stand-by letters of credit and interest rate swap receivables

The Parent Company manages liquidity by maintaining sufficient liquid assets in the form of cash and cash equivalents, investment securities and loan receivables. As of December 31, 2019, and 2018, ₱117.79 billion (42.92%) and ₱96.31 billion (38.99%) respectively, of the Parent Company's total gross loans and receivables had remaining maturities of less than one (1) year. The total portfolio of trading and investment securities is comprised mostly of sovereign-issued securities that have high market liquidity. With the above presented liquidity profile, the Group remains to be inhibited from liquidity risk that it cannot adequately manage.

Market Risk
Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Parent Company treats exposures to market risk as either for trading or accrual or balance sheet exposure. The market risk for the trading portfolio is measured using Value at Risk (VaR). Interest rate risk of accrual portfolios in the Banking Book are measured using Earnings at Risk (EaR).

Market risk in the trading book
The BOD has set limits on the level of market risk that may be accepted. VaR limits are applied at the instrument level and approved by the BOD based on, among other things, a business unit's capacity to manage price risks, the size and distribution of the aggregate exposure to price risks and the expected return relative to price risks.

The Parent Company applies the VaR methodology to assess the market sensitive positions held for trading and to estimate the potential economic loss based on parameters and assumptions. VaR is a method used in measuring market risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon.

Objectives and limitations of the VaR Methodology
The Parent Company uses the VaR model of Bloomberg Portfolio Analytics using one-year historical data set to assess possible changes in the market value of the fixed income, equities, and foreign exchange trading portfolio. VaR for the US treasury futures is measured using Historical Simulation using an internally developed Excel spreadsheet. The interest rate swaps (IRS) and foreign exchange (FX) forwards (outright and forward leg of FX Swaps) trading portfolio's interest rate risk is measured using Monte Carlo VaR using OPICS Risk Plus. The VaR models are designed to measure market risk in a normal market environment. The use of VaR has limitations because correlations and volatilities in market prices are based on historical data and VaR assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated.

VaR may also be under or overestimated due to assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, VaR only represents the risk of the portfolio at the close of each business day, and it does not account for any losses that may occur beyond the specified confidence level.

In practice, actual trading results will differ from the VaR calculation and the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR model, actual outcomes are monitored through hypothetical and actual backtesting to test the accuracy of the VaR model.

Stress testing provides a means of complementing VaR by simulating the potential loss impact on market risk positions from extreme market conditions, such as risk factor movements based on historical financial market stress conditions and scenarios adopted from the uniform stress testing framework of the BSP.

VaR assumptions
The VaR that the Parent Company uses is premised on a 99.99% confidence level that this potential loss estimate is not expected to be exceeded if the current market risk positions were to be held unchanged for a given holding period. Foreign exchange and US Treasury Futures VaR is measured using one (1) day holding period while fixed income VaR has a holding period of five (5) days. Furthermore, the Parent Company's equity and IRS trading positions are assumed to be closed out in

ten (10) days. The use of a 99.99% confidence level means that within the set time horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days.

VaR is an integral part of the Parent Company's market risk management and encompasses investment positions held for trading. VaR exposures form part of the market risk monitoring which is reviewed daily against the limit approved by the BOD. The trading activities are controlled through the Market Risk Limit (MRL), which is a dynamic risk limit anchored on the principle of risk and return which is adjusted by net trading gains (added in half) or losses subtracted in whole. RMD reports compliance to the MRL and trader's VaR limits daily. If the MRL or individual trader's limit is exceeded, such occurrence is promptly reported to the Treasurer, President, Chief Risk Officer and the Chief Executive Officer, and further to the BOD through the RMC.

The table below pertains to interest rate risk of the Parent Company's fixed income trading portfolio (amounts in thousands):

	2019	2018
Year-end VaR	**₱773,557**	₱72,773
Average VaR	**321,085**	58,052
Highest VaR	**880,070**	145,351
Lowest VaR	**16,371**	11,735

The year-end VaR for 2019 was based on the Parent Company's fixed income trading book valued at ₱21.44 billion with average yields of 4.66% and 3.15% for the peso and foreign currency denominated bonds, respectively. Its average maturities are 9 years and 8 months for the peso portfolio and 18 years and 9 months for the foreign currency portfolio.

The year-end VaR for 2018 was based on the Parent Company's fixed income trading book valued at ₱4.54 billion with average yields of 6.56% and 4.86% for the Peso and Foreign currency denominated bonds, respectively. Its average maturities are 5 years and 1 month for the Peso portfolio and 19 years and 2 months for the foreign currency portfolio.

The market risk in the Parent Company's US treasury futures trading positions is shown in the table below:

	2019	2018
Year-end VaR	**₱5,576**	₱12,890
Average VaR	**6,471**	3,822
Highest VaR	**58,042**	29,154
Lowest VaR	**3,126**	731

The market risk in the Parent Company's IRS trading positions is shown in the table below:

	2019	2018
Year-end VaR	**₱11,799**	₱10,740
Average VaR	**9,766**	14,028
Highest VaR	**12,318**	16,602
Lowest VaR	**7,695**	10,529

The Parent Company's end-2019 and end-2018 IRS positions have a notional amount of US$20.00 million where it pays fixed rate and receives floating rate interest.

The interest rate risk in the Parent Company's FX forwards positions is shown in the table below:

	2019	2018
Year-end VaR	**₱735**	₱1,371
Average VaR	**582**	361
Highest VaR	**1,849**	2,781
Lowest VaR	**80**	41

Foreign Currency Risk

The Parent Company holds foreign currency denominated assets and liabilities, thus, foreign exchange rate fluctuations can affect the financials and cash flows of the Parent Company. Managing the foreign exchange exposure is important for banks with exposures in foreign currencies. For the Parent Company, this includes purchase or sell of foreign currency to control the impact of changes in exchange rates on its financial position.

The table below pertains to the foreign exchange risk of the Parent Company:

	2019	2018
Year-end VaR	**₱7,229**	₱4,335
Average VaR	**8,022**	5,574
Highest VaR	**17,889**	19,359
Lowest VaR	**1,807**	33

The Parent Company's foreign currency exposures emanate from its net open spot and forward FX purchase and sell transactions and net foreign currency income accumulated over the years of its operations. Foreign currency-denominated deposits are generally used to fund the Parent Company's foreign currency-denominated loan and investment portfolios in the FCDU.

In the FCDU books, BSP requires banks to match the foreign currency assets with the foreign currency liabilities. Thus, banks are required to maintain at all times a 100.00% cover for their foreign currency liabilities held through FCDU.

Total foreign currency position is monitored through the daily BSP FX position reports, which are subject to the overbought and oversold limits set by the BSP at 20.00% of unimpaired capital or US$50.00 million, whichever is lower. Internal limits regarding the intraday trading and end-of-day trading positions in FX, which consider the trading desk and the branch FX transactions, are also monitored.

The tables below summarize the exposure to foreign currencies of the Parent Company as of December 31, 2019, and 2018:

	2019					
	USD	**SGD**	**JPY**	**EUR**	**Other Currencies***	**Total**
Assets						
Gross FX assets	**$1,167,384**	**$967**	**$5,759**	**$5,338**	**$6,492**	**$1,185,940**
Contingent FX assets	**61,550**	**–**	**–**	**–**	**15,003**	**76,553**
	1,228,934	**967**	**5,759**	**5,338**	**21,495**	**1,262,493**
Liabilities						
Gross FX liabilities	**1,120,216**	**1,501**	**8,217**	**6,710**	**22,315**	**1,158,959**
Contingent FX liabilities	**116,067**	**–**	**37**	**–**	**–**	**116,104**
	1,236,283	**1,501**	**8,254**	**6,710**	**22,315**	**1,275,063**
Net exposure	**($7,349)**	**($534)**	**($2,495)**	**($1,372)**	**($820)**	**($12,570)**

**Other currencies include GBP, HKD, AUD, CNY and NZD.*

	2018					
	USD	SGD	JPY	HKD	Other Currencies*	Total
Assets						
Gross FX assets	$1,063,028	$14,890	$4,626	$518	$16,018	$1,099,080
Contingent FX assets	52,500	–	–	–	15,948	68,448
	1,115,528	14,890	4,626	518	31,966	1,167,528
Liabilities						
Gross FX liabilities	1,019,322	16,368	3,431	1,681	34,930	1,075,732
Contingent FX liabilities	95,867	–	–	–	–	95,867
	1,115,189	16,368	3,431	1,681	34,930	1,171,599
Net exposure	$339	($1,478)	$1,195	($1,163)	($2,964)	($4,071)

**Other currencies include GBP, HKD, AUD, CNY and NZD.*

The Parent Company's positions in other currencies are not individually significant.

The tables below indicate the sensitivity of the currencies which the Parent Company had significant exposures as of December 31, 2019, and 2018:

Foreign currency appreciates (depreciates)	**2019**			
	USD	**SGD**	**JPY**	**EUR**
+10.00%	**(₱37,209)**	**(₱2,704)**	**(₱12,634)**	**(₱6,948)**
-10.00%	**₱37,209**	**₱2,704**	**₱12,634**	**₱6,948**

Foreign currency appreciates (depreciates)	2018			
	USD	SGD	JPY	HKD
+10.00%	₱1,790	(₱7,773)	₱6,282	(₱6,112)
-10.00%	(₱1,790)	7,773	(6,282)	6,112

The analysis calculates the effect of a reasonably possible movement of the foreign currency rate against Peso, with all other variables held constant, on the statement of income. A negative amount reflects a potential net reduction in statement of income while a positive amount reflects a net potential increase. There is no other impact on the Parent Company's equity other than those already affecting the statements of income.

Market Risk in the Banking Book

Interest rate risk

Interest rate risk in the banking book (IRRBB) is inherent in the Groups' traditional banking activities that include taking deposits to invest or grant loans. The future cash flows from these activities are exposed to variations in interest rates, largely from mismatch in tenors and prices, IRRBB is measured with Earnings-at-Risk (EaR) which is a measure of the net interest income movement due to changes in prevailing interest rates and the balance sheet re-pricing profile of the Group. The EaR limit is set as a function of the Group's net interest margin (NIM). The EaR limit preserves the Group's capital and competitive position by restricting the impact of interest rate sensitivities to NIM within the corridor of above average and within the first quartile of its peer banks. In measuring EaR, the Group's interest re-pricing assets and liabilities are matched by re-pricing (or maturity if non-repricing) buckets covering tenors within a one-year horizon, and corresponding gaps determined. If positive gap is noted, it implies that an increase in interest rates will positively affect the net interest income. Conversely, a negative gap implies that an increase in interest rates will negatively affect the net interest income. The estimated nominal impact to the Bank's earnings is derived by multiplying the volatility of benchmark yields for each tenor bucket to the repricing gap profile. The result is compared vs EaR limit to monitor the compliance with the limit and is reported to the RMC on a monthly basis. Additionally, EaR limit is reviewed and updated annually to ensure its continued relevance and alignment with the Group's financial targets, strategies, and overall risk appetite.

To complement EaR and provide Management a more holistic view, the Group performs forward looking scenario and sensitivity analysis as well as stress testing activities to identify any vulnerabilities. The Bank employs three (3) methodologies in the conduct of stress testing a) economic/historical stress test which assumes a parallel shift in interest yield curves of 660.00 basis points for PhP-denominated assets and liabilities and 270.00 basis points for USD-denominated, b) uniform stress test, a regulatory-prescribed stress test, has three (3) scenarios with assumed parallel shift in interest rates for both PhP (from 300.00 bps to 500.00 bps) and USD (from 100.00 bps to 300.00 bps), c) reverse stress test, which primarily measures the highest swing in interest rates that can potentially wipe out the Banks targeted net income and net interest income.

All IRRBB reports are also presented to the ALCO. The ALCO deliberates on matters pertaining to the management of the Bank's assets and liabilities, such as achieving optimum asset and liability mix, pricing, liquidity levels, repricing gap positions, and asset quality. The Bank's ALCO meets on a weekly basis.

The Bank manages its IRRBB through effective diversification of funding sources. By offering various deposit, investment and loan products with differing maturities, the Bank is able to meet its short, medium and long-term obligations, optimize returns, and provide options that cater to differing preferences of its target market. The Bank's target funding mix is aligned with the Bank's overall growth plans. While the Bank mainly manages IRRBB through careful planning of its cashflows, it also has access to various derivative products that provide flexibility in responding to more abrupt market developments.

The following tables provide for the average interest rates by period of re-pricing (or by period of maturity if there is no re-pricing) of the Group as of December 31, 2019 and 2018:

	2019				
	Up to 1 month	**>1 month to 3 months**	**>3 months to 6 months**	**>6 months to 12 months**	**>12 months**
RBU					
Financial assets:					
Cash and cash equivalents*	**4.02%**	–	–	–	–
Investment securities**	**6.02%**	–	–	–	**6.08%**
Loans and receivables	**6.43%**	**7.37%**	**5.84%**	**11.04%**	**16.91%**
Financial liabilities:					
Deposit liabilities	**3.05%**	**3.31%**	**3.67%**	**3.17%**	**3.73%**
Bills payable	**4.50%**				
Subordinated debt	**5.50%**	–	–	–	**5.50%**
FCDU					
Financial assets:					
Cash and cash equivalents*	**1.55%**	–	–	–	–
Investment securities**	**3.83%**	**3.95%**	–	–	**5.23%**
Loans and receivables	**2.91%**	**3.75%**	**4.81%**	**4.00%**	**7.31%**
Financial liabilities:					
Deposit liabilities	**1.71%**	**1.86%**	**2.38%**	**2.19%**	**2.49%**
Bills payable	**2.23%**	**2.21%**	–	–	–

**Pertain to Due from BSP, Due from other banks, Interbank loans and receivables*
***Pertain to financial assets at FVTPL, financial assets at FVOCI and investment securities at amortized cost*

	2018				
	Up to 1 month	>1 month to 3 months	>3 months to 6 months	>6 months to 12 months	>12 months
RBU					
Financial assets:					
Cash and cash equivalents*	2.17%	–	–	–	–
Investment securities**	4.20%	–	–	–	5.48%
Loans and receivables	5.99%	6.58%	7.58%	10.10%	11.96%
Financial liabilities:					
Deposit liabilities	1.73%	4.22%	3.34%	2.30%	3.47%
Bills payable	5.26%	–	–	–	–
Subordinated debt	–	–	–	–	5.50%
FCDU					
Financial assets:					
Cash and cash equivalents*	2.20%	–	–	–	–
Investment securities**	6.57%	–	7.25%	4.25%	5.48%
Loans and receivables	3.14%	6.20%	3.14%	–	7.25%
Financial liabilities:					
Deposit liabilities	1.07%	1.93%	1.51%	1.50%	2.71%
Bills payable	2.80%	–	–	–	–

**Pertain to Due from BSP, Due from other banks, Interbank loans and receivables*
***Pertain to financial assets at FVTPL, financial assets at FVOCI and investment securities at amortized cost*

The following tables provide for the average interest rates by period of re-pricing (or by period of maturity if there is no re-pricing) of the Parent Company as of December 31, 2019 and 2018:

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	2019				
	Up to 1 month	**>1 month to 3 months**	**>3 months to 6 months**	**>6 months to 12 months**	**>12 months**
RBU					
Financial assets:					
Cash and cash equivalents*	**4.02%**	–	–	–	–
Investment securities**	**6.02%**	–	–	–	**6.08%**
Loans and receivables	**6.43%**	**7.36%**	**5.74%**	**12.09%**	**19.55%**
Financial liabilities:					
Deposit liabilities	**2.94%**	**3.18%**	**3.68%**	**3.18%**	**4.08%**
Bills payable	**4.50%**	–	–	–	–
Subordinated debt	**5.50%**	–	–	–	–
FCDU					
Financial assets:					
Cash and cash equivalents*	**1.55%**	–	–	–	–
Investment securities**	**3.83%**	**3.95%**	–	–	**5.23%**
Loans and receivables	**2.91%**	**3.75%**	**4.81%**	**4.00%**	**7.31%**
Financial liabilities:					
Deposit liabilities	**1.71%**	**1.86%**	**2.38%**	**2.19%**	**2.49%**
Bills payable	**2.23%**	**2.21%**	–	–	–

**Pertain to Due from BSP, Due from other banks, Interbank loans and receivables*
***Pertain to financial assets at FVTPL, financial assets at FVOCI and investment securities at amortized cost*

	2018				
	Up to 1 month	>1 month to 3 months	>3 months to 6 months	>6 months to 12 months	>12 months
RBU					
Financial assets:					
Cash and cash equivalents*	2.17%	–	–	–	–
Investment securities**	4.20%	–	–	–	5.48%
Loans and receivables	5.99%	6.56%	7.57%	10.35%	12.75%
Financial liabilities:					
Deposit liabilities	1.39%	2.02%	3.11%	2.16%	4.09%
Bills payable	5.26%	–	–	–	–
Subordinated debt	–	–	–	–	5.50%
FCDU					
Financial assets:					
Cash and cash equivalents*	2.20%	–	–	–	–
Investment securities**	6.57%	–	7.25%	4.25%	5.48%
Loans and receivables	3.14%	6.20%	3.14%	–	7.25%
Financial liabilities:					
Deposit liabilities	1.07%	1.93%	1.51%	1.50%	2.71%
Bills Payable	2.80%	–	–	–	–

**Pertain to Due from BSP, Due from other banks, Interbank loans and receivables*
***Pertain to financial assets at FVTPL, financial assets at FVOCI and investment securities at amortized cost*

The following tables set forth the interest rate re-pricing gap of the Group as of December 31, 2019 and 2018:

	2019					
	Up to 1 month	**> 1 to 3 months**	**> 3 to 6 months**	**>6 to 12 months**	**>12 months**	**Total**
Financial assets:						
Cash and cash equivalents	**₱2,691,882**	**₱–**	**₱–**	**₱–**	**₱–**	**₱2,691,882**
Investment securities	**16,799,979**	**434,286**	**–**	**–**	**54,219,537**	**71,453,802**
Loans and receivables	**37,841,333**	**4,446,187**	**10,453,784**	**6,476,761**	**154,111,407**	**213,329,472**
Contingent assets*	**–**	**759,525**	**253,175**	**–**	**–**	**1,012,700**
Total financial assets	**57,333,194**	**5,639,998**	**10,706,959**	**6,476,761**	**208,330,944**	**288,487,856**
Financial liabilities:						
Deposit liabilities	**83,447,163**	**47,388,399**	**16,084,590**	**2,193,420**	**13,828,598**	**162,942,170**
Bills payable	**29,950,625**	**962,306**	**–**	**–**	**–**	**30,912,931**
Subordinated debt	**5,000,000**	**–**	**–**	**–**	**1,250,000**	**6,250,000**
Contingent liabilities**	**–**	**–**	**–**	**–**	**1,012,700**	**1,012,700**
Total financial liabilities	**118,397,788**	**48,350,705**	**16,084,590**	**2,193,420**	**16,091,298**	**201,117,801**
Asset-liability gap	**(₱61,064,594)**	**(₱42,710,707)**	**(₱5,377,631)**	**₱4,283,341**	**₱192,239,646**	**₱87,370,055**

* *Consist of interest rate swap receivables*
** *Consist of interest rate swap payables*

	2018					
	Up to 1 month	> 1 to 3 months	> 3 to 6 months	>6 to 12 months	>12 months	Total
Financial assets						
Cash and cash equivalents	₱5,862,670	₱–	₱–	₱–	₱–	₱5,862,670
Investment securities	4,286,960	–	848,483	205,062	33,270,550	38,611,055
Loans and receivables	39,375,802	5,435,804	5,213,752	6,096,906	151,158,971	207,281,235
Contingent assets*	–	1,051,600	–	–	–	1,051,600
Total financial assets	49,525,432	6,487,404	6,062,235	6,301,968	184,429,521	252,806,560
Financial liabilities						
Deposit liabilities	126,883,754	8,344,245	3,790,783	740,204	21,092,865	160,851,851
Bills payable	17,939,215	–	–	–	–	17,939,215
Subordinated debt	–	–	–	–	6,250,000	6,250,000
Contingent liabilities**	–	–	–	–	1,051,600	1,051,600
Total financial liabilities	144,822,969	8,344,245	3,790,783	740,204	28,394,465	186,092,666
Asset-liability gap	(₱95,297,537)	(₱1,856,841)	₱2,271,452	₱5,561,764	₱156,035,056	₱66,713,894

* *Consist of interest rate swap receivables*
** *Consist of interest rate swap payables*

The following tables set forth the interest rate re-pricing gap of the Parent Company as of December 31, 2019 and 2018:

	2019					
	Up to 1 month	**> 1 to 3 months**	**> 3 to 6 months**	**>6 to 12 months**	**>12 months**	**Total**
Financial assets:						
Cash and cash equivalents	**₱2,691,882**	**₱–**	**₱–**	**₱–**	**₱–**	**₱2,691,882**
Investment securities	**16,799,979**	**434,286**	**–**	**–**	**54,219,537**	**71,453,802**
Loans and receivables	**37,779,375**	**4,368,482**	**10,253,023**	**5,402,435**	**129,095,210**	**186,898,525**
Contingent assets*	**–**	**759,525**	**253,175**	**–**	**–**	**1,012,700**
Total financial assets	**57,271,236**	**5,562,293**	**10,506,198**	**5,402,435**	**183,314,747**	**262,056,909**
Financial liabilities:						
Deposit liabilities	**72,259,561**	**38,094,374**	**16,044,566**	**2,186,793**	**13,828,598**	**142,413,892**
Bills payable	**29,950,652**	**962,306**	**–**	**–**	**–**	**30,912,931**
Subordinated debt	**5,000,000**	**–**	**–**	**–**	**–**	**5,000,000**
Contingent liabilities**	**–**	**–**	**–**	**–**	**1,012,700**	**1,012,700**
Total financial liabilities	**107,210,186**	**39,056,680**	**16,044,566**	**2,186,793**	**14,841,298**	**179,339,523**
Asset-liability gap	**(₱49,938,950)**	**(₱33,494,387)**	**(₱5,538,368)**	**₱3,215,642**	**₱168,473,449**	**₱82,717,386**

* *Consist of interest rate swap receivables*
** *Consist of interest rate swap payables*

	2018					
	Up to 1 month	> 1 to 3 months	> 3 to 6 months	>6 to 12 months	>12 months	Total
Financial assets						
Cash and cash equivalents	₱5,862,670	₱–	₱–	₱–	₱–	₱5,862,670
Investment securities	4,286,960	–	848,483	205,062	33,270,550	38,611,055
Loans and receivables	39,359,611	5,388,066	5,043,790	5,505,863	127,417,833	182,715,163
Contingent assets*	–	1,051,600	–	–	–	1,051,600
Total financial assets	49,509,241	6,439,666	5,892,273	5,710,925	160,688,383	228,240,488
Financial liabilities						
Deposit liabilities	116,460,728	1,369,831	3,132,493	719,089	21,092,865	142,775,006
Bills payable	17,939,215	–	–	–	–	17,939,215
Subordinated debt	–	–	–	–	5,000,000	5,000,000
Contingent liabilities**	–	–	–	–	1,051,600	1,051,600
Total financial liabilities	134,399,943	1,369,831	3,132,493	719,089	27,144,465	166,765,821
Asset-liability gap	(₱84,890,702)	₱5,069,835	₱2,759,780	₱4,991,836	₱133,543,918	₱61,474,667

* *Consist of interest rate swap receivables*
** *Consist of interest rate swap payables*

The Group also monitors its exposure to fluctuations in interest rates by using scenario analysis to estimate the impact of interest rate movements on its interest income. This is done by modeling the impact to the Group's interest income and interest expenses of different parallel changes in the interest rate curve, assuming the parallel change only occurs once and the interest rate curve after the parallel change does not change again for the next twelve months.

The following table sets forth, for the period indicated, the impact of changes in interest rates on the Group's non-trading net interest income. There is no other impact on the Group's equity other than those already affecting the statements of income.

Change in basis points	**2019**	2018
+100.00 bps	**(₱964,027)**	(₱900,641)
-100.00 bps	**964,027**	900,641

The following table sets forth, for the period indicated, the impact of changes in interest rates on the Parent Company's non-trading net interest income. There is no other impact on the Parent Company's equity other than those already affecting the statements of income.

Change in basis points	**2019**	2018
+100.00 bps	**(₱784,277)**	(₱741,559)
-100.00 bps	**784,277**	741,559

Market Risk Weighting as of December 31, 2019 and 2018
The table below shows the different market risk-weighted assets of the Parent Company using the standardized approach which is based on the standard weight per segment or asset class:

Type of Market Risk Exposure	**2019**	2018
Interest rate exposures	**₱13,388,521**	₱2,275,757
Foreign exchange exposures	**286,768**	220,046
	₱13,675,289	₱2,495,803

Only the Parent Company has a trading book portfolio.

Operational Risk
Operational risk is the loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal, compliance and reputational risks but excludes strategic risk.

Adopting the Basic Indicator Approach below, where computation is based on the 15.00% of the average gross income for the past three years, it shows the total operational risk-weighted assets of the Group and Parent Company.

	2019	2018
Group	**₱44,636,287**	38,959,219
Parent Company	**₱40,694,212**	35,179,171

Other Risk Exposures
Group risk exposures other than credit, market, liquidity and operational, while existent, are deemed insignificant relative to the mentioned risks and if taken in isolation. Hence, management of these risks are instead collectively performed and made an integral part of the Group's internal capital adequacy assessment process (ICAAP) and enterprise risk management initiatives.

5. **Fair Value Measurement**

The Group has assets and liabilities in the consolidated and Parent Company statements of financial position that are measured at fair value on a recurring and non-recurring basis after initial recognition. Recurring fair value measurements are those that another PFRS requires or permits to be recognized on the statements of financial position at the end of the year financial reporting period. These include financial assets and liabilities at FVTPL and Financial assets at FVTOCI

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

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

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

Equity securities - Fair values of quoted equity securities are based on quoted market prices.

Derivative instruments (presented as other financial assets and liabilities in 'Other assets' and 'Other liabilities') - Fair values of derivative instruments, mainly currency forwards and swaps and interest rate swaps, are valued using a valuation technique using market observable inputs. The valuation technique applied includes forward pricing and swap models using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates, yield curves of the respective currencies and interest rate curves prevailing at the statement of financial position date. For futures, these are valued considering the prevailing futures prices on the exchange as of the statement of financial position date.

Receivable from customers and unquoted debt securities classified as loans - Fair values of loans and receivables are estimated using the discounted cash flow methodology, using the Group's current incremental lending rates for similar types of loans and receivables.

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

Investment properties – Fair value of investment properties are determined by independent or in-house appraisers using the market data approach. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made, and comparability of similar properties sold with the property being valued. Significant unobservable inputs in determining fair values include the following:

- **Location**: Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
- **Size**: Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of the lot size differences on land value.
- **Time element**: An n adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investor's perceptions of the market over time, in which case, the current data is superior to historic data.
- **Discount**: Generally, asking prices in advertisements posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.

Deposit liabilities (demand, savings and time) – For demand and savings deposit, carrying amounts approximate fair values considering that these are due and demandable. Fair value of time deposit liabilities is estimated using the discounted cash flow methodology using the Group's incremental borrowing rates for similar borrowing with maturities consistent with those for the liabilities being valued.

LTNCDs and subordinated debt - Fair values of LTNCD and subordinated debt are estimated using adjusted quoted market prices comparable investments. The adjustments on market quoted prices are unobservable inputs.

Bills and acceptances payable, cashier's checks and demand draft payable – Carrying amounts approximate fair values due to the short-term nature of the accounts.

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

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

	Consolidated				
	2019				
		Fair Value			
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
Government securities	**₱16,768,178**	**₱16,768,178**	**₱16,768,178**	–	–
Private bonds	**62,188**	**62,188**	**62,188**	–	–
Equity securities	**10,343**	**10,343**	**10,343**	–	–
	16,840,709	**16,840,709**	**16,840,709**	–	–
Derivative assets*	**104,313**	**104,313**	–	**104,313**	–
Financial assets at FVTOCI:					
Government securities	**4,650,635**	**4,650,635**	**4,650,635**	–	–
Equity securities	**1**	**1**	**1**	–	–
	4,650,636	**4,650,636**	**4,650,636**	–	–
	21,595,658	**21,595,658**	**21,491,345**	**104,313**	–
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost:					
Government securities	**40,244,099**	**44,358,323**	**44,358,323**	–	–
Private bonds	**9,141,971**	**10,060,962**	**10,060,962**	–	–
	49,386,070	**54,419,285**	**54,419,285**	–	–
Loans and receivables					
Receivable from customers:					
Corporate lending	**69,323,969**	**71,898,694**	–	–	**71,898,694**
Consumer lending	**188,996,450**	**251,055,596**	–	–	**251,055,596**
Unquoted debt securities	**264,515**	**344,188**	–	–	**344,188**
Other receivables	**5,587,471**	**5,587,471**	–	–	**5,587,471**
	264,172,405	**328,885,949**	–	–	**328,885,949**
Other financial assets	**366,761**	**366,761**	–	–	**366,761**
Non-financial assets					
Investment properties	**949,138**	**1,590,237**	–	–	**1,590,237**
	₱336,470,032	**₱406,857,890**	**₱75,910,630**	**₱104,313**	**₱330,842,947**
Liabilities measured at fair value					
Financial liabilities					
Derivative liabilities**	**₱128,004**	**₱128,004**	**₱–**	**₱128,004**	**₱–**
Liabilities for which fair values are disclosed					
Financial liabilities					
Deposit liabilities					
Demand	**88,757,787**	**88,757,787**	–	–	**88,757,787**
Savings	**98,027,632**	**98,027,632**	–	–	**98,027,632**
Time	**104,605,705**	**108,535,667**	–	–	**108,535,667**
LTNCD	**13,335,031**	**13,371,600**	–	–	**13,371,600**
	304,726,155	**308,692,686**	–	–	**308,692,686**
Lease liability	**3,302,981**	**3,507,684**	–	–	**3,507,684**
Bills payable	**30,949,753**	**30,949,753**	–	–	**30,949,753**
Subordinated debt	**6,219,011**	**6,134,819**	–	–	**6,134,819**
	₱345,325,904	**₱349,412,946**	**₱–**	**₱128,004**	**₱349,284,942**

**Presented under 'Other Assets'*
***Presented under 'Other Liabilities'*

	Consolidated				
	2018				
		Fair Value			
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
Government securities	₱4,286,260	₱4,286,260	₱4,286,260	₱–	₱–
Private bonds	42,204	42,204	42,204	–	–
Equity securities	10,330	10,330	10,330	–	–
	4,338,794	4,338,794	4,338,794	–	–
Derivative assets*	201,033	201,033	–	201,033	–
Financial assets at FVTOCI:					
Government securities	248,206	248,206	248,206	–	–
Equity securities	1	1	1	–	–
	248,207	248,207	248,207	–	–
	4,788,034	4,788,034	4,587,001	201,033	–
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost:					
Government securities	26,098,282	25,659,808	25,659,808	–	–
Private bonds	10,412,264	9,856,548	9,856,548	–	–
	36,510,546	35,516,356	35,516,356	–	–
Loans and receivables					
Receivable from customers:					
Corporate lending	71,795,794	69,599,163	–	–	69,599,163
Consumer lending	168,947,258	168,559,399	–	–	168,559,399
Unquoted debt securities	270,264	341,890	–	–	341,890
Other receivables	5,000,272	5,000,272	–	–	5,000,272
	246,013,588	243,500,724			243,500,724
Other financial assets	296,626	296,626	–	–	296,626
Non-financial assets					
Investment properties	921,153	1,497,178	–	–	1,497,178
	₱288,529,947	₱285,598,918	₱40,103,357	₱201,033	₱245,294,528
Liabilities measured at fair value					
Financial liabilities					
Derivative liabilities**	₱146,548	₱146,548	₱–	₱146,548	₱–
Liabilities for which fair values are disclosed					
Financial liabilities					
Deposit liabilities					
Demand	74,793,978	74,793,978	–	–	74,793,978
Savings	70,733,509	70,733,509	–	–	70,733,509
Time	126,915,196	127,649,516	–	–	127,649,516
LTNCD	15,797,150	16,768,366	–	–	16,768,366
	288,239,833	289,945,369			289,945,369
Bills payable	17,969,927	17,969,927	–	–	17,969,927
Subordinated debt	6,214,479	6,648,452	–	–	6,648,452
	₱312,570,787	₱314,710,296	₱–	₱146,548	₱314,563,748

**Presented under 'Other Assets'*
***Presented under 'Other Liabilities'*

	Parent Company				
	2019				
		Fair Value			
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
Government securities	₱16,768,178	₱16,768,178	₱16,768,178	₱–	₱–
Private bonds	62,188	62,188	62,188	–	–
Equity securities	10,343	10,343	10,343	–	–
	16,840,709	16,840,709	16,840,709	–	–
Derivative assets*	104,313	104,313	–	104,313	–
Financial assets at FVTOCI:					
Government securities	4,650,635	4,650,635	4,650,635	–	–
Equity securities	1	1	1	–	–
	4,650,636	4,650,636	4,650,636	–	–
	21,595,658	21,595,658	21,491,345	104,313	–
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost:					
Government securities	40,244,099	44,358,323	44,358,323	–	–
Private bonds	9,141,971	10,060,962	10,060,962	–	–
	49,386,070	54,419,285	54,419,285	–	–
Loans and receivables					
Receivable from customers:					
Corporate lending	69,378,774	71,898,694	–	–	71,898,694
Consumer lending	167,961,011	223,576,484	–	–	223,576,484
Unquoted debt securities	264,515	334,188	–	–	334,188
Other receivables	4,255,100	5,587,471	–	–	5,587,471
	241,859,400	301,396,837	–	–	301,396,837
Other financial assets	363,500	363,500	–	–	363,500
Non-financial assets					
Investment properties	947,836	1,586,848	–	–	1,586,848
	₱314,151,834	₱379,361,498	₱75,910,630	₱104,313	₱303,346,555
Liabilities measured at fair value					
Financial liabilities					
Derivative liabilities**	₱128,004	₱128,004	₱–	₱128,004	₱–
Liabilities for which fair values are disclosed					
Financial liabilities					
Deposit liabilities					
Demand	89,587,063	89,587,063	–	–	89,587,063
Savings	76,154,416	76,154,416	–	–	76,154,416
Time	104,605,705	108,535,667	–	–	108,535,667
LTNCD	13,335,031	13,371,600	–	–	13,371,600
	283,682,215	287,648,746			287,648,746
Lease liability	3,121,443	3,312,669			3,312,669
Bills payable	30,949,753	30,949,753			30,949,753
Subordinated debt	4,979,340	4,979,340	–	–	4,979,340
	₱322,860,755	₱327,018,512	₱–	₱128,004	₱326,890,508

**Presented under 'Other Assets'*
***Presented under 'Other Liabilities'*

	Parent Company				
	2018				
		Fair Value			
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
Government securities	₱4,286,260	₱4,286,260	₱4,286,260	₱–	₱–
Private bonds	42,204	42,204	42,204	–	–
Equity securities	10,330	10,330	10,330	–	–
	4,338,794	4,338,794	4,338,794	–	–
Derivative assets*	201,033	201,033	–	201,033	–
Financial assets at FVTOCI:					
Government securities	248,206	248,206	248,206	–	–
Equity securities	1	1	1	–	–
	248,207	248,207	248,207	–	–
	4,788,034	4,788,034	4,587,001	201,033	–
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost:					
Government securities	26,098,282	25,659,808	25,659,808	–	–
Private bonds	10,412,264	9,856,548	9,856,548	–	–
	36,510,546	35,516,356	35,516,356	–	–
Loans and receivables					
Receivable from customers:					
Corporate lending	71,795,793	69,599,163	–	–	69,599,163
Consumer lending	145,386,990	140,883,320	–	–	140,883,320
Unquoted debt securities	270,263	341,890	–	–	341,890
Other receivables	4,743,761	4,743,761	–	–	4,743,761
	222,196,807	215,568,134	–	–	215,568,134
Other financial assets	294,723	294,723	–	–	294,723
Non-financial assets					
Investment properties	919,782	1,495,806	–	–	1,495,806
	₱264,709,892	₱257,663,053	₱40,103,357	₱201,033	₱217,358,663
Liabilities measured at fair value					
Financial liabilities					
Derivative liabilities**	₱146,548	₱146,548	₱–	₱146,548	₱–
Liabilities for which fair values are disclosed					
Financial liabilities					
Deposit liabilities					
Demand	75,162,613	75,162,613	–	–	75,162,613
Savings	51,391,535	51,391,535	–	–	51,391,535
Time	126,915,196	127,649,516	–	–	127,649,516
LTNCD	15,797,150	16,768,366	–	–	16,768,366
	269,266,494	270,972,030	–	–	270,972,030
Bills payable	17,969,927	17,969,927	–	–	17,969,927
Subordinated debt	4,975,862	5,311,981	–	–	5,311,981
	₱292,358,831	₱294,400,486	–	₱146,548	₱294,253,938

**Presented under 'Other Assets'*
***Presented under 'Other Liabilities'*

In 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Derivative Financial Instruments

The Parent Company's freestanding derivative financial instruments, which mainly consist of foreign currency forwards, foreign currency swaps, US Treasury futures and interest rate swaps, are transactions not designated as accounting hedges. The tables below set out information about the Parent Company's derivative financial instruments and their related fair values as of December 31, 2019 and 2018:

Interest Rate Swaps	**2019**	2018
Notional amount	**$20,000**	$20,000
Derivative assets	**₱96,212**	₱170,981
Derivative liabilities	**114,995**	136,595

Futures	**2019**	2018
Notional amount	**$23,877**	$–
Derivative assets	**₱–**	₱–
Derivative liabilities	**7,832**	

Foreign Currency Forwards and Swaps	**2019**	2018
Notional amount	**$44,699**	$13,000
Derivative assets	**₱8,101**	₱30,052
Derivative liabilities	**5,177**	9,953

The net movements in fair values of all derivative instruments are as follows:

	2019	2018
Derivative assets (liabilities) - net at beginning of year	**₱54,485**	(₱19,492)
Changes in fair value of derivatives	**59,675**	28,685
Fair value of settled instruments	**(137,851)**	45,292
Derivative assets (liabilities) - net at end of year	**(₱23,691)**	₱54,485

Fair value changes of foreign currency forwards and swaps are recognized as Foreign exchange gain in the statements of income while fair value changes of interest rate swaps and futures are recognized as part of 'Trading and securities gain (loss)' in the statements of income (Note 8).

6. **Segment Reporting**

The Group's main operating businesses are organized and managed primarily according to the current organizational structure. Each segment represents a strategic business unit that caters to the Group's identified markets. The Group's business segments are:

(a) *Retail banking* - this segment mainly covers traditional branch banking products and services such as deposits, back-to-back/emerging market loans and other over-the-counter (OTC) transactions. It likewise caters to the needs of high net-worth clients for alternative investment channels. It includes entire transaction processing, service delivery and infrastructure consisting of the Group's network of branches, automated teller machines as well as its internet banking platform;

(b) *Corporate banking* - this segment handles lending and trade financing for both large corporations and middle market clients;

(c) *Consumer banking* - this segment primarily caters to loans for individuals; and

(d) *Treasury and Trust* - this segment consists of Treasury and Trust operations of the Group. Treasury focuses on providing money market, trading and treasury services, as well as the management of the Group's funding operations through debt securities, placements and acceptances with other banks. Trust includes fund management, investment management services, custodianship, administration and collateral agency services, and stock and transfer agency services. In addition, the Parent Company through Trust, provides retail customers with alternative investment opportunities through its unit investment fund products.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment assets are those operating assets employed by a segment in its operating activities and are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities are those operating liabilities that result from the operating activities of a segment and are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. Interest income is reported net, as management primarily relies on the net interest income as performance measure, not the gross income and expense.

The Group's revenue-producing assets are located in the Philippines (i.e., one geographical location); therefore, geographical segment information is no longer presented. The Group has no significant customers which contribute 10.00% or more of the consolidated revenue, net of interest expense. The segment results include internal transfer pricing adjustments across business units as deemed appropriate by management. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to the business units based on a pool rate which approximates the marginal cost of funds.

Segment information of the Group as of and for the years ended December 31, 2019, and 2018 follow:

	2019					
	Retail Banking	**Corporate Banking**	**Consumer Banking**	**Treasury and Trust**	**Elimination Items**	**Total**
Statement of Income						
Net Interest Income:						
Third Party	**₱5,131**	**₱895**	**₱13,740**	**(₱109)**	**₱1,810**	**₱21,467**
Intersegment	**–**	**1,215**	**–**	**360**	**(1,575)**	**–**
	5,131	**2,110**	**13,740**	**251**	**235**	**21,467**
Non-interest Income	**1,865**	**309**	**3,370**	**1,368**	**(20)**	**6,892**
Revenue - Net of Interest Expense	**6,996**	**2,419**	**17,110**	**1,619**	**215**	**28,359**
Non-interest Expense	**(7,339)**	**(837)**	**(10,405)**	**(857)**	**(1,010)**	**(20,448)**
Income Before Income Tax	**(343)**	**1,582**	**6,705**	**762**	**(795)**	**7,911**
Provision for Income Tax	**(276)**	**(396)**	**(1,175)**	**(192)**	**370**	**(1,669)**
Net Income for the Year	**(₱619)**	**₱1,186**	**₱5,530**	**₱570**	**(₱425)**	**₱6,242**
Statement of Financial Position						
Total Assets	**₱50,200**	**₱77,356**	**₱173,388**	**₱28,226**	**₱77,154**	**₱406,324**
Total Liabilities	**270,377**	**47,087**	**4,845**	**66,981**	**(32,033)**	**357,257**
Statement of Income						
Depreciation and Amortization	**1,105**	**22**	**647**	**52**	**58**	**1,884**
Provision for Impairment and Credit Losses	**299**	**93**	**3,375**	**–**	**275**	**4,042**

	2018					
	Retail Banking	Corporate Banking	Consumer Banking	Treasury and Trust	Elimination Items	Total
Statement of Income						
Net Interest Income:						
Third Party	₱5,120	₱629	₱12,357	₱77	₱1,094	₱19,277
Intersegment	–	984	–	331	(1,315)	–
	5,120	1,613	12,357	408	(221)	19,277
Non-interest Income	1,701	220	4,051	64	(212)	5,824
Revenue - Net of Interest Expense	6,821	1,833	16,408	472	(433)	25,101
Non-interest Expense	(6,772)	(783)	(9,830)	(818)	(922)	(19,125)
Income Before Income Tax	49	1,050	6,578	(346)	(1,355)	5,976
Provision for Income Tax	(340)	(315)	(1,325)	138	374	(1,468)
Net Income for the Year	(₱291)	₱735	₱5,253	(₱208)	(₱981)	₱4,508
Statement of Financial Position						
Total Assets	₱48,508	₱79,674	₱149,693	₱25,349	₱64,115	₱367,339
Total Liabilities	250,738	47,223	3,168	50,296	(26,743)	324,682
Statement of Income						
Depreciation and Amortization	448	17	434	28	150	1,077
Provision for Impairment and Credit Losses	869	50	3,127	6	(146)	3,906

	2017					
	Retail Banking	Corporate Banking	Consumer Banking	Treasury and Trust	Elimination Items	Total
Statement of Income						
Net Interest Income:						
Third Party	₱4,692	₱594	₱12,494	₱175	₱496	₱18,451
Intersegment	–	797	–	183	(980)	–
	4,692	1,391	12,494	358	(484)	18,451
Non-interest Income	1,686	198	4,346	(194)	718	6,754
Revenue - Net of Interest Expense	6,378	1,589	16,840	164	234	25,205
Non-interest Expense	(6,009)	(682)	(9,986)	(578)	(1,192)	(18,447)
Income Before Income Tax	369	907	6,854	(414)	(958)	6,758
Provision for Income Tax	(273)	(272)	(1,195)	125	(92)	(1,707)
Net Income for the Year	₱96	₱635	₱5,659	(₱289)	(₱1,050)	₱5,051
Statement of Financial Position						
Total Assets	₱47,868	₱69,462	₱140,855	₱32,665	₱26,793	₱317,643
Total Liabilities	228,246	43,437	3,131	32,563	(28,739)	278,638
Statement of Income						
Depreciation and Amortization	588	32	590	57	(211)	1,056
Provision for Impairment and Credit Losses	54	64	4,036	–	310	4,464

The 'Elimination Items' includes the Group's executive office and elimination items related to the Group's segment reporting framework.

Non-interest income consists of service charges, fees and commissions, gain on sale of assets, gain (loss) on asset foreclosure and dacion transactions, trading and securities gain (loss), gain on sale of investment securities at amortized cost, foreign exchange gain, trust income, share in net loss of a joint venture and miscellaneous income. The share in net loss of a joint venture has been presented as part of the elimination items in the Group's segment reporting framework. Non-interest expense consists of compensation and fringe benefits, taxes and licenses, depreciation and amortization, rent, amortization of intangible assets, provision for impairment and credit losses, and miscellaneous expenses.

7. Due from BSP and Due from Other Banks

Due from BSP
This account consists of:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Demand deposit account	**₱33,313,175**	₱40,385,370	**₱32,616,359**	₱39,776,262
Special deposit account	**74,127**	96,586	**74,127**	96,586
Others*	**900,000**	–	**900,000**	–
	₱34,287,302	₱40,481,956	**₱33,590,486**	₱39,872,848

**Pertains to overnight deposit facility*

Due from Other Banks
This comprises of deposit accounts of:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Foreign banks	**₱2,335,008**	₱9,311,100	**₱2,335,008**	₱9,311,100
Local banks	**1,069,011**	922,338	**989,487**	776,773
	3,404,019	10,233,438	**3,324,495**	10,087,873
Allowance for credit losses (Note 15)	**(93)**	(198)	**(93)**	(198)
	₱3,403,926	₱10,233,240	**₱3,324,402**	₱10,087,675

Interest Income of Due from BSP and Due from Other Banks
This account consists of:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Due from BSP	**₱713**	₱2,881	₱4,068	**₱713**	₱2,881	₱4,068
Due from other banks	**16,227**	17,808	21,333	**12,936**	16,060	19,810
	₱16,940	₱20,689	₱25,401	**₱13,649**	₱18,941	₱23,878

8. Trading and Investment Securities

The Group and the Parent Company have the following trading and investment securities:

	2019	2018
Financial assets at FVTPL	**₱16,840,709**	₱4,338,794
Financial assets at FVTOCI	**4,650,636**	248,207
Investment securities at amortized cost	**49,386,070**	36,510,546
	₱70,877,415	₱41,097,547

Financial assets at FVTPL
Financial assets at FVTPL of the Group and of the Parent Company consist of:

	2019	2018
Government securities	**₱16,768,178**	₱4,286,260
Private bonds	**62,188**	42,204
Equity securities	**10,343**	10,330
	₱16,840,709	₱4,338,794

As of December 31, 2019 and 2018, financial assets at FVTPL include net unrealized gains of ₱193.26 million and ₱18.57 million, respectively.

Financial assets at FVTOCI
Financial assets at FVTOCI of the Group and of the Parent Company consists of:

	2019	2018
Government debt securities	**₱4,650,635**	₱248,206
Private equity securities	**1**	1
	₱4,650,636	₱248,207

Movements in the fair value reserves on financial assets at FVTOCI investments follow:

	2019	2018
Balance at beginning of year	**(₱10,293)**	(₱4,048)
Gain (loss) from sale of financial assets at FVTOCI	**(8,345)**	4,048
Fair value gain recognized in OCI	**46,966**	(10,293)
Balance at end of year	**₱28,328**	(₱10,293)

The private equity securities were designated as at FVTOCI on the basis that these are not held for trading. These include shares in a real estate company and a golf club. No dividend income was recognized in 2019 and 2018 for these securities.

The Parent Company recognized net unrealized gain (loss) on financial assets at FVTOCI amounting to ₱38.62 million and (₱6.24 million) in 2019 and 2018, respectively.

Investment securities at amortized cost
Investment securities at amortized cost of the Group and of the Parent Company consist of:

	2019	2018
Government securities	**₱40,245,948**	₱26,100,243
Private bonds	**9,142,387**	10,413,198
Allowance for impairment losses (Note 15)	**(2,265)**	(2,895)
	₱49,386,070	₱36,510,546

Peso-denominated government bonds have effective interest rates ranging from 4.45% to 8.11% in 2019 and 2018 and from 4.45% to 8.09% in 2017. Foreign currency-denominated bonds have effective interest rates ranging from 2.12% to 7.82% in 2019, and 1.57% to 7.07% in 2018 and 2017.

In 2017, the Parent Company sold securities carried at amortized cost, with aggregate carrying amount of ₱11.44 billion, and recognized gains of ₱317.44 million which were presented as 'Gain on sale of investment securities at amortized cost' in the statements of income.

In December 2017, the Parent Company's BOD approved the change in the Parent Company's business models for managing financial assets. As required by PFRS 9, the reclassification of financial assets due to the change in business model was effected on January 1, 2018, which is the first day of the reporting period following the change in business model. The Parent Company reclassified financial assets with fair value of ₱4.54 billion from FVTPL to amortized cost. The reclassified securities have effective interest rates ranging from 3.70% to 7.39% on the reclassification date. Interest income earned on the reclassified securities amounted to ₱36.23 million in 2018. No such reclassifications occurred during 2019.

Trading and securities gains (losses) of the Group and of the Parent Company consists of:

	2019	2018	2017
Financial assets at FVTPL	**₱1,085,670**	(₱185,008)	₱45,871
Financial assets at FVTOCI	**21,674**	(10,848)	–
US Treasury futures (Note 5)	**(90,243)**	(71,913)	22,665
Interest rate swaps (Note 5)	**(51,371)**	31,852	(4,563)
	₱965,730	(₱235,917)	₱63,973

9. Loans and Receivables

Loans and receivables consist of:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Receivables from customers:				
Corporate lending*	**₱70,659,248**	₱72,933,365	**₱70,580,112**	₱72,848,679
Consumer lending				
Auto loans	**93,995,497**	77,797,722	**93,995,497**	77,797,722
Credit cards	**35,263,876**	30,940,499	**35,263,876**	30,940,499
Mortgage loans	**22,274,443**	20,290,858	**22,274,443**	20,290,858
Other consumer loans**	**38,520,564**	37,825,280	**11,424,800**	13,379,946
	260,713,628	239,787,724	**233,538,728**	215,257,704
Unamortized premium	**8,391,667**	6,945,199	**9,589,794**	7,547,675
	269,105,295	246,732,923	**243,128,522**	222,805,379
Unquoted debt securities:				
Private bonds	**344,188**	341,890	**334,188**	341,890
	344,188	341,890	**334,188**	341,890
Other receivables:				
Accrued interest receivable	**3,393,132**	3,438,697	**3,227,254**	3,264,827
Accounts receivable	**2,038,230**	2,501,541	**1,902,089**	2,377,761
Sales contracts receivable	**156,109**	146,416	**156,109**	146,416
	5,587,471	6,086,654	**5,285,452**	5,789,004
	275,036,954	253,161,467	**248,748,162**	228,936,273
Allowance for credit and impairment losses (Note 15)	**(7,389,216)**	(7,291,882)	**(6,888,762)**	(6,883,467)
	₱267,647,738	₱245,869,585	**₱241,859,400**	₱222,052,806

**Include Corporate loans and Emerging enterprise loans amounting to ₱720.56 million and 757.05 million as of December 31, 2019 and 2018, respectively.*
***Include Branch loans, DepEd loans, Employee loans, Salary loans and Personal loans*

In 2016, the Parent Company entered into a sale of receivables agreement with EWRB, whereby the Parent Company will sell to EWRB, on a without recourse basis, certain employee loans of the Parent Company. In 2019 and 2018, the total employee loans sold by the Parent Company have an aggregate carrying amount of ₱204.76 million and ₱181.37 million, respectively. The selling price of the employee loans approximates the fair value at the date of sale. As of December 31, 2019 and 2018, outstanding principal balance of employee loans purchased from the Parent Company, included in ‘Other consumer loans’ of EWRB, amounted to ₱381.99 million and ₱360.43 million, respectively. In connection with the sale of receivables agreement, the Parent Company and EWRB also entered into an account servicing and collection agreement whereby EWRB agreed to pay equivalent to 0.37% of the loan amounts collected by the Parent Company on behalf of EWRB. The service fees received by the Parent Company (included under ‘Service charges, fees and commission income’ in the statements of income) amounted to ₱0.78 million, ₱0.67 million, and ₱0.73 million in 2019, 2018, and 2017 respectively (Note 27).

In 2013, the Parent Company entered into a purchase of receivables agreement with EWRB, whereby the Parent Company will purchase, on a without recourse basis, certain salary loans of EWRB. In 2019 and 2018, the total salary loans purchased by the Parent Company have an aggregate amount of ₱4.09 billion and ₱1.35 billion, respectively. The Parent Company's acquisition cost of the salary loans approximates the fair value at the acquisition date. As of December 31, 2019 and 2018, outstanding principal balance of salary loans purchased from EWRB, included in 'Other consumer loans' of the Parent Company, amounted to ₱1.98 billion and ₱5.91 billion, respectively. In connection with the purchase of receivables agreement, the Parent Company and EWRB also entered into an account servicing and collection agreement whereby the Parent Company agreed to pay service fees equivalent to 0.37% of the loan amounts collected by EWRB on behalf of the Parent Company. The service fees paid by the Parent Company to EWRB (included under 'Miscellaneous expense' in the statements of income) amounted to ₱30.43 million, ₱47.99 million and ₱71.39 million in 2019, 2018 and 2017, respectively (Note 27).

The Group took possession of various properties previously held as collateral with an estimated values of ₱3.03 billion, ₱2.71 billion, and ₱2.60 billion in 2019, 2018, and 2017, respectively.

The details of the secured and unsecured receivables from customers (after taking into account the unamortized premium but before allowance for credit losses) of the Group and of the Parent Company are disclosed in Note 4.

Information on the concentration of credit as to industry follow:

	Consolidated				Parent Company			
	2019		2018		**2019**		2018	
	Gross Amount	**%**	Gross Amount	%	**Gross Amount**	**%**	Gross Amount	%
Private households with employed persons	**₱153,831,859**	**57.16**	₱155,976,818	52.24	**₱153,831,859**	**63.27**	₱132,135,606	55.55
Real estate, renting and business activity	**27,637,409**	**10.27**	25,660,058	10.12	**27,620,891**	**11.36**	25,642,940	11.20
Wholesale and retail trade, repair of motor vehicles	**41,182,736**	**15.30**	23,330,445	9.46	**20,820,978**	**8.56**	23,322,085	10.47
Financial intermediaries	**10,873,659**	**4.04**	9,123,803	3.70	**9,836,231**	**4.05**	9,120,761	4.09
Manufacturing	**9,051,345**	**3.36**	8,726,041	3.54	**9,046,438**	**3.72**	8,721,134	3.91
Electricity, gas, steam and air-conditioning supply	**7,328,103**	**2.72**	8,096,361	3.27	**7,323,272**	**3.01**	8,095,934	3.63
Accommodation and food service activities	**3,246,720**	**1.21**	2,838,680	1.66	**3,246,720**	**1.34**	2,837,101	1.83
Transportation and storage	**2,667,979**	**0.99**	–	1.20	**2,667,979**	**1.10**	–	1.33
Construction	**2,122,608**	**0.79**	2,308,665	1.31	**2,119,171**	**0.87**	2,305,228	1.44
Other service activities	**1,742,681**	**0.65**	1,981,153	1.22	**1,741,687**	**0.72**	1,981,153	1.35
Agriculture, fisheries and forestry	**895,886**	**0.33**	1,056,265	0.43	**883,190**	**0.36**	1,043,456	0.47
Administrative and support service activities	**745,725**	**0.28**	1,069,882	1.98	**745,725**	**0.31**	1,069,882	2.19
Others*	**7,778,585**	**2.90**	6,564,752	9.87	**3,244,381**	**1.33**	6,530,099	2.54
	₱269,105,295	**100.00**	₱246,732,923	100.00	**₱243,128,522**	**100.00**	₱222,805,379	100.00

**Includes Arts and recreation activities, mining and quarrying, human health and social activities, education, and information and communication.*

Interest income on loans and receivables consist of:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Receivables from customers	**₱27,241,257**	₱23,105,873	₱21,078,622	**₱25,177,569**	₱21,576,153	₱19,261,593
Unquoted debt securities	**1,607**	2,299	8,876	**1,607**	2,299	8,876
	₱27,242,864	₱23,108,172	₱21,087,498	**₱25,179,176**	₱21,578,452	₱19,270,469

As of December 31, 2019 and 2018, 24.22% and 20.17%, respectively of the total receivables from customers of the Group and the Parent Company were subject to interest repricing.

Remaining receivables carry annual fixed interest rates ranging from 1.34% to 45.00% in 2019, 2.00% to 39.68% in 2018 and 1.50% to 37.23% in 2017 for peso-denominated receivables and from 2.45% to 10.00% in 2019, 2.00% to 10.00% in 2018 and 2017 for foreign currency-denominated receivables.

In 2019, the Parent Company sold its credit card NPL portfolio which was previously written off in prior years amounting to ₱9.95 billion and recognized ₱247.74 million gain on sale in its statement of income.

10. Investments in Subsidiaries and Joint Venture

The movements in the investments in subsidiaries of the Parent Company and investment in a joint venture of the Group and the Parent Company follow:

	Investment in Subsidiaries		Investment in a Joint Venture	
	2019	2018	**2019**	2018
Acquisition Cost				
Subsidiaries				
EWRB	**₱521,000**	₱521,000	**₱–**	₱–
EWLFC	**100,000**	100,000	**–**	–
EWIB	**30,000**	30,000	**–**	–
QMIS	**19,927**	19,927	**–**	–
ASIA	**10,305**	10,305	**–**	–
	681,232	681,232	**–**	–
Joint Venture				
EWAL				
Cost at beginning of the year	**–**	–	**1,255,000**	1,005,000
Additional investments made during the year	**–**	–	**350,000**	250,000
Balance at end of year	**681,232**	681,232	**1,605,000**	1,255,000
Share in capital infusion from Ageas	**–**	–	**665,000**	665,000
Accumulated share in net income (loss)				
Balance at beginning of year	**3,016,084**	2,774,564	**(1,230,533)**	(834,718)
Share in net income (loss)	**324,331**	241,520	**(339,482)**	(395,816)
Dividends	**(22,847)**	–	**–**	–
Balance at end of year	**3,317,568**	3,016,084	**(1,570,015)**	(1,230,534)
Accumulated share in other comprehensive income				
Balance at beginning of year	**669**	1,155	**–**	–
Share in changes in remeasurement gain (loss) of retirement liabilities of subsidiaries	**(7,020)**	(486)	**–**	–
Share in changes in fair value reserves on equity securities of a joint venture	**–**	–	**(5,871)**	–
Balance at end of year	**(6,351)**	669	**(5,871)**	–
	₱3,992,449	₱3,697,985	**₱694,114**	₱689,466

Investments in Subsidiaries

EWRB

The Parent Company's investment cost in EWRB amounted to ₱521.00 million as of December 31, 2019 and 2018. It was registered with the SEC on November 5, 1997. In March 1998, EWRB was granted authority by the BSP to operate as a rural bank and commenced operations. The principal place of business of EWRB is at East West Bank Building, J.P. Laurel Avenue corner Iñigo Street, Bajada, Davao City.

EWIB
In 2015, the BSP approved the Parent Company's initial equity investment in EWIB of ₱30.00 million. On July 26, 2015, EWIB was registered with the SEC to operate as an insurance brokerage company. In September 2015, EWIB received its license from the Insurance Commission. The principal place of business of EWIB is at East West Corporate Center, The Beaufort, 5th Avenue corner 23rd Street, Fort Bonifacio Global City, Taguig City.

EWLFC
In 2016, the BSP approved and confirmed the initial equity investment in EWLFC of ₱100.00 million. It was registered with the SEC in October 2016 with secondary license to operate as a financing company in accordance with the Financing Company Act of 1998 and its implementing rules and regulations. The principal place of business of EWLFC is at East West Corporate Center, The Beaufort, 5th Avenue corner 23rd Street, Fort Bonifacio Global City, Taguig City.

QMIS
In 2016, the Parent Company acquired 100.00% voting shares of QMIS as part of the asset and share transfer agreement for a consideration amounting to ₱19.93 million. QMIS was registered with the SEC in 2007 primarily to engage in providing sales and marketing services. The principal place of business is at 7th Floor Global Trade Center Building, 1024 EDSA, R. Magsaysay, Quezon City.

ASIA
In 2016, the Parent Company acquired 100.00% voting shares of ASIA as part of the asset and share transfer agreement for a consideration amounting to ₱10.30 million. ASIA was registered with the SEC in 2012 primarily to engage in general insurance agency business. The principal place of business is at 5th Floor, 6788 Sky Plaza Building, Ayala Avenue, Makati City.

Investment in a Joint Venture
On May 28, 2015, the Parent Company and Ageas Insurance International N.V. ("Ageas") entered into a joint venture agreement to form East West Ageas Life Insurance Corporation ("Troo" or "EW Ageas Life"). EW Ageas Life, which is primarily engaged in the life insurance business, was incorporated with a capitalization of ₱2.01 billion and with ultimate ownership interest of the Parent Company of 50.00% less 1 share. The Parent Company's initial investment amounted to ₱500.00 million. The joint venture agreement provided certain conditions that should be satisfied for the consummation of the agreement, which include among others, obtaining all the required regulatory approvals. In October 2015, the SEC approved the registration of EW Ageas Life. The registered office address of EW Ageas Life is at One World Place, 32nd Street, Bonifacio Global City, Taguig City.

In November 2015, EW Ageas Life and the Parent Company entered into a twenty-year exclusive distribution agreement. Under the distribution agreement, EW Ageas Life will have exclusive access to the branch network of the Parent Company for the distribution of its insurance products (the exclusive bancassurance access).

In 2017, additional capital aggregating to ₱1.33 billion was solely contributed by Ageas to EW Ageas Life. This increased the Parent Company's investment in the joint venture by ₱665.00 million in 2017 which was recognized as gain on capital transaction. Under the joint venture agreement, within a period of seven (7) years from consummation, the joint venture entity may at any time request for additional funding from the Parent Company and Ageas. Parent Company and Ageas each infused additional capital to EW Ageas Life amounting to ₱350.00 million in 2019 and ₱250.00 million in 2018

There were no dividends received from EW Ageas Life as of December 31, 2019. The joint venture has no contingent liabilities or capital commitments as of December 31, 2019 and 2018.

11. **Property, Equipment and Right-of-Use Assets**

The composition of and movements in the Group's property, equipment and ROU assets follow:

	2019					
	Land	**Buildings**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**ROU Asset**	**Total**
Cost						
Balance at beginning of year	**₱54,635**	**₱1,072,623**	**₱2,667,414**	**₱3,643,319**	**₱–**	**₱7,437,991**
Effect of adopting PFRS 16 (Note 2)	**–**	**–**	**–**	**–**	**3,687,043**	**3,687,043**
Balance at beginning of year, as restated	**54,635**	**1,072,623**	**2,667,414**	**3,643,319**	**3,687,043**	**11,125,034**
Additions	**–**	**1,140**	**171,017**	**118,593**	**337,629**	**628,379**
Disposals	**–**	**(88)**	**(21,455)**	**(4,264)**	**(37,584)**	**(63,391)**
Balance at end of year	**54,635**	**1,073,675**	**2,816,976**	**3,757,648**	**3,987,088**	**11,690,022**
Accumulated Depreciation and Amortization						
Balance at beginning of year	**–**	**202,558**	**2,233,482**	**2,346,142**	**–**	**4,782,182**
Depreciation and amortization	**–**	**32,328**	**233,293**	**324,770**	**932,522**	**1,522,913**
Disposals	**–**	**(53)**	**(15,955)**	**–**	**(35,826)**	**(51,834)**
Balance at end of year	**–**	**234,833**	**2,450,820**	**2,670,912**	**896,696**	**6,253,261**
Net Book Value	**₱54,635**	**₱838,842**	**₱366,156**	**₱1,086,736**	**₱3,090,392**	**₱5,436,761**

	2018				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
Balance at beginning of year	₱54,635	₱1,060,476	₱2,525,929	₱3,509,040	₱7,150,080
Additions	–	12,147	194,815	134,279	341,241
Disposals	–	–	(53,330)	–	(53,330)
Balance at end of year	54,635	1,072,623	2,667,414	3,643,319	7,437,991
Accumulated Depreciation and Amortization					
Balance at beginning of year	–	172,544	2,013,683	1,919,633	4,105,860
Depreciation and amortization	–	30,014	253,139	426,509	709,662
Disposals	–	–	(33,340)	–	(33,340)
Balance at end of year	–	202,558	2,233,482	2,346,142	4,782,182
Net Book Value	₱54,635	₱870,065	₱433,932	₱1,297,177	₱2,655,809

The composition of and movements in the Parent Company's property, equipment and ROU assets follow:

	2019					
	Land	**Buildings**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**ROU Asset**	**Total**
Cost						
Balance at beginning of year	**₱33,298**	**₱995,861**	**₱2,244,031**	**₱3,446,233**	**₱–**	**₱6,719,423**
Effect of adopting PFRS 16 (Note 2)	**–**	**–**	**–**	**–**	**3,517,723**	**3,517,723**
Balance at beginning of year, as restated	**33,298**	**995,861**	**2,244,031**	**3,446,233**	**3,517,723**	**10,237,146**
Additions	**–**	**1,387**	**140,854**	**115,695**	**268,836**	**526,772**
Disposals	**–**	**(88)**	**(14,521)**	**(4,265)**	**(37,584)**	**(56,458)**
Balance at end of year	**33,298**	**997,160**	**2,370,364**	**3,557,663**	**3,748,975**	**10,707,460**
Accumulated Depreciation and Amortization						
Balance at beginning of year	**–**	**183,222**	**1,903,428**	**2,243,252**	**–**	**4,329,902**
Depreciation and amortization	**–**	**26,919**	**182,455**	**284,113**	**865,644**	**1,359,131**
Disposals	**–**	**–**	**(13,111)**	**–**	**(35,826)**	**(48,937)**
Balance at end of year	**–**	**210,141**	**2,072,772**	**2,527,365**	**829,818**	**5,640,096**
Net Book Value	**₱33,298**	**₱787,019**	**₱297,592**	**₱1,030,298**	**₱2,919,157**	**₱5,067,364**

	2018				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
Balance at beginning of year	₱33,298	₱986,287	₱2,116,311	₱3,319,654	₱6,455,550
Additions	–	9,574	167,794	126,579	303,947
Disposals	–	–	(40,074)	–	(40,074)
Balance at end of year	33,298	995,861	2,244,031	3,446,233	6,719,423
Accumulated Depreciation and Amortization					
Balance at beginning of year	–	157,426	1,739,779	1,862,290	3,759,495
Depreciation and amortization	–	25,796	187,375	380,962	594,133
Disposals	–	–	(23,726)	–	(23,726)
Balance at end of year	–	183,222	1,903,428	2,243,252	4,329,902
Net Book Value	₱33,298	₱812,639	₱340,603	₱1,202,981	₱2,389,521

The net gain on sale recognized by the Group for the disposal of certain property and equipment amounted to ₱1.91 million, ₱7.55 million and ₱10.55 million in 2019, 2018 and 2017, respectively. The net gain on sale recognized by the Parent Company for the disposal of certain property and equipment amounted to ₱1.46 million, ₱7.50 million, and ₱7.93 million in 2019, 2018, and 2017 respectively.

In 2014, the Parent Company sold a parcel of land previously intended for an office site with a carrying value of ₱169.13 million to Filinvest Alabang, Inc. (FAI), an entity under common control of FDC, that resulted in a gain amounting to ₱264.13 million. Under the terms of the sale, the selling price of ₱433.26 million is payable annually for five (5) years until 2019 with a fixed interest rate of 6.00% per annum. As of December 31, 2019 and 2018, the accounts receivable outstanding (included under 'Loans and receivable' in the statements of financial position) amounted to ₱0.00 million and ₱108.32 million, respectively (Note 27).

As of December 31, 2019 and 2018, the cost of fully depreciated property and equipment still in use by the Group amounted to ₱1.86 billion and ₱1.68 billion, respectively.

As of December 31, 2019 and 2018, the cost of fully depreciated property and equipment still in use by the Parent Company amounted to ₱1.54 billion and ₱1.44 billion, respectively.

12. Investment Properties

The composition of and movements in the Group's investment properties follow:

	2019		
	Land	**Buildings and Improvements**	**Total**
Cost			
Balance at beginning of year	**₱639,773**	**₱656,802**	**₱1,296,575**
Additions	**54,231**	**125,102**	**179,333**
Disposals	**(49,812)**	**(81,282)**	**(131,094)**
Balance at end of year	**644,192**	**700,622**	**1,344,814**
Accumulated Depreciation and Amortization			
Balance at beginning of year	**–**	**272,057**	**272,057**
Depreciation and amortization	**–**	**68,004**	**68,004**
Disposals	**–**	**(27,335)**	**(27,335)**
Balance at end of year	**–**	**312,726**	**312,726**
Accumulated Impairment Losses (Note 15)			
Balance at beginning of year	**70,236**	**33,129**	**103,365**
Provision during the year	**26,096**	**5,179**	**31,275**
Disposals	**(33,610)**	**(18,080)**	**(51,690)**
Balance at end of year	**62,722**	**20,228**	**82,950**
Net Book Value	**₱581,470**	**₱367,668**	**₱949,138**

	2018		
	Land	Buildings and Improvements	Total
Cost			
Balance at beginning of year	₱580,533	₱573,596	₱1,154,129
Additions	101,351	131,392	232,743
Disposals	(42,111)	(48,186)	(90,297)
Balance at end of year	639,773	656,802	1,296,575
Accumulated Depreciation and Amortization			
Balance at beginning of year	–	235,609	235,609
Depreciation and amortization	–	57,947	57,947
Disposals	–	(21,499)	(21,499)
Balance at end of year	–	272,057	272,057
Accumulated Impairment Losses (Note 15)			
Balance at beginning of year	69,415	21,527	90,942
Provision during the year	22,164	25,775	47,939
Disposals	(21,343)	(14,173)	(35,516)
Balance at end of year	70,236	33,129	103,365
Net Book Value	₱569,537	₱351,616	₱921,153

The composition of and movements in the Parent Company's investment properties follow:

	2019		
	Land	**Buildings and Improvements**	**Total**
Cost			
Balance at beginning of year	**₱638,694**	**₱656,435**	**₱1,295,129**
Additions	**54,231**	**125,103**	**179,334**
Disposals	**(49,812)**	**(81,282)**	**(131,094)**
Balance at end of year	**643,113**	**700,256**	**1,343,369**
Accumulated Depreciation and Amortization			
Balance at beginning of year	**–**	**271,982**	**271,982**
Depreciation and amortization	**–**	**67,936**	**67,936**
Disposals	**–**	**(27,335)**	**(27,335)**
Balance at end of year	**–**	**312,583**	**312,583**
Accumulated Impairment Losses (Note 15)			
Balance at beginning of year	**70,236**	**33,129**	**103,365**
Provision during the year	**26,096**	**5,179**	**31,275**
Disposals	**(33,610)**	**(18,080)**	**(51,690)**
Balance at end of year	**62,722**	**20,228**	**82,950**
Net Book Value	**₱580,391**	**₱367,445**	**₱947,836**

	2018		
	Land	Buildings and Improvements	Total
Cost			
Balance at beginning of year	₱579,454	₱573,229	₱1,152,683
Additions	101,351	131,392	232,743
Disposals	(42,111)	(48,186)	(90,297)
Balance at end of year	638,694	656,435	1,295,129
Accumulated Depreciation and Amortization			
Balance at beginning of year	–	235,603	235,603
Depreciation and amortization	–	57,878	57,878
Disposals	–	(21,499)	(21,499)
Balance at end of year	–	271,982	271,982
Accumulated Impairment Losses (Note 15)			
Balance at beginning of year	69,415	21,527	90,942
Provision during the year	22,164	25,775	47,939
Disposals	(21,343)	(14,173)	(35,516)
Balance at end of year	70,236	33,129	103,365
Net Book Value	₱568,458	₱351,324	₱919,782

The Group's and the Parent Company's investment properties consist entirely of real estate properties and land improvements acquired in settlement of loans and receivables.

The aggregate fair value of the investment properties of the Group and the Parent Company amounted to ₱1.59 billion as of December 31, 2019, and ₱1.50 billion as of December 31, 2018, respectively. Fair value has been determined based on valuations made by independent and/or in-house appraisers. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties taking into account the economic conditions prevailing at the time the valuations were made.

As of December 31, 2019 and 2018, the carrying values of foreclosed investment properties of the Group and of the Parent Company still subject to redemption period by the borrower amounted to ₱128.17 million and ₱84.27 million, respectively.

Gain on sale recognized by the Group and the Parent Company for the disposal of its foreclosed assets amounted to ₱71.40 million, ₱55.84 million, and ₱47.85 million in 2019, 2018 and 2017, respectively.

Direct operating expenses from investment properties not generating rent income amounted to ₱80.33 million, ₱57.95 million and ₱48.97 million for the Group and the Parent Company in 2019, 2018 and 2017, respectively.

13. **Goodwill and Other Intangible Assets**

As of December 31, 2019 and 2018, the intangible assets of the Group consist of:

	2019					
	Goodwill	**Branch Licenses**	**Customer Relationship**	**Core Deposits**	**Capitalized Software**	**Total**
Cost						
Balance at beginning of year	**₱3,877,241**	**₱2,167,600**	**₱154,626**	**₱105,128**	**₱2,158,297**	**₱8,462,892**
Additions	**–**	**–**	**–**	**–**	**150,530**	**150,530**
Balance at end of year	**3,877,241**	**2,167,600**	**154,626**	**105,128**	**2,308,827**	**8,613,422**
Accumulated Amortization						
Balance at beginning of year	**–**	**–**	**46,706**	**53,236**	**1,469,304**	**1,569,246**
Amortization	**–**	**–**	**4,311**	**7,143**	**135,222**	**146,676**
Balance at end of year	**–**	**–**	**51,017**	**60,379**	**1,604,526**	**1,715,922**
Net Book Value	**₱3,877,241**	**₱2,167,600**	**103,609**	**44,749**	**704,301**	**₱6,897,500**

	2018					
	Goodwill	Branch Licenses	Customer Relationship	Core Deposits	Capitalized Software	Total
Cost						
Balance at beginning of year	₱3,877,241	₱2,167,600	₱154,626	₱105,128	₱1,997,774	₱8,302,369
Additions	–	–	–	–	160,523	160,523
Balance at end of year	3,877,241	2,167,600	154,626	105,128	2,158,297	8,462,892
Accumulated Amortization						
Balance at beginning of year	–	–	38,083	42,723	1,300,379	1,381,185
Amortization	–	–	8,623	10,513	168,925	188,061
Balance at end of year	–	–	46,706	53,236	1,469,304	1,569,246
Net Book Value	₱3,877,241	₱2,167,600	₱107,920	₱51,892	₱688,993	₱6,893,646

Balance at end of year, 2019 and 2018, the intangible assets of the Parent Company consist of:

	2019					
	Goodwill	**Branch Licenses**	**Customer Relationship**	**Core Deposits**	**Capitalized Software**	**Total**
Cost						
Balance at beginning of year	**₱3,853,763**	**₱2,167,600**	**₱154,626**	**₱105,128**	**₱2,070,780**	**₱8,351,897**
Additions	**–**	**–**	**–**	**–**	**145,220**	**145,220**
Balance at end of year	**3,853,763**	**2,167,600**	**154,626**	**105,128**	**2,216,000**	**8,497,117**
Accumulated Amortization						
Balance at beginning of year	**–**	**–**	**46,706**	**53,236**	**1,397,128**	**1,497,070**
Amortization	**–**	**–**	**4,311**	**7,143**	**131,802**	**143,256**
Balance at end of year	**–**	**–**	**51,017**	**60,379**	**1,528,930**	**1,640,326**
Net Book Value	**₱3,853,763**	**₱2,167,600**	**₱103,609**	**₱44,749**	**₱687,070**	**₱6,856,791**

	2018					
	Goodwill	Branch Licenses	Customer Relationship	Core Deposits	Capitalized Software	Total
Cost						
Balance at beginning of year	₱3,853,763	₱2,167,600	₱154,626	₱105,128	₱1,917,599	₱8,198,716
Additions	–	–	–	–	153,181	153,181
Balance at end of year	3,853,763	2,167,600	154,626	105,128	2,070,780	8,351,897
Accumulated Amortization						
Balance at beginning of year	–	–	38,083	42,723	1,246,106	1,326,912
Amortization	–	–	8,623	10,513	151,022	170,158
Balance at end of year	–	–	46,706	53,236	1,397,128	1,497,070
Net Book Value	₱3,853,763	₱2,167,600	₱107,920	₱51,892	₱673,652	₱6,854,827

Goodwill

Goodwill represents the excess of the acquisitions cost over the fair value arising from acquisition of (a) Ecology Savings Bank, Inc. ("ESBI") in 2002; (b) American International Group, Inc. Philam Savings Bank (AIGPASB) Group in 2009; (c) EWRB in 2012; (d) Green Bank, Inc. ("GBI") in 2014; and (e) Standard Chartered Bank ("SCB") in 2016.

The carrying amounts of the resulting goodwill in the acquisitions above in the books of the Parent Company are as follows:

Acquisitions	**CGU**	**Parent**
SCB	Treasury and Trust; Consumer banking	₱2,560,513
AIG	Consumer Banking	769,042
GBI	Consumer Banking	373,996
ESBI	Retail Banking	150,212
		₱3,853,763

The goodwill of the Parent Company acquired through the business combination has been allocated to the following CGUs:

1) *SCB* – ₱422.42 million has been allocated to the wealth management business (Treasury and Trust) and ₱2.14 billion has been allocated to the credit card operations (Consumer lending) acquired from SCB.

2) *AIGPASB* – goodwill has been allocated to the auto loans and credit card operations (consumer banking) acquired from AIGPASB Group.

3) *GBI* – goodwill has been allocated to the branch operations (Consumer banking) of the Parent Company.

4) *ESBI* – goodwill has been allocated to the 30 branches (Retail banking) acquired from ESBI.

The acquisition of EWRB in 2012 resulted to the recognition of goodwill amounting to ₱23.48 million in the consolidated financial statements of the Group. This goodwill has been allocated to the lending business of EWRB.

Key assumptions used in VIU calculations
The recoverable amount of the CGUs has been determined based on VIU calculations using cash flow projections based on financial budgets approved by the management covering a five-year period. The VIU calculation for the CGUs is most sensitive to the following assumptions: a) interest margin; b) discount rates; c) market share during the budget period; and d) projected growth rates used to extrapolate cash flows beyond the budget period. Future cash flows were based on historical experience, strategies developed and prospects. The discount rate used for the computation of the net present value is the cost of equity and was determined by reference to comparable entities.

Discount rate and growth rate
The following discount rates were applied to the cash flow projections:

	2019			2018			2017		
	Retail banking	**Consumer Banking**	**Treasury and Trust**	Retail banking	Consumer Banking	Treasury and Trust	Retail banking	Consumer Banking	Treasury and Trust
Pre-tax discount rate	**12.00%**	**12.00%**	**12.00%**	10.83%	10.83%	10.74%	9.40%	9.25%	9.40%
Projected growth rate	**5.00%**	**5.00%**	**5.00%**	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

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

Branch Licenses
Branch licenses of the Group amounting to ₱2.17 billion represents: one branch license acquired by the Parent Company from the BSP amounting to ₱0.20 million in 2015, 25 branch licenses acquired by the Parent Company from the BSP amounting to ₱505.20 million in 2014, 10 branch licenses acquired by the Parent Company from the BSP amounting to ₱214.80 million in 2013, 42 branch licenses acquired by the Parent Company from the BSP amounting to ₱822.00 million in 2012, and 46 branch licenses acquired by the Parent Company from the acquisition of GBI amounting to ₱625.40 million in 2011.

Customer Relationship and Core Deposits
The business combination between the Parent Company and AIGPASB Group in 2009 resulted in the acquisition of customer relationship and core deposits amounting to₱154.63 million and ₱40.43 million, respectively.

The business combination between the Parent Company and SCB in 2016 resulted in the acquisition of core deposits amounting to ₱64.70 million.

Capitalized Software
Capitalized software pertains to computer software licenses and programs acquired by the Group and the Parent Company for its banking operations. Included in the 2019 and 2018 acquisitions are software licenses acquired by the Group and the Parent Company for the upgrade of its core banking systems amounting to ₱150.53 million and ₱145.22 million, respectively in 2019 and ₱160.52 million and ₱153.18 million, respectively in 2018

14. **Other Assets.**

This account consists of:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Financial assets				
Security deposits	**₱268,331**	₱258,948	**₱265,070**	₱257,045
Derivative assets (Note 5)	**104,313**	201,033	**104,313**	201,033
Downpayment/advance payments to suppliers	**83,965**	30,083	**83,965**	30,083
Returned cash and other cash items	**14,465**	7,595	**14,465**	7,595
	471,074	497,659	**467,813**	495,756
Non-financial assets				
Other repossessed assets	**998,615**	786,005	**998,615**	786,005
Interoffice items	**736,787**	412,395	**736,787**	412,394
Card acquisition costs	**408,553**	337,960	**408,553**	337,960
Documentary stamps	**210,060**	164,225	**210,060**	164,225
Equity on car plan	**161,915**	158,756	**161,845**	158,626
Prepaid expenses	**92,829**	367,261	**50,211**	327,525
Stationery and supplies on hand	**71,924**	64,801	**66,764**	61,138
Margin account	**58,447**	91,016	**58,447**	91,016
Other miscellaneous asset	**286,853**	310,767	**242,349**	240,048
	3,025,983	2,693,186	**2,933,631**	2,578,937
	3,497,057	3,190,845	**3,401,444**	3,074,693
Allowance for impairment losses (Note 15)	**(334,386)**	(8,131)	**(315,285)**	(8,131)
	₱3,162,671	₱3,182,714	**₱3,086,159**	₱3,066,562

In 2019, the Parent Company provided an allowance amounting to ₱300.00 million on its long outstanding floats.

The movements in the allowance for impairment losses on other assets of the Group and the Parent Company follow:

	2019	2018
Balance at beginning of year	**₱8,131**	₱492,491
Provision (recoveries) during the year	**335,891**	(74,055)
Reversal of allowance from disposals	**–**	(172,616)
Write-off and others	**(9,636)**	(237,689)
Balance at end of year	**₱334,386**	₱8,131

The movements in other repossessed assets of the Group and the Parent Company follow:

	2019	2018
Cost		
Balance at beginning of year	**₱918,481**	₱1,077,064
Additions	**2,850,154**	2,477,505
Disposals	**(2,611,128)**	(2,636,088)
Balance at end of year	**1,157,507**	918,481

(Forward)

	2019	2018
Accumulated Depreciation		
Balance at beginning of year	**₱132,476**	₱192,906
Depreciation and amortization	**293,233**	309,600
Disposals	**(267,017)**	(370,030)
Balance at end of year	**158,692**	132,476
Net Book Value, gross of impairment	**998,815**	786,005
Accumulated Impairment Losses		
Balance at beginning of year	**–**	100,671
Provision during the year	**2,256**	71,945
Disposals	**(2,056)**	(172,616)
Balance at end of year	**200**	–
Net Book Value, net of impairment	**₱998,615**	₱786,005

The Group and Parent company recognized net gain (loss) from the disposal of its repossessed assets amounting to (₱226.21 million), ₱75.70 million and (₱2.50 million) in 2019, 2018 and 2017, respectively.

15. Allowance for Credit and Impairment Losses

Details of and changes in the allowance for impairment and credit losses follow:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Balances at the beginning of year:				
Loans and receivables (Note 9)	**₱7,291,882**	₱6,824,600	**₱6,883,467**	₱6,449,364
Investment securities at amortized cost (Note 8)	**2,895**	30	**2,895**	30
Due from other banks	**198**	189	**198**	189
Investment properties (Note 12)	**103,365**	90,942	**103,365**	90,942
Other assets (Note 14)	**8,131**	593,162	**8,131**	593,162
Provision for unused credit lines (Note 20)	**449,748**	220,649	**449,748**	220,649
	7,856,219	7,729,572	**7,447,804**	7,354,336
Provisions charged to current operations (Notes 9, 12 and 14)	**3,808,794**	3,676,829	**3,588,688**	3,619,673
Provisions charged to current operations – unused credit lines (Note 20)	**233,677**	229,099	**233,677**	229,099
Write-off and others (Notes 9 and 14)	**(3,414,876)**	(3,571,149)	**(3,271,217)**	(3,547,171)
Reversal/revaluation/reclass	**62,267**	–	**27,574**	–
Reversal of allowance on disposals of investment properties and other repossessed assets (Notes 12 and 14)	**(53,746)**	(208,132)	**(53,746)**	(208,132)
Balances at the end of year:				
Loans and receivables (Note 9)	**7,389,216**	7,291,882	**6,888,762**	6,883,468
Investment securities at amortized cost (Note 8)	**2,265**	2,895	**2,265**	2,895
Due from other banks	**93**	198	**93**	198
Investment properties (Note 12)	**82,950**	103,365	**82,950**	103,365
Other assets (Note 14)	**334,386**	8,131	**315,285**	8,131
Provision for unused credit lines	**683,425**	449,748	**683,425**	449,748
	₱8,492,335	₱7,856,219	**₱7,972,780**	₱7,447,805

With the foregoing level of allowance for impairment and credit losses, management believes that the Group has sufficient allowance for any losses that the Group may incur from the non-collection or non-realization of its receivables and other risk assets.

The reconciliation of allowance for the receivables from customers follows:

Total Loans and Receivables - Consolidated

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of year	**₱1,737,075**	**₱1,873,248**	**₱3,681,559**	**₱7,291,882**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**3,656,451**	**–**	**–**	**3,656,451**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**320,030**	**562,993**	**883,023**
Effect of collections and other movements in receivable balance (excluding write-offs)	**(19,236,165)**	**(4,857,140)**	**(600,885)**	**(24,694,190)**
Write-offs (Note 9)	**–**	**–**	**(3,384,748)**	**(3,384,748)**
Transfers from Stage 1	**(4,678,562)**	**4,117,658**	**560,904**	**–**
Transfers from Stage 2	**3,550,593**	**(4,124,204)**	**573,611**	**–**
Transfers from Stage 3	**160,966**	**25,175**	**(186,141)**	**–**
Impact on ECL of exposures transferred between stages of exposures transferred between stages	**16,112,885**	**4,630,001**	**2,914,404**	**23,657,290**
Others	**–**	**–**	**(20,492)**	**(20,492)**
Balance at end of year	**₱1,303,243**	**₱1,984,768**	**₱4,101,205**	**₱7,389,216**

	2018			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year*	₱1,722,950	₱2,165,233	₱2,936,417	₱6,824,600
Newly originated assets that remained in Stage 1 as at December 31, 2018	3,442,835	–	–	3,442,835
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	392,423	584,576	976,999
Effect of collections and other movements in receivable balance (excluding write-offs)	(1,521,086)	(1,087,043)	(720,618)	(3,328,747)
Write-offs (Note 9)	–	–	(2,938,050)	(2,938,050)
Transfers from Stage 1	(4,080,554)	3,503,290	577,264	–
Transfers from Stage 2	1,400,905	(2,081,586)	680,681	–
Transfers from Stage 3	141,468	37,203	(178,671)	–
Impact on ECL of exposures transferred between stages	630,557	(1,056,272)	1,811,182	1,385,467
Others	–	–	928,778	928,778
Balance at end of year	₱1,737,075	₱1,873,248	₱3,681,559	₱7,291,882

**The balances at the beginning of the year reflect the amounts after considering the effect of adoption of PFRS 9 on receivables from customers*

Reconciliation of the allowance for impairment and credit losses by class in 2019 and 2018 follows:

	2019			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans*				
Balance at beginning of year	₱33,111	₱55,007	₱322,363	₱410,481
Newly originated assets that remained in Stage 1 as at December 31, 2019	9,945	–	–	9,945
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	138,790	11,020	149,810
Effect of collections and other movements in receivable balance (excluding write-offs)	(14,541)	(31,133)	(13,786)	(59,460)
Write-offs (Note 9)	–	–	–	–
Transfers from Stage 1	(17,528)	16,627	901	–
Transfers from Stage 2	689	(923)	234	–
Transfers from Stage 3	–	172	(172)	–
Impact on ECL of exposures transferred between stages	(460)	19,897	223,354	242,791
Balance at end of year	11,216	198,437	543,914	753,567
Auto loans				
Balance at beginning of year	328,676	513,275	488,898	1,330,849
Newly originated assets that remained in Stage 1 as at December 31, 2019	262,814	–	–	262,814
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	55,540	38,874	94,414
Effect of collections and other movements in receivable balance (excluding write-offs)	(179,251)	(118,577)	(30,834)	(328,662)
Write-offs (Note 9)	–	–	(343,480)	(343,480)
Transfers from Stage 1	(63,295)	56,508	6,787	–
Transfers from Stage 2	152,695	(228,701)	76,006	–
Transfers from Stage 3	5,796	827	(6,623)	–
Impact on ECL of exposures transferred between stages	(138,136)	183,634	551,287	596,785
Balance at end of year	369,299	462,506	780,915	1,612,720
Credit cards				
Balance at beginning of year	840,833	1,004,559	1,025,216	2,870,608
Newly originated assets that remained in Stage 1 as at December 31, 2019	2,983,212	–	–	2,983,212
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	103,910	221,411	325,321
Effect of collections and other movements in receivable balance (excluding write-offs)	(18,630,366)	(4,489,984)	(192,510)	(23,312,860)
Write-offs (Note 9)	–	–	(2,295,923)	(2,295,923)
Transfers from Stage 1	(4,559,951)	4,024,537	535,414	–
Transfers from Stage 2	3,376,459	(3,859,246)	482,787	–
Transfers from Stage 3	124,547	18,061	(142,608)	–
Impact on ECL of exposures transferred between stages	16,300,666	4,418,042	1,317,345	22,036,053
Balance at end of year	435,400	1,219,879	951,132	2,606,411

(Forward)

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Mortgage loans				
Balance at beginning of year	**₱25,092**	**₱57,560**	**₱30,468**	**₱113,120**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**8,446**	**–**	**–**	**8,446**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**175**	**190**	**365**
Effect of collections and other movements in receivable balance (excluding write-offs)	**(3,535)**	**(23,476)**	**(13,683)**	**(40,694)**
Write-offs (Note 9)	**–**	**–**	**(25)**	**(25)**
Transfers from Stage 1	**(4,202)**	**3,910**	**292**	**–**
Transfers from Stage 2	**15,688**	**(22,608)**	**6,920**	**–**
Transfers from Stage 3	**2,146**	**289**	**(2,435)**	**–**
Impact on ECL of exposures transferred between stages	**(16,051)**	**10,706**	**(148)**	**(5,493)**
Balance at end of year	**27,584**	**26,556**	**21,579**	**75,719**
Other consumer loans**				
Balance at beginning of year	**370,957**	**84,660**	**745,356**	**1,200,973**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**388,004**	**–**	**–**	**388,004**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**19,274**	**287,909**	**307,183**
Effect of collections and other movements in receivable balance (excluding write-offs)	**(290,658)**	**(81,193)**	**(327,030)**	**(698,881)**
Write-offs (Note 9)	**–**	**–**	**(732,569)**	**(732,569)**
Transfers from Stage 1	**(29,378)**	**12,217**	**17,161**	**–**
Transfers from Stage 2	**3,304**	**(8,719)**	**5,415**	**–**
Transfers from Stage 3	**27,408**	**5,760**	**(33,168)**	**–**
Impact on ECL of exposures transferred between stages	**(34,488)**	**(5,813)**	**768,480**	**728,179**
Balance at end of year	**435,149**	**26,186**	**731,554**	**1,192,889**
Unquoted debt securities classified as loans				
Balance at beginning of year	–	–	**71,626**	**71,626**
Newly originated assets that remained in Stage 1 as at December 31, 2019	–	–	–	–
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	–	–	–
Effect of collections and other movements in receivable balance (excluding write-offs)	–	–	**8,047**	**8,047**
Write-offs (Note 9)	–	–	–	–
Transfers from Stage 1	–	–	–	–
Transfers from Stage 2	–	–	–	–
Transfers from Stage 3	–	–	–	–
Impact on ECL of exposures transferred between stages	–	–	–	–
Balance at end of year	–	–	**79,673**	**79,673**

(Forward)

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Other receivables* **				
Balance at beginning of year	**₱138,406**	**₱158,187**	**₱997,632**	**₱1,294,225**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**4,030**	**–**	**–**	**4,030**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**2,341**	**3,589**	**5,930**
Effect of collections and other movements in receivable balance (excluding write-offs)	**(117,814)**	**(112,777)**	**(31,089)**	**(261,680)**
Write-offs (Note 9)	**–**	**–**	**(12,751)**	**(12,751)**
Transfers from Stage 1	**(4,208)**	**3,859**	**349**	**–**
Transfers from Stage 2	**1,758**	**(4,007)**	**2,249**	**–**
Transfers from Stage 3	**1,069**	**66**	**(1,135)**	**–**
Impact on ECL of exposures transferred between stages	**1,354**	**3,535**	**54,086**	**58,975**
Others	**–**	**–**	**(20,492)**	**(20,492)**
Balance at end of year	**24,595**	**51,204**	**992,438**	**1,068,237**
Total	**₱1,303,243**	**₱1,984,768**	**₱4,101,205**	**₱7,389,216**

**Include Corporate loans and emerging enterprise loans*
***Include Branch loans, DepEd loans, Employee loans, Salary loans and Personal loans*
****Include Accrued interest receivables, Accounts receivables and Sales contract receivables.*

	2018			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans*				
Balance at beginning of year	₱15,191	₱73,736	₱204,730	₱293,657
Newly originated assets that remained in Stage 1 as at December 31, 2019	185,213	–	–	185,213
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	84,903	5,383	90,286
Effect of collections and other movements in receivable balance (excluding write-offs)	(148,872)	(104,705)	(3,071)	(256,648)
Write-offs (Note 9)	–	–	–	–
Transfers from Stage 1	(4,766)	971	3,795	–
Transfers from Stage 2	150	(160)	10	–
Transfers from Stage 3	–	–	–	–
Impact on ECL of exposures transferred between stages	(13,805)	262	111,516	97,973
Balance at end of year	33,111	55,007	322,363	410,481
Auto loans				
Balance at beginning of year	384,290	347,583	721,676	1,453,549
Newly originated assets that remained in Stage 1 as at December 31, 2019	243,854	–	–	243,854
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	184,134	79,009	263,143
Effect of collections and other movements in receivable balance (excluding write-offs)	(207,156)	(137,757)	(515,800)	(860,713)
Write-offs (Note 9)	–	–	–	–
Transfers from Stage 1	(99,747)	91,310	8,437	–
Transfers from Stage 2	64,901	(111,203)	46,302	–
Transfers from Stage 3	7,639	17,557	(25,196)	–
Impact on ECL of exposures transferred between stages	(65,105)	121,651	174,470	231,016
Balance at end of year	328,676	513,275	488,898	1,330,849

(Forward)

	2018			
	Stage 1	Stage 2	Stage 3	Total
Credit cards				
Balance at beginning of year	₱664,514	₱1,563,890	₱952,866	₱3,181,270
Newly originated assets that remained in Stage 1 as at December 31, 2019	2,584,490	–	–	2,584,490
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	108,887	341,655	450,542
Effect of collections and other movements in receivable balance (excluding write-offs)	(528,159)	(760,913)	(89,414)	(1,378,486)
Write-offs (Note 9)	–	–	(2,705,749)	(2,705,749)
Transfers from Stage 1	(3,883,811)	3,352,147	531,664	–
Transfers from Stage 2	1,328,410	(1,943,026)	614,616	–
Transfers from Stage 3	107,397	11,832	(119,229)	–
Impact on ECL of exposures transferred between stages	567,992	(1,328,258)	1,498,807	738,541
Balance at end of year	840,833	1,004,559	1,025,216	2,870,608
Mortgage loans				
Balance at beginning of year	18,613	44,591	23,301	86,505
Newly originated assets that remained in Stage 1 as at December 31, 2019	6,714	–	–	6,714
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	1,286	2,214	3,500
Effect of collections and other movements in receivable balance (excluding write-offs)	54,857	(9,609)	(24,649)	20,599
Write-offs (Note 9)	–	–	–	–
Transfers from Stage 1	(41,816)	35,401	6,415	–
Transfers from Stage 2	1,776	(13,152)	11,376	–
Transfers from Stage 3	62	816	(878)	–
Impact on ECL of exposures transferred between stages	(15,114)	(1,773)	12,689	(4,198)
Balance at end of year	25,092	57,560	30,468	113,120
Other consumer loans**				
Balance at beginning of year	617,999	133,621	918,647	1,670,267
Newly originated assets that remained in Stage 1 as at December 31, 2019	420,239	–	–	420,239
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	10,049	141,618	151,667
Effect of collections and other movements in receivable balance (excluding write-offs)	(671,580)	(72,423)	(79,004)	(823,007)
Write-offs (Note 9)	–	–	(232,301)	(232,301)
Transfers from Stage 1	(49,440)	22,604	26,836	–
Transfers from Stage 2	4,434	(11,438)	7,004	–
Transfers from Stage 3	25,628	5,606	(31,234)	–
Impact on ECL of exposures transferred between stages	23,677	(3,359)	(6,210)	14,108
Balance at end of year	370,957	84,660	745,356	1,200,973
Unquoted debt securities classified as loans				
Balance at beginning of year	–	–	78,965	78,965
Newly originated assets that remained in Stage 1 as at December 31, 2019	–	–	–	–
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	–	–	–
Effect of collections and other movements in receivable balance (excluding write-offs)	–	–	(7,339)	(7,339)

(Forward)

	2018			
	Stage 1	Stage 2	Stage 3	Total
Write-offs (Note 9)	₱–	₱–	₱–	₱–
Transfers from Stage 1	–	–	–	–
Transfers from Stage 2	–	–	–	–
Transfers from Stage 3	–	–	–	–
Impact on ECL of exposures transferred between stages	–	–	–	–
Balance at end of year	–	–	71,626	71,626
Other receivables* **				
Balance at beginning of year	22,343	1,812	36,232	60,387
Newly originated assets that remained in Stage 1 as at December 31, 2019	2,325	–	–	2,325
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	3,164	14,697	17,861
Effect of collections and other movements in receivable balance (excluding write-offs)	(20,176)	(1,636)	(1,341)	(23,153)
Write-offs (Note 9)	–	–	–	–
Transfers from Stage 1	(974)	857	117	–
Transfers from Stage 2	1,234	(2,607)	1,373	–
Transfers from Stage 3	742	1,392	(2,134)	–
Impact on ECL of exposures transferred between stages	132,912	155,205	19,910	308,027
Others	–	–	928,778	928,778
Balance at end of year	138,406	158,187	997,632	1,294,225
Total	₱1,737,075	₱1,873,248	₱3,681,559	₱7,291,882

**Include Corporate loans and emerging enterprise loans*
***Include Branch loans, DepEd loans, Employee loans, Salary loans and Personal loans*
****Include Accrued interest receivables, Accounts receivables and Sales contract receivables.*

Total Allowance on Credit Losses– Parent Company

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of year	**₱1,686,037**	**₱1,872,781**	**₱3,324,649**	**₱6,883,467**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**3,527,347**	**–**	**–**	**3,527,347**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**306,922**	**353,808**	**660,730**
Effect of collections and other movements in receivable balance (excluding write-offs)	**(19,119,775)**	**(4,880,579)**	**(512,873)**	**(24,513,227)**
Write-offs (Note 9)	**–**	**–**	**(3,241,089)**	**(3,241,089)**
Transfers from Stage 1	**(4,672,301)**	**4,116,059**	**556,242**	**–**
Transfers from Stage 2	**3,548,985**	**(4,119,857)**	**570,872**	**–**
Transfers from Stage 3	**144,537**	**21,940**	**(166,477)**	**–**
Impact on ECL of exposures transferred between stages	**16,127,782**	**4,632,745**	**2,831,499**	**23,592,026**
Others	**–**	**–**	**(20,492)**	**(20,492)**
Balance at end of year	**₱1,242,612**	**₱1,950,011**	**₱3,696,139**	**₱6,888,762**

	2018			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	₱1,590,911	₱2,173,233	₱2,685,220	₱6,449,364
Newly originated assets that remained in Stage 1 as at December 31, 2018	3,410,759	–	–	3,410,759
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	381,659	439,890	821,549
Effect of collections and other movements in receivable balance (excluding write-offs)	(1,369,513)	(1,091,222)	(688,605)	(3,149,340)
Write-offs (Note 9)	–	–	(2,913,872)	(2,913,872)
Transfers from Stage 1	(4,065,588)	3,496,493	569,095	–
Transfers from Stage 2	1,399,029	(2,076,759)	677,730	–
Transfers from Stage 3	132,992	35,154	(168,146)	–
Impact on ECL of exposures transferred between stages	587,447	(1,045,777)	1,794,559	1,336,229
Others	–	–	928,778	928,778
Balance at end of year	₱1,686,037	₱1,872,781	₱3,324,649	₱6,883,467

Reconciliation of the allowance for impairment and credit losses by class in 2019 and 2018 follows:

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Corporate loans*				
Balance at beginning of year	**₱32,902**	**₱55,007**	**₱259,721**	**₱347,630**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**7,862**	**–**	**–**	**7,862**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**138,790**	**11,020**	**149,810**
Effect of collections and other movements in receivable balance (excluding write-offs)	**(14,169)**	**(31,133)**	**(4,029)**	**(49,331)**
Write-offs (Note 9)	**–**	**–**	**–**	**–**
Transfers from Stage 1	**(17,528)**	**16,627**	**901**	**–**
Transfers from Stage 2	**689**	**(923)**	**234**	**–**
Transfers from Stage 3	**–**	**172**	**(172)**	**–**
Impact on ECL of exposures transferred between stages	**(460)**	**19,897**	**223,354**	**242,791**
Balance at end of year	**9,296**	**198,437**	**491,029**	**698,762**
Auto loans				
Balance at beginning of year	**328,676**	**513,275**	**488,898**	**1,330,849**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**262,814**	**–**	**–**	**262,814**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**55,540**	**38,874**	**94,414**
Effect of collections and other movements in receivable balance (excluding write-offs)	**(179,251)**	**(118,577)**	**(30,834)**	**(328,662)**
Write-offs (Note 9)	**–**	**–**	**(343,480)**	**(343,480)**
Transfers from Stage 1	**(63,295)**	**56,508**	**6,787**	**–**
Transfers from Stage 2	**152,695**	**(228,701)**	**76,006**	**–**
Transfers from Stage 3	**5,796**	**827**	**(6,623)**	**–**
Impact on ECL of exposures transferred between stages	**(138,136)**	**183,634**	**551,287**	**596,785**
Balance at end of year	**369,299**	**462,506**	**780,915**	**1,612,720**

(Forward)

	2019			
	Stage 1	Stage 2	Stage 3	Total
Credit cards				
Balance at beginning of year	**₱840,833**	**₱1,004,559**	**₱1,025,216**	**₱2,870,608**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**2,983,212**	**–**	**–**	**2,983,212**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**103,910**	**221,411**	**325,321**
Effect of collections and other movements in receivable balance (excluding write-offs)	**(18,630,366)**	**(4,489,984)**	**(192,510)**	**(23,312,860)**
Write-offs (Note 9)	**–**	**–**	**(2,295,923)**	**(2,295,923)**
Transfers from Stage 1	**(4,559,951)**	**4,024,537**	**535,414**	**–**
Transfers from Stage 2	**3,376,459**	**(3,859,246)**	**482,787**	**–**
Transfers from Stage 3	**124,547**	**18,061**	**(142,608)**	**–**
Impact on ECL of exposures transferred between stages	**16,300,666**	**4,418,042**	**1,317,345**	**22,036,053**
Balance at end of year	**435,400**	**1,219,879**	**951,132**	**2,606,411**
Mortgage loans				
Balance at beginning of year	**25,092**	**57,560**	**30,468**	**113,120**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**8,446**	**–**	**–**	**8,446**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**175**	**190**	**365**
Effect of collections and other movements in receivable balance (excluding write-offs)	**(3,535)**	**(23,476)**	**(13,683)**	**(40,694)**
Write-offs (Note 9)	**–**	**–**	**(25)**	**(25)**
Transfers from Stage 1	**(4,202)**	**3,910**	**292**	**–**
Transfers from Stage 2	**15,688**	**(22,608)**	**6,920**	**–**
Transfers from Stage 3	**2,146**	**289**	**(2,435)**	**–**
Impact on ECL of exposures transferred between stages	**(16,051)**	**10,706**	**(148)**	**(5,493)**
Balance at end of year	**27,584**	**26,556**	**21,579**	**75,719**
Other consumer loans**				
Balance at beginning of year	**326,707**	**67,633**	**459,068**	**853,408**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**262,040**	**–**	**–**	**262,040**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**7,671**	**82,035**	**89,706**
Effect of collections and other movements in receivable balance (excluding write-offs)	**(175,164)**	**(61,572)**	**(243,066)**	**(479,802)**
Write-offs (Note 9)	**–**	**–**	**(593,089)**	**(593,089)**
Transfers from Stage 1	**(23,241)**	**10,626**	**12,615**	**–**
Transfers from Stage 2	**1,727**	**(4,455)**	**2,728**	**–**
Transfers from Stage 3	**11,599**	**2,537**	**(14,136)**	**–**
Impact on ECL of exposures transferred between stages	**(20,162)**	**(3,041)**	**686,065**	**662,862**
Balance at end of year	**383,506**	**19,399**	**392,220**	**795,125**

(Forward)

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Unquoted debt securities classified as loans				
Balance at beginning of year	**₱–**	**₱–**	**₱71,626**	**₱71,626**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**–**	**–**	**–**	**–**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**–**	**–**	**–**
Effect of collections and other movements in receivable balance (excluding write-offs)	**–**	**–**	**(1,953)**	**(1,953)**
Write-offs (Note 9)	**–**	**–**	**–**	**–**
Transfers from Stage 1	**–**	**–**	**–**	**–**
Transfers from Stage 2	**–**	**–**	**–**	**–**
Transfers from Stage 3	**–**	**–**	**–**	**–**
Impact on ECL of exposures transferred between stages	**–**	**–**	**–**	**–**
Balance at end of year	**–**	**–**	**69,673**	**69,673**
Other receivables***				
Balance at beginning of year	**131,827**	**174,747**	**989,652**	**1,296,226**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**2,973**	**–**	**–**	**2,973**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**836**	**278**	**1,114**
Effect of collections and other movements in receivable balance (excluding write-offs)	**(117,290)**	**(155,837)**	**(26,798)**	**(299,925)**
Write-offs (Note 9)	**–**	**–**	**(8,572)**	**(8,572)**
Transfers from Stage 1	**(4,084)**	**3,851**	**233**	**–**
Transfers from Stage 2	**1,727**	**(3,924)**	**2,197**	**–**
Transfers from Stage 3	**449**	**54**	**(503)**	**–**
Impact on ECL of exposures transferred between stages	**1,925**	**3,507**	**53,596**	**59,028**
Others	**–**	**–**	**(20,492)**	**(20,492)**
Balance at end of year	**17,527**	**23,234**	**989,591**	**1,030,352**
Total	**₱1,242,612**	**₱1,950,011**	**₱3,696,139**	**₱6,888,762**

**Include Corporate loans and emerging enterprise loans*
***Include Branch loans, DepEd loans, Employee loans, Salary loans and Personal loans*
****Include Accrued interest receivables, Accounts receivables and Sales contract receivables.*

	2018			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans*				
Balance at beginning of year	₱14,745	₱71,569	₱198,713	₱285,027
Newly originated assets that remained in Stage 1 as at December 31, 2019	183,697	–	–	183,697
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	84,696	1,435	86,131
Effect of collections and other movements in receivable balance (excluding write-offs)	(145,531)	(104,478)	(2,390)	(252,399)
Write-offs (Note 9)	–	–	–	–
Transfers from Stage 1	(4,626)	942	3,684	–

(Forward)

	2018			
	Stage 1	Stage 2	Stage 3	Total
Transfers from Stage 2	₱145	(₱155)	₱10	₱–
Transfers from Stage 3	–	–	–	–
Impact on ECL of exposures transferred between stages	(15,528)	2,433	58,269	45,174
Balance at end of year	32,902	55,007	259,721	347,630
Auto loans				
Balance at beginning of year	384,290	347,583	721,676	1,453,549
Newly originated assets that remained in Stage 1 as at December 31, 2019	243,854	–	–	243,854
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	184,134	79,009	263,143
Effect of collections and other movements in receivable balance (excluding write-offs)	(207,156)	(137,757)	(515,800)	(860,713)
Write-offs (Note 9)	–	–	–	–
Transfers from Stage 1	(99,747)	91,310	8,437	–
Transfers from Stage 2	64,901	(111,203)	46,302	–
Transfers from Stage 3	7,639	17,557	(25,196)	–
Impact on ECL of exposures transferred between stages	(65,105)	121,651	174,470	231,016
Balance at end of year	328,676	513,275	488,898	1,330,849
Credit cards				
Balance at beginning of year	664,514	1,563,890	952,866	3,181,270
Newly originated assets that remained in Stage 1 as at December 31, 2019	2,584,490	–	–	2,584,490
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	108,887	341,655	450,542
Effect of collections and other movements in receivable balance (excluding write-offs)	(528,159)	(760,913)	(89,414)	(1,378,486)
Write-offs (Note 9)	–	–	(2,705,749)	(2,705,749)
Transfers from Stage 1	(3,883,811)	3,352,147	531,664	–
Transfers from Stage 2	1,328,410	(1,943,026)	614,616	–
Transfers from Stage 3	107,397	11,832	(119,229)	–
Impact on ECL of exposures transferred between stages	567,992	(1,328,258)	1,498,807	738,541
Balance at end of year	840,833	1,004,559	1,025,216	2,870,608
Mortgage loans				
Balance at beginning of year	18,613	44,591	23,301	86,505
Newly originated assets that remained in Stage 1 as at December 31, 2019	6,714	–	–	6,714
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	1,286	2,214	3,500
Effect of collections and other movements in receivable balance (excluding write-offs)	54,857	(9,609)	(24,649)	20,599
Write-offs (Note 9)	–	–	–	–
Transfers from Stage 1	(41,816)	35,401	6,415	–
Transfers from Stage 2	1,776	(13,152)	11,376	–
Transfers from Stage 3	62	816	(878)	–
Impact on ECL of exposures transferred between stages	(15,114)	(1,773)	12,689	(4,198)
Balance at end of year	25,092	57,560	30,468	113,120

(Forward)

	2018			
	Stage 1	Stage 2	Stage 3	Total
Other consumer loans**				
Balance at beginning of year	₱486,406	₱143,788	₱683,467	₱1,313,661
Newly originated assets that remained in Stage 1 as at December 31, 2019	390,129	–	–	390,129
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	328	998	1,326
Effect of collections and other movements in receivable balance (excluding write-offs)	(523,639)	(76,852)	(58,032)	(658,523)
Write-offs (Note 9)	–	–	(208,123)	(208,123)
Transfers from Stage 1	(34,601)	15,820	18,781	–
Transfers from Stage 2	2,571	(6,632)	4,061	–
Transfers from Stage 3	17,269	3,777	(21,046)	–
Impact on ECL of exposures transferred between stages	(11,428)	(12,596)	38,962	14,938
Balance at end of year	326,707	67,633	459,068	853,408
Unquoted debt securities classified as loans				
Balance at beginning of year	–	–	68,965	68,965
Newly originated assets that remained in Stage 1 as at December 31, 2019	–	–	–	–
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	–	–	–
Effect of collections and other movements in receivable balance (excluding write-offs)	–	–	2,661	2,661
Write-offs (Note 9)	–	–	–	–
Transfers from Stage 1	–	–	–	–
Transfers from Stage 2	–	–	–	–
Transfers from Stage 3	–	–	–	–
Impact on ECL of exposures transferred between stages	–	–	–	–
Balance at end of year	–	–	71,626	71,626
Other receivables***				
Balance at beginning of year	22,343	1,812	36,232	60,387
Newly originated assets that remained in Stage 1 as at December 31, 2019	1,875	–	–	1,875
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	2,328	14,579	16,907
Effect of collections and other movements in receivable balance (excluding write-offs)	(19,885)	(1,613)	(981)	(22,479)
Write-offs (Note 9)	–	–	–	–
Transfers from Stage 1	(987)	873	114	–
Transfers from Stage 2	1,226	(2,591)	1,365	–
Transfers from Stage 3	625	1,172	(1,797)	–
Impact on ECL of exposures transferred between stages	126,630	172,766	11,362	310,758
Others	–	–	928,778	928,778
Balance at end of year	131,827	174,747	989,652	1,296,226
Total	₱1,686,037	₱1,872,781	₱3,324,649	₱6,883,467

**Include Corporate loans and emerging enterprise loans*
***Include Branch loans, DepEd loans, Employee loans, Salary loans and Personal loans*
****Include Accrued interest receivables, Accounts receivables and Sales contract receivables.*

Investments and placements – Group and Parent Company

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Investment securities at amortized cost				
Balance at beginning of year	**₱2,895**	**₱–**	**₱–**	**₱2,895**
Newly originated assets that remained in Stage 1 as at December 31, 2019	–	–	–	–
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	–	–	–
Effect of collections and other movements in receivable balance (excluding write-offs)	**(515)**	**(115)**	–	**(630)**
Write-offs (Note 9)	–	–	–	–
Transfers from Stage 1	–	–	–	–
Transfers from Stage 2	–	–	–	–
Transfers from Stage 3	–	–	–	–
Impact on ECL of exposures transferred between stages	–	–	–	–
Balance at end of year	**₱2,380**	**(₱115)**	**₱–**	**₱2,265**
Due from other banks				
Balance at beginning of year	**₱189**	**₱–**	**₱–**	**₱189**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**1**	–	–	**1**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	–	–	–
Effect of collections and other movements in receivable balance (excluding write-offs)	**(109)**	**12**	–	**(97)**
Write-offs (Note 9)	–	–	–	–
Transfers from Stage 1	–	–	–	–
Transfers from Stage 2	**₱–**	**₱–**	**₱–**	**₱–**
Transfers from Stage 3	–	–	–	–
Impact on ECL of exposures transferred between stages	–	–	–	–
Balance at end of year	**₱81**	**₱12**	**₱–**	**₱93**
Total	**₱2,461**	**(₱103)**	**₱-**	**₱2,358**

	2018			
	Stage 1	Stage 2	Stage 3	Total
Investment securities at amortized cost				
Balance at beginning of year	₱30	₱–	₱–	₱30
Newly originated assets that remained in Stage 1 as at December 31, 2018	939	1,926	–	2,865
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	–	–	–
Effect of collections and other movements in receivable balance (excluding write-offs)	–	–	–	–
Write-offs (Note 9)	–	–	–	–
Transfers from Stage 1	–	–	–	–
Transfers from Stage 2	–	–	–	–

(Forward)

	2018			
	Stage 1	Stage 2	Stage 3	Total
Transfers from Stage 3	₱–	₱–	₱–	₱–
Impact on ECL of exposures transferred between stages	–	–	–	–
Balance at end of year	969	1,926	–	2,895
Due from other banks				
Balance at beginning of year	₱189	₱–	₱–	₱189
Newly originated assets that remained in Stage 1 as at December 31, 2018	3	6	–	9
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2018	–	–	–	–
Effect of collections and other movements in receivable balance (excluding write-offs)	–	–	–	–
Write-offs (Note 9)	–	–	–	–
Transfers from Stage 1	–	–	–	–
Transfers from Stage 2	–	–	–	–
Transfers from Stage 3	–	–	–	–
Impact on ECL of exposures transferred between stages	–	–	–	–
Balance at end of year	192	6	–	198
Total	₱1,161	₱1,932	₱–	₱3,093

Provision for unused credit lines – Group and Parent Company

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of year	**₱–**	**₱449,748**	**₱–**	**₱449,748**
New credit lines that remained in Stage 1 as at December 31, 2019	**274,394**	**–**	**–**	**274,394**
Newly credit lines that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**363**	**–**	**363**
Effect of collections and other movements	**–**	**–**	**–**	**–**
Write-offs				
Transfers from Stage 1	**–**	**–**	**–**	**–**
Transfers from Stage 2	**142,804**	**(142,804)**		**–**
Transfers from Stage 3	**–**	**–**	**–**	**–**
Impact on ECL of exposures transferred between stages	**14,881**	**(55,961)**	**–**	**(41,080)**
Balance at end of year	**₱432,079**	**₱251,346**	**₱–**	**₱683,425**

	2018			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	₱–	₱220,649	₱–	₱220,649
New credit lines that remained in Stage 1 as at December 31, 2018	–	–	–	–
Newly credit lines that moved to Stage 2 and Stage 3 as at December 31, 2018	–	229,099	–	229,099
Effect of collections and other movements	–	–	–	–
Write-offs				
Transfers from Stage 1	–	–	–	–
Transfers from Stage 2	–	–	–	–
Transfers from Stage 3	–	–	–	–
Impact on ECL of exposures transferred between stages	–	–	–	–
Balance at end of year	₱–	₱449,748	₱-	₱449,748

16. **Deposit Liabilities**

Under existing BSP regulations, non-FCDU deposit liabilities of the Parent Company are subject to unified reserve requirements equivalent to 20.00% from May 30, 2014 to March 1, 2018 (under BSP Circular No. 832), 19.00% from March 2, 2018 to May 31, 2018 (under BSP Circular No. 997), and 18.00% from June 1, 2018 (under BSP Circular No. 1004) and 17% from May 31, 2019 (under BSP Circular No. 1041).

LTNCDs are subject to required reserves of 4.00% if issued under BSP Circular No. 304, and 7.00% if issued under BSP Circular No. 842.

On the other hand, EWRB is required to maintain regular reserves equivalent to 3.00% demand and savings deposits.

As of December 31, 2019 and 2018, the Parent Company and EWRB are in compliance with such regulations. As of December 31, 2019 and 2018, Due from BSP of the Parent Company and EWRB below has been set aside as reserves for deposit liabilities, as reported to the BSP:

	2019	2018
Parent Company	**₱32,699,816**	₱39,702,394
EWRB	**696,816**	609,108
Total reserves for deposit liabilities	**₱33,396,632**	₱40,311,502

As of December 31, 2019 and 2018, 30.22% and 47.71%, respectively, of the total liabilities of the Group and 31.61% and 46.76%, respectively of the Parent Company are subject to periodic interest repricing.

The remaining deposit liabilities earn annual fixed interest rates ranging from 0.50% to 5.88% in 2019, 0.15% to 5.00% in 2018 and 0.13% to 5.00% in 2017.

Long Term Negotiable Certificate of Deposits (LTNCDs)
LTNCD issued by the Parent Company includes the following (amounts in millions):

Series	**Issue Date**	**Maturity Date**	**Face Value**	**Coupon Rate**	**Average Effective Interest Rate**	**Repayment Terms**	**Carrying Value 2019**	**Carrying Value 2018**	Carrying Value 2017
1	11/23/2012	5/23/2018	4,650	5.000%	4.37%	Quarterly	**₱–**	₱–	₱4,658
2	12/5/2013	6/5/2019	2,484	3.250%	3.48%	Quarterly	**–**	2,475	2,455
3	10/23/2014	4/24/2020	925	4.500%	4.42%	Quarterly	**925**	924	923
4	3/21/2017	9/21/2022	10,000	4.000%	4.10%	Quarterly	**9,973**	9,964	9,955
5	6/7/2018	12/7/2023	2,451	4.625%	4.78%	Quarterly	**2,437**	2,434	–
Total							**₱13,335**	₱15,797	₱17,991

Long-term Negotiable Certificates of Deposits due 2018 (LTNCD Series 1)
The Parent Company issued its unsecured LTNCD in tranches. The first tranche amounting to ₱1.53 billion issued at a discount on November 23, 2012, and the second to seventh tranches amounting to ₱3.12 billion were issued at a premium in February to May 2013. The LTNCD series 1 matured on May 23, 2018.

Long-term Negotiable Certificates of Deposits due 2019 (LTNCD Series 2)
In 2013, the Parent Company issued unsecured LTNCD maturing on June 5, 2019. The first to third tranches of the LTNCD Series 2 aggregating to ₱0.75 billion were issued in December 2013. The discount, including debt issue costs, related to the issuance of the LTNCD Series 2 in 2013 amounted to P9.44 million. The fourth and fifth tranches of the LTNCD Series 2 aggregating to ₱1.74 billion

were issued in February and April 2014, respectively. The discount, including debt issue costs, related to the issuance of the LTNCD Series 2 in 2014 amounted to ₱85.05 million. The LTNCD Series 2 matured on June 5, 2019. As of December 31, 2018, the outstanding net unamortized discount amounted to ₱9.07 million.

Long-term Negotiable Certificates of Deposits due 2020 (LTNCD Series 3)
In 2014, the Parent Company issued unsecured LTNCD maturing on April 24, 2020. The first tranche of the LTNCD Series 3 amounting to ₱0.93 billion was issued in October 2014. The discount related to the issuance of the LTNCD Series 3 in 2014 amounted to ₱4.63 million. As of December 31, 2019 and 2018, the outstanding net unamortized discount amounted to ₱0.23 million and ₱1.00 million, respectively.

Long-term Negotiable Certificates of Deposits due 2022 (LTNCD Series 4)
In 2017, the Parent Company issued unsecured LTNCD maturing on September 21, 2022. The first tranche of the LTNCD amounting to ₱2.70 billion was issued in March 2017. The second to fifth tranches of the LTNCD aggregating to ₱7.30 billion were issued in April to August 2017. The debt issue costs related to the issuance of the LTNCD in 2017 amounted to ₱49.94 million. As of December 31, 2019 and 2018, the outstanding unamortized debt issue cost amounted to ₱26.78million and ₱35.89 million, respectively.

Long Term Negotiable Certificates of Deposits due 2023 (LTNCD Series 5)
In 2018, the Parent Company issued unsecured LTNCD maturing on December 7, 2023. The first tranche of the LTNCD amounting to ₱2.45 billion was issued in June 7, 2018. The debt issue costs related to the issuance of the LTNCD in 2018 amounted to ₱18.38 million. As of December 31, 2019 and 2018, the outstanding unamortized debt issue cost amounted to ₱13.62 million and ₱16.70 million, respectively.

The movements in unamortized net discount of LTNCD as of December 31, 2019 and 2018 are as follows:

	2019	2018
Beginning balance	**₱62,660**	₱67,845
Discount arising from issuance during the year	**9,840**	18,380
Amortization during the year	**(12,182)**	(23,565)
Ending balance	**₱60,318**	₱62,660

The Group and the Parent Company's interest expense on deposit liabilities consists of (amount in thousands):

	Consolidated			**Parent**		
	2019	2018	2017	**2019**	2018	2017
Time deposits	**₱4,858,431**	₱3,060,232	₱1,998,822	**₱4,858,431**	₱3,060,232	₱1,998,822
Savings deposits	**1,238,106**	679,057	499,098	**303,294**	171,721	170,470
LTNCDs	**597,634**	686,148	571,399	**597,634**	686,148	571,399
Demand deposits	**104,380**	98,101	91,458	**105,364**	98,570	93,009
Total	**₱6,798,551**	₱4,523,538	₱3,160,777	**₱5,864,723**	₱4,016,671	₱2,833,700

17. Bills and Acceptances Payable

This account consists of:

	2019	2018
Banks and other financial institutions	**₱30,912,930**	₱17,939,215
Outstanding acceptances	**36,823**	30,712
	₱30,949,753	₱17,969,927

As of December 31, 2019, ₱29.80 billion of bills and acceptances payable are secured and collateralized by investment in government securities with face value and fair value of ₱28.24 billion and ₱32.86 billion, respectively.

As of December 31, 2018, ₱15.89 billion of bills and acceptances payable are secured and collateralized by investment in government securities with face value and fair value of ₱19.44 billion and ₱19.51 billion, respectively.

The details of collaterals in 2019 and 2018 follow:

	2019		2018	
	Face value	**Fair value**	Face value	Fair value
Financial assets at FVTPL	**₱8,068,541**	**₱9,154,497**	₱2,798,191	₱2,603,601
Financial assets at FVTOCI	**3,747,829**	**4,368,253**	250,000	237,189
Investment securities at amortized cost	**16,419,473**	**19,332,692**	16,394,474	16,670,322
	₱28,235,843	**₱32,855,442**	₱19,442,665	₱19,511,112

Bills payable to the BSP, other banks and other financial institutions are subject to annual interest rates ranging from 1.90% to 4.44% in 2019, 2.68% to 5.38% in 2018, and 1.50% to 3.50% in 2017.

The Group’s and the Parent Company’s interest expense on bills and acceptances payable amounted to ₱873.70 million in 2019, ₱204.11 million in 2018, and ₱44.13 million in 2017.

18. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Accrued interest payable	**₱581,529**	₱916,067	**₱527,558**	₱799,433
Accrued taxes	**381,291**	410,873	**345,368**	373,055
Accrued other expenses	**2,070,213**	1,533,956	**1,880,382**	1,355,913
	₱3,033,033	₱2,860,896	**₱2,753,308**	₱2,528,401

Accrued other expenses pertain to accruals of various operating expenses such as rent, utilities, management and professional fees, employee bonus and other expenses.

19. **Subordinated Debt**

This account consists of:

		Consolidated		Parent Company	
	Face Value	**2019**	2018	**2019**	2018
Lower Tier 2 unsecured subordinated notes due 2025	₱5,000,000	**₱4,979,340**	₱4,975,862	**₱4,979,340**	₱4,975,862
Lower Tier 2 unsecured subordinated notes due 2027	1,250,000	**1,239,671**	1,238,617	**–**	–
	₱6,250,000	**₱6,219,011**	₱6,214,479	**₱4,979,340**	₱4,975,862

Lower Tier 2 unsecured subordinated notes due 2025

On July 4, 2014, the Parent Company issued 5.50% coupon rate Lower Tier 2 unsecured subordinated notes (the 2025 Notes) with par value of ₱5.00 billion, maturing on January 4, 2025, but callable on January 4, 2020. The 2025 Notes qualify as Tier 2 capital pursuant to BSP Circular No. 781 (Basel III), BSP Circular No. 826 on risk disclosure requirements for the loss absorption features of capital instruments, and other related circulars and issuances of the BSP.

Unless the 2025 Notes are previously redeemed, the 2025 Notes are repayable to the Noteholders at 100.00% of their face value or at par on the maturity date of January 4, 2025.

From and including the issue date to, but excluding the optional redemption date of January 4, 2020, the 2025 Notes bear interest at the rate of 5.50% per annum and shall be payable quarterly in arrears on January 4, April 4, July 4, and October 4 of each year, which commenced on October 4, 2014. Unless the 2025 Notes are previously redeemed, the interest rate will be reset at the equivalent of the prevailing 5-year BVAL at reset date plus initial spread (i.e., the difference between the initial interest rate and the prevailing 5-year BVAL at the pricing date of the initial tranche), commencing on January 4, 2020.

The 2025 Notes are redeemable at the option of the Parent Company, in whole but not in part, on the call option date at 100.00% of the face value plus accrued but unpaid interest, subject to the following conditions:

a. the Parent Company has obtained prior written approval and complied with the requirements of the BSP prior to redemption of the 2025 Notes;
b. the 2025 Notes are replaced with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the Parent Company or the Parent Company demonstrates that its capital position is above the minimum capital requirements after redemption is exercised;
c. the Parent Company is not in breach of (and would not, following such redemption, be in breach) of applicable regulatory capital requirements (including regulatory capital buffers);
d. the Parent Company is solvent at the time of redemption of the 2025 Notes and immediately thereafter.

Furthermore, upon the occurrence of a Tax Redemption Event or a Regulatory Redemption Event, the Parent Company may, subject to compliance with BSP rules and BSP approval, and upon prior approval of the BSP and with prior written notice to the Noteholders on record, redeem all and not less than all of the outstanding 2025 Notes prior to the stated maturity by paying the Noteholder the Redemption Option Amount which, (a) in the case of a Tax Redemption Event is an amount equal to 100.00% of the face value of the 2025 Notes plus accrued interest at the interest rate relating to the then current interest period up to but excluding the date of such redemption, and (b) in the case of a Regulatory Redemption Event is an amount equal to 100.00% of the face value of the 2025 Notes plus accrued interest at the interest rate relating to the then current Interest Period up to but excluding the date of such redemption (the "Redemption Option Date").

The 2025 Notes have a loss absorption feature which means that the 2025 Notes are subject to a Non-Viability Write-Down in case of a Non-Viability Event. Non-viability is defined as a deviation from a certain level of Common Equity Tier 1 (CET1) Ratio or inability of the Parent Company to continue business (closure) or any other event as determined by the BSP, whichever comes earlier. A Non-Viability Event is deemed to have occurred when the Parent Company is considered non-viable as determined by the BSP.

Upon the occurrence of a Non-Viability Event, the Parent Company shall write-down the principal amount of the 2025 Notes to the extent required by the BSP, which could go to as low as zero. Additional Tier 1 (AT1) capital instruments shall be utilized first before Tier 2 capital instruments are written-down, until the viability of the Issuer is re-established. In the event the Parent Company does not have AT1 capital instruments, then the write-down shall automatically apply to Tier 2 capital.

Loss absorption feature is subject to the following conditions:

a. the principal amount of all series of Tier 1 Loss Absorbing Instruments outstanding having been Written-Down to zero or converted into common equity of the Parent Company (where possible) irrevocably, in accordance with, and to the extent possible pursuant to, their terms (the "Tier 1 Write-Down");
b. the Tier 1 Write-Down having been insufficient to cure the Non-Viability Event;
c. the Parent Company giving the relevant Non-Viability Notice to the Public Trustee and the Registrar and Paying Agent.

Each Noteholder irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed to it by the Parent Company arising under or in connection with the 2025 Notes and it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

On January 4, 2020, the Parent Company exercised its redemption option to pre-terminate the 2025 Notes.

<u>Lower Tier 2 unsecured subordinated notes due 2027</u>
On February 20, 2017, EWRB issued 5.50% coupon rate Lower Tier 2 unsecured subordinated note (the 2027 Notes) with par value of ₱1.25 billion, maturing on August 20, 2027 but callable on August 20, 2022.

Unless the 2027 Notes are previously redeemed, the 2027 Notes are repayable to the Noteholders at 100.00% of their face value or at par on the maturity date of August 20, 2027.

From and including the issue date to, but excluding the optional redemption date of August 20, 2022, the 2027 Notes bear interest at the rate of 5.50% per annum and shall be payable quarterly in arrears on February 20, May 20, August 20, and November 20 of each year, which commenced on February 20, 2017. Unless the 2027 Notes are previously redeemed, the interest rate will be reset at the equivalent of the prevailing 5-year BVAL at reset date plus initial spread (i.e., the difference between the initial interest rate and the prevailing 5-year BVAL at the pricing date of the initial tranche), commencing on August 20, 2022.

The 2027 Notes are redeemable at the option of EWRB, in whole but not in part, on the call option date at 100.00% of the face value plus accrued but unpaid interest, subject to the following conditions:

a. EWRB has obtained prior written approval and complied with the requirements of the BSP prior to redemption of the 2027 Notes;
b. the 2027 Notes are replaced with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of EWRB, or EWRB demonstrates that its capital position is above the minimum capital requirements after redemption is exercised;
c. EWRB is not in breach of (and would not, following such redemption, be in breach) of applicable regulatory capital requirements (including regulatory capital buffers);
d. EWRB is solvent at the time of redemption of the 2027 Notes and immediately thereafter.

Furthermore, upon the occurrence of a Tax Redemption Event or a Regulatory Redemption Event, the EWRB may, subject to compliance with BSP rules and BSP approval, and upon prior approval of the BSP and with prior written notice to the Noteholders on record, redeem all and not less than all of the outstanding 2027 Notes prior to the stated maturity by paying the Noteholder the Redemption Option Amount which, (a) in the case of a Tax Redemption Event is an amount equal to 100.00% of the face value of the 2027 Notes plus accrued interest at the interest rate relating to the then current interest period up to but excluding the date of such redemption, and (b) in the case of a Regulatory Redemption Event is an amount equal to 100.00% of the face value of the 2027 Notes plus accrued interest at the interest rate relating to the then current Interest Period up to but excluding the date of such redemption (the “Redemption Option Date”).

The 2027 Notes have a loss absorption feature which means that the 2027 Notes are subject to a Non-Viability Write-Down in case of a Non-Viability Event. Non-viability is defined as a deviation from a certain level of Common Equity Tier 1 (CET1) Ratio or inability of the EWRB to continue business (closure) or any other event as determined by the BSP, whichever comes earlier. A Non-Viability Event is deemed to have occurred when EWRB is considered non-viable as determined by the BSP.

Upon the occurrence of a Non-Viability Event, EWRB shall write-down the principal amount of the 2025 Notes to the extent required by the BSP, which could go to as low as zero. Additional Tier 1 (AT1) capital instruments shall be utilized first before Tier 2 capital instruments are written-down, until the viability of the Issuer is re-established. In the event EWRB does not have AT1 capital instruments, then the write-down shall automatically apply to Tier 2 capital.

Loss absorption feature is subject to the following conditions:

a. the principal amount of all series of Tier 1 Loss Absorbing Instruments outstanding having been Written-Down to zero or converted into common equity of EWRB (where possible) irrevocably, in accordance with, and to the extent possible pursuant to, their terms (the “Tier 1 Write-Down”);
b. the Tier 1 Write-Down having been insufficient to cure the Non-Viability Event;
c. EWRB giving the relevant Non-Viability Notice to the Public Trustee and the Registrar and Paying Agent.

Each Noteholder irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed to it by EWRB arising under or in connection with the 2027 Notes and it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

The Group’s interest expense on the subordinated debts amounted to ₱345.97 million, ₱345.93 million, and ₱333.32 million in 2019, 2018, and 2017, respectively.

The Parent Company's interest expense on the subordinated debts amounted to ₱276.16 million, ₱276.10 million, and ₱273.75 million in 2019, 2018, and 2017, respectively.

20. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Financial liabilities				
Accounts payable	**₱3,421,255**	₱3,670,449	**₱2,705,305**	₱2,819,166
Provision on unused credit lines (Notes 15 and 29)	**683,425**	449,748	**683,425**	449,748
Bills purchased-contra	**542,664**	551,467	**542,664**	551,467
Payment orders payable	**135,461**	173,498	**135,461**	173,498
Derivative liabilities (Note 5)	**128,004**	146,548	**128,004**	146,548
Retention payable	**42,571**	55,730	**42,571**	55,730
Marginal deposits and letters of credit	**5,789**	22,066	**5,789**	22,066
	4,959,169	5,069,506	**4,243,219**	4,218,223
Non-financial liabilities				
Deferred revenue	**1,500,657**	2,360,494	**1,516,910**	2,360,012
Net retirement obligation (Note 25)	**169,903**	99,040	**149,678**	94,174
Withholding tax payable	**144,299**	175,203	**130,190**	159,571
Miscellaneous	**335,908**	574,310	**330,306**	574,374
	2,150,767	3,209,047	**2,127,084**	3,188,131
	₱7,109,936	₱8,278,553	**₱6,370,303**	₱7,406,354

Deferred revenue of the Group and the Parent Company includes deferred credit card loyalty points, membership fees and dues as well as the deferred exclusive bancassurance access fee (Note 10).

21. Maturity Analysis of Assets and Liabilities

The following tables show an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from the statement of financial position date:

	Consolidated					
	2019			2018		
	Less than 12 months	**Over 12 months**	**Total**	Less than 12 months	Over 12 months	Total
Financial assets:						
Cash and other cash items	**₱7,454,625**	**₱–**	**₱7,454,625**	₱7,185,241	₱–	₱7,185,241
Due from BSP	**34,287,302**	**–**	**34,287,302**	40,481,956	–	40,481,956
Due from other banks - gross (Note 15)	**3,404,019**	**–**	**3,404,019**	10,233,438	–	10,233,438
IBLR	**2,691,882**	**–**	**2,691,882**	5,862,670	–	5,862,670
Financial assets at FVTPL (Note 8)	**16,840,709**	**–**	**16,840,709**	4,338,794	–	4,338,794
Financial assets at FVTOCI (Note 8)	**4,650,636**	**–**	**4,650,636**	248,207	–	248,207
Investment securities at amortized cost - gross (Notes 8 and 15)	**392,088**	**48,996,247**	**49,388,335**	13,896,211	22,617,230	36,513,441
Loans and receivables - gross (Notes 9 and 15)	**115,497,638**	**151,147,649**	**266,645,287**	97,953,032	148,263,236	246,216,268
Other assets - gross (Notes 14 and 15)	**202,744**	**268,330**	**471,074**	212,221	285,438	497,659
	185,421,643	**200,412,226**	**385,833,869**	180,411,770	171,165,904	351,577,674

(Forward)

	Consolidated					
	2019			2018		
	Less than 12 months	**Over 12 months**	**Total**	Less than 12 months	Over 12 months	Total
Nonfinancial assets:						
Investment in a joint venture (Note 10)	**₱–**	**₱694,114**	**₱694,114**	₱–	₱689,466	₱689,466
Property and equipment - gross (Note 11)	–	**11,690,022**	**11,690,022**	–	7,437,991	7,437,991
Investment properties - gross (Notes 12 and 15)	–	**1,344,814**	**1,344,814**	–	1,296,575	1,296,575
Deferred tax assets (Note 24)	–	**2,821,217**	**2,821,217**	–	2,265,962	2,265,962
Goodwill and other intangible assets - gross (Note 13)	–	**8,613,422**	**8,613,422**	–	8,462,892	8,462,892
Other assets - gross (Notes 14 and 15)	**1,448,924**	**1,577,059**	**3,025,983**	1,291,074	1,402,112	2,693,186
	1,448,924	**26,740,648**	**28,189,572**	1,291,074	21,554,998	22,846,072
	186,870,567	**227,152,874**	**414,023,441**	181,702,844	192,720,902	374,423,746
Allowances for impairment and credit losses (Note 15)	–	**(7,808,910)**	**(7,808,910)**	–	(7,406,471)	(7,406,471)
Unamortized premium (Note 9)	–	**8,391,667**	**8,391,667**	–	6,945,199	6,945,199
Accumulated depreciation and amortization (Notes 11, 12 and 13)	–	**(8,281,909)**	**(8,281,909)**	–	(6,623,485)	(6,623,485)
	₱186,870,567	**₱219,453,722**	**₱406,324,289**	₱181,702,844	₱185,636,145	₱367,338,989
Financial liabilities:						
Deposit liabilities (Note 16)	**₱291,229,056**	**₱13,497,099**	**₱304,726,155**	₱259,111,520	₱ 29,128,313	₱288,239,833
Bills and acceptances payable (Note 17)	**30,949,753**	–	**30,949,753**	17,969,927	–	17,969,927
Cashiers' checks and demand drafts payable	**1,320,236**	–	**1,320,236**	895,717	–	895,717
Subordinated debt (Note 19)	**4,979,340**	**1,239,671**	**6,219,011**	–	6,214,479	6,214,479
Accrued interest, taxes and other expenses (Note 18)	**2,651,742**	–	**2,651,742**	2,450,023	–	2,450,023
Lease liability	**788,477**	**2,514,504**	**3,302,981**	–	–	–
Other liabilities (Note 20)	**4,916,597**	**42,572**	**4,959,169**	5,025,987	43,519	5,069,506
	336,835,201	**17,293,846**	**354,129,047**	285,453,174	35,386,311	320,839,485
Nonfinancial liabilities:						
Income tax payable	**595,851**	–	**595,851**	222,410	–	222,410
Accrued interest, taxes and other expenses (Note 18)	**381,291**	–	**381,291**	410,873	–	410,873
Other liabilities (Note 20)	**840,060**	**1,310,707**	**2,150,767**	175,203	3,033,844	3,209,047
	1,817,202	**1,310,707**	**3,127,909**	808,486	3,033,844	3,842,330
	₱338,652,403	**₱18,604,553**	**₱357,256,956**	₱286,261,660	₱38,420,155	₱324,681,815

	Parent Company					
	2019			2018		
	Less than 12 months	**Over 12 months**	**Total**	Less than 12 months	Over 12 months	Total
Financial assets:						
Cash and other cash items	**₱7,354,474**	**₱–**	**₱7,354,474**	₱7,097,652	₱–	₱7,097,652
Due from BSP	**33,590,486**	–	**33,590,486**	39,872,848	–	39,872,848
Due from other banks - gross (Note 15)	**3,324,495**	–	**3,324,495**	10,087,873	–	10,087,873
IBLR	**2,691,882**	–	**2,691,882**	5,862,670	–	5,862,670
Financial assets at FVTPL (Note 8)	**16,840,709**	–	**16,840,709**	4,338,794	–	4,338,794
Financial assets at FVTOCI (Note 8)	**4,650,636**	–	**4,650,636**	248,207	–	248,207
Investment securities at amortized cost - gross (Notes 8 and 15)	**392,088**	**48,996,247**	**49,388,335**	13,896,211	22,617,230	36,513,441
Loans and receivables - gross (Notes 9 and 15)	**92,529,311**	**146,629,057**	**239,158,368**	97,252,410	124,136,188	221,388,598
Other assets - gross (Notes 14 and 15)	**202,743**	**265,070**	**467,813**	212,893	282,863	495,756
	161,576,824	**195,890,374**	**357,467,198**	178,869,558	147,036,281	325,905,839
Nonfinancial assets:						
Investment in subsidiaries (Note 10)	–	**3,992,449**	**3,992,449**	–	3,697,985	3,697,985
Investment in a joint venture (Note 10)	–	**694,114**	**694,114**	–	689,466	689,466
Property and equipment - gross (Note 11)	–	**10,707,460**	**10,707,460**	–	6,719,423	6,719,423
Investment properties - gross (Notes 12 and 15)	–	**1,343,369**	**1,343,369**	–	1,295,129	1,295,129
Deferred tax assets (Note 24)	–	**2,387,704**	**2,387,704**	–	2,138,525	2,138,525

(Forward)

	Parent Company					
	2019			2018		
	Less than 12 months	**Over 12 months**	**Total**	Less than 12 months	Over 12 months	Total
Goodwill and other intangible assets - gross (Note 13)	**₱–**	**₱8,497,117**	**₱8,497,117**	₱–	₱8,351,897	₱8,351,897
Other assets - gross (Notes 14 and 15)	**1,366,650**	**1,566,981**	**2,933,631**	1,202,934	1,376,003	2,578,937
	1,366,650	**29,189,194**	**30,555,844**	1,202,934	24,268,428	25,471,362
	162,943,474	**225,079,568**	**388,023,042**	180,072,492	171,304,709	351,377,201
Allowances for impairment and credit losses (Note 15)	–	**(7,289,355)**	**(7,289,355)**	–	(6,998,057)	(6,998,057)
Unamortized premium (Note 9)	–	**9,589,794**	**9,589,794**	–	7,547,675	7,547,675
Accumulated depreciation and amortization (Notes 11, 12 and 13)	–	**(7,593,005)**	**(7,593,005)**	–	(6,098,954)	(6,098,954)
	₱162,943,474	**₱219,787,002**	**₱382,730,476**	₱180,072,492	₱165,755,373	₱345,827,865
Financial liabilities:						
Deposit liabilities (Note 16)	**270,185,116**	**13,497,099**	**283,682,215**	240,138,181	29,128,313	269,266,494
Bills and acceptances payable (Note 17)	**30,949,753**	–	**30,949,753**	17,969,927	–	17,969,927
Cashiers' checks and demand drafts payable	**1,320,236**	–	**1,320,236**	895,717	–	895,717
Subordinated debt (Note 19)	**4,979,340**	–	**4,979,340**	–	4,975,862	4,975,862
Accrued interest, taxes and other expenses (Note 18)	**2,407,940**	–	**2,407,940**	2,155,346	–	2,155,346
Lease liability	**747,674**	**2,373,769**	**3,121,443**	–	–	–
Other liabilities (Note 20)	**4,200,647**	**42,572**	**4,243,219**	4,195,902	22,321	4,218,223
	314,790,706	**15,913,440**	**330,704,146**	265,355,073	34,126,496	299,481,569
Nonfinancial liabilities:						
Income tax payable	**486,545**	–	**486,545**	127,936	–	127,936
Accrued interest, taxes and other expenses (Note 18)	**345,368**	–	**345,368**	373,055	–	373,055
Other liabilities (Note 20)	**816,377**	**1,310,707**	**2,127,084**	1,223,608	1,964,523	3,188,131
	1,648,290	**1,310,707**	**2,958,997**	1,724,599	1,964,523	3,689,122
	₱316,438,996	**₱17,224,147**	**₱333,663,143**	₱267,079,672	₱36,091,019	₱303,170,691

22. Equity

Capital Management

The Parent Company actively manages its capital to comply with regulatory requirements, enable growth targets, withstand plausible stress events and be at par with the Parent Company's peers. The primary objective of the Parent Company's capital management is to ensure that it maintains adequate capital to cover risks inherent to its banking activities without prejudice to optimizing shareholders' value.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's 'unimpaired capital' (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies. In addition, the risk-based Capital Adequacy Ratio (CAR) of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (Parent Company and subsidiaries engaged in financial allied undertakings). Qualifying capital and risk-weighted assets are computed based on BSP regulations.

Effective January 1, 2014, the Group complied with BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The Circular sets out a minimum

Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50%. It also introduces a capital conservation buffer of 2.50% comprised of CET1 capital. The BSP's existing requirement for total CAR remains unchanged at 10.00% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital only until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

On June 27, 2014, the BSP issued Circular No. 839, *REST Limit for Real Estate Exposures* which provides the implementing guidelines on the prudential REST limit for universal, commercial, and thrift banks on their aggregate real estate exposures. The Group should maintain CET1 and CAR levels at the regulatory prescribed minimums, on a solo and consolidated basis, even after the simulated results of a 25.00% write-off to the Group's real estate exposures. These shall be complied with at all times.

The capital-to-risk assets ratio reported to the BSP as of December 31, 2019 and 2018 are shown in the table below:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
CET1 capital ratio	**10.37%**	10.29%	**10.65%**	10.24%
Tier 1 capital ratio	**10.37%**	10.29%	**10.65%**	10.24%
Total capital ratio	**12.95%**	12.76%	**13.00%**	12.87%

The composition of the qualifying capital is shown below (amounts in millions):

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Qualifying capital:				
Tier 1 capital	**₱47,963**	₱41,918	**₱47,973**	₱42,142
CET1 capital	**47,963**	41,918	**47,973**	42,142
Less: Required deductions	**11,609**	10,081	**13,872**	13,463
Net Tier 1 capital	**36,354**	31,837	**34,101**	28,679
Tier 2 capital	**9,036**	7,622	**7,533**	7,377
Total qualifying capital	**₱45,390**	₱39,459	**₱41,634**	₱36,056

The capital requirements as of December 31, 2019 and 2018 are shown below (amounts in millions):

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Capital requirements:				
Credit risk	**₱292,232**	₱267,828	**265,911**	₱237,699
Market risk	**13,675**	2,496	**13,675**	1,728
Operational risk	**44,636**	38,959	**40,694**	40,702
Total capital requirements	**₱350,543**	₱309,283	**320,280**	₱280,129

Qualifying capital and risk-weighted assets are computed based on BSP regulations.

Under Basel III, the regulatory Gross Qualifying Capital of the Parent Company consists of Tier 1 (core) and Tier 2 (supplementary) capital. Tier 1 comprises share capital, surplus (including current year profit), and other comprehensive income (cumulative foreign currency translation and net unrealized gains on financial assets at FVTOCI). Required deductions include goodwill, intangible assets, investments in equity, deferred tax assets, defined benefit pension assets and unsecured credit accommodations to DOSRI and subsidiaries.

Tier 2 capital comprise of unsecured subordinated debts and general loan loss provision.

Risk-weighted assets are determined by assigning defined risk weights to the statement of financial position exposure and to the credit equivalent amounts of off-balance sheet exposures. Certain items are deducted from risk-weighted assets, such as the excess of general loan loss provision over the amount permitted to be included in Tier 2 capital. The risk weights vary from 0.00% to 150.00% depending on the type of exposure, with the risk weights of off-balance sheet exposures being subjected further to credit conversion factors. Below is a summary of risk weights and selected exposure types:

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

** Not all inclusive*

With respect to off-balance sheet exposures, the exposure amount is multiplied by a credit conversion factor (CCF), ranging from 0.00% to 100.00%, to arrive at the credit equivalent amount, before the risk weight factor is multiplied to arrive at the risk-weighted exposure. Direct credit substitutes (e.g., guarantees) have a CCF of 100.00%, while items not involving credit risk has a CCF of 0.00%.

In the case of derivatives, the credit equivalent amount (against which the risk weight factor is multiplied to arrive at the risk-weighted exposure) is generally the sum of the current credit exposure or replacement cost (the positive fair value or zero if the fair value is negative or zero) and an estimate of the potential future credit exposure or add-on. The add-on ranges from 0.00% to 1.50% (interest rate-related) and from 1.00% to 7.50% (exchange rate-related), depending on the residual maturity of the contract. For credit-linked notes and similar instruments, the risk-weighted exposure is the higher of the exposure based on the risk weight of the issuer's collateral or the reference entity or entities.

The risk-weighted CAR is calculated by dividing the sum of its Tier 1 and Tier 2 capital, as defined under BSP regulations, by its risk-weighted assets. The risk-weighted assets, as defined by the BSP regulations, consist of all of the assets on the balance sheet at their respective book values, together with certain other off-balance sheet items, weighted by certain percentages depending on the risks associated with the type of assets. The determination of compliance with regulatory requirements and ratios is based on the amount of the Parent Company's 'unimpaired capital' (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting practices which differ from PFRS in some respects.

The Group has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

Leverage Ratio and Total Exposure Measure

The Basel lll Leverage Ratio is designed to act as a supplementary measure to the risk-based capital requirement. The leverage ratio intends to restrict the buildup of leverage in the Bank and reinforce the risk-based requirements with a simple, non-risk based "backstop" measure. It is defined as a capital measure over its total exposure measure with a minimum requirement of 5.00% on both Group and Parent Company.

	2019	
	Consolidated	**Parent**
Capital Measure	₱37,439,942	₱34,100,854
Divided by: Exposure measure	420,909,115	393,622,139
Leverage ratio	8.90%	8.66%

Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)

The NSFR seeks to limit the overreliance on short-term wholesale funding and promoting enhanced assessment of funding risk across all on- and off-balance sheet accounts. It complements the LCR, which promotes short term resilience of a Bank's liquidity profile. The minimum LCR and NSFR requirement should be no lower than 100% at all times on both Group and Parent Company.

	2019	
	Consolidated	**Parent**
Total Stock of High-Quality Liquid Assets	₱61,635,603	₱60,841,217
Divided by: Total Net Cash Flows	31,560,166	39,791,801
Liquidity Coverage ratio	195.30%	152.90%

	2019	
	Consolidated	**Parent**
Available Stable Funding Ratio	₱268,531,985	₱249,897,222
Divided by: Required Stable Funding	242,005,827	229,239,981
Liquidity Coverage ratio	110.96%	109.01%

Capital Stock

Capital stock consists of (amounts in thousands, except for par value and number of shares):

	Shares			Amount		
	2019	2018	2017	**2019**	2018	2017
Authorized:						
Common stock - ₱10.00 par value	**4,500,000,000**	4,500,000,000	1,500,000,000			
Preferred stock - ₱10.00 par value	**500,000,000**	500,000,000	500,000,000			
Common stock issued and outstanding:						
Balance at the beginning of the year	**2,249,975,411**	1,499,983,610	1,499,983,610	**₱22,499,754**	₱14,999,836	₱14,999,836
Issuance of stock dividends	−	749,991,801	−	−	7,499,918	−
Balance at the end of the year	**2,249,975,411**	2,249,975,411	1,499,983,610	**₱22,499,754**	₱22,499,754	₱14,999,836

With the approvals by the PSE of the Parent Company's application for listing and by the SEC for the Registration Statement both on March 14, 2012, a total of 245,316,200 common shares, with ₱10.00 par value per share, representing 21.70% of outstanding capital stock, were offered and subscribed through an initial public offering at ₱18.50 per share on April 20 to 26, 2012. The common shares comprise of (a) 141,056,800 new shares issued by the Parent Company by way of a primary offer, and (b) 104,259,400 existing shares offered by FDC, the selling shareholder, pursuant to a secondary offer. Subsequently, on September 5, 2012, 36,715,300 shares under the over-allotment option were exercised at a price of ₱18.50 per share that brought the subscriptions to 25.00% of the outstanding capital stock. The Parent Company's common shares were listed and commenced trading in the PSE on May 7, 2012.

The preferred shares are perpetual non-voting and non-convertible to common shares. The dividends of the preferred shares shall be non-cumulative and to be fixed by the BOD at an annual dividend rate prior to the date of issue.

The total proceeds raised by the Parent Company from the sale of primary offer shares amounted to ₱2.61 billion while the net proceeds (after deduction of direct costs related to equity issuance) amounted to ₱2.39 billion.

On February 1, 2018, the BSP approved the following amendments to the Parent Company's Articles of Incorporation, which were approved and confirmed by the Parent Company's BOD at its special meeting on July 13, 2017, to provide flexibility for future capital requirements:

a. Increase of the Parent Company's authorized capital stock from ₱20.00 billion to ₱50.00 billion consisting of 4.50 billion common shares with par value of ₱10.00 per share or a total par value of ₱45.00 billion and ₱0.50 billion preferred shares with par value of ₱10.00 per share or a total par value of ₱5.00 billion.

b. Declaration of 50.00% stock dividends equivalent to ₱7.50 billion from the Parent Company's unrestricted retained earnings as of December 31, 2016 to meet the required subscribed and paid amount of capital stock per Corporation Code after the increase in the authorized capital of the Parent Company. The increase in the Parent Company's authorized capital stock and stock dividend declaration were subsequently approved by BSP on September 29, 2017 and by SEC on February 28, 2018.

On April 16, 2018, a total of 749,991,801 common shares were listed at the PSE.

The portion of the Parent Company's retained earnings pertaining to the accumulated earnings of the subsidiaries amounting to ₱3.90 billion and ₱3.69 billion as of December 31, 2019 and December 31, 2018, respectively, are not available for dividend declaration until declared as dividends by subsidiaries.

In 2018, upon the full adoption of PFRS 9, the BSP through BSP Circular No. 1011 has required the appropriation for the difference of the 1% general loan loss provision over the computed ECL related to Stage 1 accounts. As of December 31, 2019, the amount of appropriation made in 2018 is still sufficient to cover the difference of the required BSP provision over the computed ECL related to Stage 1 accounts

Dividend
The BOD of the Parent Company, in its special meeting on April 21, 2017, approved the declaration of cash dividends amounting to ₱0.33 per share or ₱500.00 million to stockholders on record as of May 9, 2017. The dividends were paid on May 29, 2017.

As approved by the Parent Company's BOD in its special meeting on July 13, 2017, 50.00% stock dividend equivalent to ₱7.50 billion was declared to stockholders on record as of March 30, 2018, to cover the required 25.00% minimum subscription and payment for the increase of authorized capital of the Parent Company. The stock dividends were issued on April 16, 2018. Direct issuance costs amounting to ₱144.00 million were paid in 2018.

23. Income and Expenses

Service charges, fees and commissions
Service charges include late payment charges, pre-termination fees on loans and service charges on deposit taking-related transactions. Fees and commissions include credit card membership fees, bancassurance fees, interchange fees, merchant discounts and other commissions.

For the periods ended December 31, 2019, 2018 and 2017, this account consists of:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Credit cards	**₱2,172,012**	₱2,201,506	₱2,105,754	**₱2,172,012**	₱2,201,506	₱2,105,754
Loans	**1,709,685**	1,580,672	2,236,216	**1,119,558**	1,028,176	882,256
Deposits	**785,595**	654,116	626,729	**781,751**	650,037	622,250
Bancassurance fees	**87,919**	68,952	18,168	**87,919**	68,952	18,168
Remittances	**73,748**	85,494	72,454	**73,748**	85,494	72,454
Others	**407,484**	297,710	283,455	**95,964**	91,974	152,682
	₱5,236,443	₱4,888,450	₱5,342,776	**₱4,330,952**	₱4,126,139	₱3,853,564

Others consist of gross receipt tax payments fees, income from securities brokering and certificate fees.

Miscellaneous income
For the periods ended December 31, 2019, 2018 and 2017, this account consists of:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Recoveries and credit adjustments	**₱430,150**	₱739,285	₱436,658	**₱416,502**	₱736,052	₱431,926
Rental income	**41,208**	25,056	20,656	**41,208**	25,056	20,656
Dividend income	**2,208**	3,777	4,555	**2,208**	3,777	4,555
Others	**162,564**	82,957	106,869	**157,279**	79,879	88,162
	₱636,130	₱851,075	₱568,738	**₱617,197**	₱844,764	₱545,299

Others include referral income earned on insurance premiums charged through credit cards and revenue from credit card loyalty rewards.

Miscellaneous expense
For the periods ended December 31, 2019, 2018 and 2017, this account consists of:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Insurance	**₱714,434**	₱687,122	₱623,093	**₱667,592**	₱652,028	₱588,793
Advertising	**708,158**	825,272	601,700	**695,992**	811,424	588,952
Service charges, fees and commissions	**707,180**	601,022	405,979	**707,180**	601,022	405,979
Brokerage fees	**683,167**	647,502	658,021	**706,524**	635,599	701,215
Security, messengerial and janitorial services	**569,263**	489,575	544,996	**509,117**	434,371	488,939
Technological fees	**492,652**	502,011	410,618	**492,545**	500,334	410,618
Postage, telephone, cables and telegram	**432,738**	386,541	392,715	**392,080**	346,894	356,377
Management and other professional fees	**290,646**	175,389	140,406	**287,065**	172,366	137,942
Fines, penalties and other charges	**241,074**	173,119	169,138	**209,565**	152,848	148,790
Power, light and water	**214,164**	217,159	202,957	**187,241**	192,741	179,982
Transportation and travel	**204,156**	212,526	231,722	**160,358**	168,620	166,931
Repairs and maintenance	**155,909**	124,018	124,641	**129,404**	104,532	107,099
Stationery and supplies	**136,361**	109,978	115,396	**107,655**	92,074	91,021
Supervision fees	**106,785**	97,352	82,702	**98,963**	91,259	76,614
Litigation expenses	**75,776**	88,525	71,246	**75,776**	88,520	71,246
Entertainment, amusement and recreation	**42,621**	46,208	48,807	**36,288**	41,711	41,878
Others	**212,443**	219,207	220,320	**194,098**	200,138	208,602
	₱5,987,527	₱5,602,526	₱5,044,457	**₱5,657,443**	₱5,286,481	₱4,770,978

Others include payments for subscriptions, membership fees, trainings, donations and contributions, delivery and freight expenses, and clearing fees.

24. Income and Other Taxes

Under Philippine tax laws, the RBU of the Parent Company and its subsidiaries are subject to percentage and other taxes (presented as 'Taxes and licenses' in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp taxes. Income taxes include corporate income tax, as discussed below, and final taxes paid which represents final withholding tax on gross interest income from government securities and other deposit substitutes and income from FCDU transactions. These income taxes, as well as the deferred tax benefits and provisions, are presented as 'Provision for income tax' in the statements of income.

Republic Act (RA) No. 9397, *An Act Amending National Internal Revenue Code*, provides that the Regular Corporate Income Tax (RCIT) rate shall be 30.00% and the interest expense allowed as a deductible expense shall be reduced by 33.00% of interest income subjected to final tax.

A Minimum Corporate Income Tax (MCIT) of 2.00% of modified gross income is computed and compared with the RCIT. Any excess of MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, NOLCO is allowed as a deduction from taxable income in the next three years from the period of incurrence.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10.00% gross income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units is subject to a 7.50% final tax. RA No. 9294, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, Offshore Banking Units (OBUs), local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Relevant Tax Updates
Republic Act 10963, The Tax Reform for Acceleration and Inclusion (TRAIN), is first package of the comprehensive tax reform program of the government. The bill was signed into law on December 19, 2018 and took effect on January 1, 2018, amending some provisions of the old Philippine tax system.

Except for resident foreign corporations, which is still subject to the existing rate of 7.50%, tax on interest income of foreign currency deposit was increased to 15% under TRAIN. Documentary stamp tax on bank checks, drafts, certificate of deposit not bearing interest, all debt instruments, bills of exchange, letters of credit, mortgages, deeds and others are now subjected to a higher rate.

Revenue Regulations (RR) No. 14-2011
On March 15, 2011, the Bureau of Internal Revenue (BIR) issued RR No. 14-2011 which prescribes the proper allocation of costs and expenses among the income earnings of financial institutions for income tax reporting. Only costs and expenses attributable to the operations of the RBU can be claimed as deduction to arrive at the taxable income of the RBU subject to the RCIT. All costs and expenses pertaining to the FCDU/EFCDU are excluded from the RBU's taxable income. Within the RBU, common costs and expenses should be allocated among taxable income, tax-paid income and tax-exempt income using the specific identification or the allocation method

On May 25, 2019, the Makati Trial Court issued a decision annulling RR 4-2011 and making the Writ of Preliminary Injunction (issued on April 25, 2015) permanent.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulations, EAR expense allowed as a deductible expense is limited to the actual EAR paid or incurred but not to exceed 1.00% of the Parent Company's net revenue.

Provision for income tax consists of:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Current:						
RCIT	**₱1,943,147**	₱1,486,393	₱1,649,726	**₱1,586,314**	₱1,214,063	₱1,147,297
Final tax	**163,339**	40,568	85,473	**161,981**	39,897	81,981
	2,106,486	1,526,961	1,735,199	**1,748,295**	1,253,960	1,229,278
Deferred	**(437,852)**	(58,720)	(28,007)	**(240,517)**	(13,074)	(10,693)
	₱1,668,634	₱1,468,241	₱1,707,192	**₱1,507,778**	₱1,240,886	₱1,218,585

The components of the Group's and the Parent Company's net deferred tax assets as of December 31, 2019 and 2018 follow:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Deferred tax asset on:				
Allowance for impairment and credit losses	**₱2,610,286**	₱2,312,356	**₱2,393,816**	₱2,234,341
Accumulated depreciation of assets foreclosed or dacioned	**229,691**	121,360	**229,688**	121,337
Accrued expenses and other deferred income	**299,005**	119,148	**90,484**	71,209
Unrealized foreign exchange losses	**72,018**	–	**72,018**	–
Deferred bancassurance fee	**72,000**	76,500	**72,000**	76,500
Net effect of Lease liabilities and ROU assets	**63,777**	–	**60,686**	–
Net retirement obligation	**50,971**	29,712	**44,903**	28,252
Unamortized past service cost	**–**	747	**–**	747
Unrealized trading loss	**–**	182	**–**	182
	3,397,748	2,660,005	**2,963,595**	2,532,568

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Deferred tax liability on:				
Gain on asset foreclosure and dacion transactions	**₱219,415**	₱18,950	**₱218,776**	₱18,950
Branch licenses acquired from business combination (Note 10)	**187,620**	187,620	**187,620**	187,620
Remeasurement of investment in a joint venture	**100,750**	100,750	**100,750**	100,750
Unrealized trading gains	**34,551**	–	**34,550**	–
Unrealized foreign exchange gain	**–**	52,528	**–**	52,528
Others	**34,195**	34,195	**34,195**	34,195
	576,531	394,043	**575,891**	394,043
	₱2,821,217	₱2,265,962	**₱2,387,704**	₱2,138,525

As of December 31, 2019 and 2018, the Group did not recognize deferred tax assets on the following temporary differences:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
NOLCO	**₱79,236**	₱125,118	**₱79,236**	₱125,118
Excess MCIT over RCIT	**1,009**	1,014	**1,009**	1,014
	₱80,245	₱126,132	**₱80,245**	₱126,132

Details of the Group's and the Parent Company's NOLCO and excess MCIT are as follows:

NOLCO

Inception Year	Amount	Used Amount	Expired Amount	Balance	Expiry Year
2016	₱35,791	₱35,791	₱–	₱–	2019
2017	89,327	10,091	–	79,236	2020
	₱125,118	₱45,882	₱–	₱79,236	

Excess MCIT

Inception Year	Amount	Used Amount	Expired Amount	Balance	Expiry Year
2018	₱1,014	₱–	₱–	₱1,014	2021
2019	1,009	–	–	1,009	2022
	₱2,023	₱–	₱–	₱2,023	

Provision for deferred income tax charged directly to OCI during the year for the Group and the Parent Company follows:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Remeasurements on retirement plan	**₱20,056**	₱47,196	**₱20,056**	₱47,196

The reconciliation of statutory income tax at statutory tax rate to the effective income tax follows:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Statutory income tax	**₱2,478,019**	₱1,792,892	₱2,027,367	**₱2,324,915**	₱1,724,685	₱1,880,785
Tax effects of:						
Nondeductible expenses	**365,811**	308,275	75,607	**377,504**	148,692	99,472
FCDU income	**(720,111)**	(420,040)	(263,838)	**(720,111)**	(420,040)	(263,838)
Non-taxable and tax-exempt income	**(382,312)**	(172,761)	(31,812)	**(382,312)**	(172,761)	(397,891)
Interest income subjected to final tax net of tax paid	**(209,426)**	(12,076)	(142,257)	**(208,674)**	(11,641)	(142,068)
Prior year net unrealized foreign exchange and trading gains realized this year	**56,281**	(44,391)	–	**56,281**	(44,391)	–
Change in unrecognized deferred tax assets and others	**80,372**	16,342	42,125	**60,175**	16,342	42,125
Effective income tax	**₱1,668,634**	₱1,468,241	₱1,707,192	**₱1,507,778**	₱1,240,886	₱1,218,585

25. **Retirement Plan**

The existing regulatory framework, RA No. 7641, the *Retirement Pay Law* requires companies with at least ten (10) employees to pay retirement benefits to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

Parent Company
The Parent Company has a funded, non-contributory defined benefit retirement plan (the Plan) covering substantially all of its officers and regular employees. Under the Plan, all covered officers and employees are entitled to cash benefits (equivalent to 125.00% of the final monthly salary for every year of service depending on the tenure of the employee) after satisfying certain age and service requirements. The Parent Company's retirement plan is in the form of a trust administered by the Parent Company's Trust Division under the supervision of the Retirement Committee.

EWRB
EWRB has a funded, non-contributory defined benefit plan covering substantially all of its officers and regular employees. The benefits are based on years of service and final compensation. The retirement plan provides retirement benefits ranging from 100.00% (for less than 10 years of service) to 150.00% (for 10 years of service and beyond) of the final monthly salary.

As of December 31, 2019, the retirement plan of EWRB is unfunded.

QMIS
QMIS does not have a formal retirement plan. As such, QMIS's retirement liability is based on the requirement of RA No. 7641. For purposes of calculating the retirement liability under RA No. 7641, QMIS obtained an actuarial valuation.

The amounts of net retirement obligation presented under "Other liabilities" in the statements of financial position are presented below:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Present value of the defined benefit obligation	**₱1,140,516**	₱944,675	**₱1,118,639**	₱920,363
Less: Fair value of plan assets	**970,613**	845,635	**968,961**	826,189
Net retirement obligation (Note 20)	**₱169,903**	₱99,040	**₱149,678**	₱94,174

Changes in the present value of the defined benefit obligation as of December 31, 2019 and 2018 recognized in the statements of financial position follow:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Balance at beginning of year	**₱944,675**	₱868,236	**₱920,363**	₱859,658
Current service cost	**146,962**	140,987	**139,777**	133,944
Interest cost	**69,443**	48,802	**67,647**	48,313
Remeasurement (gains) losses:				
Actuarial (gains) losses arising from deviations of experience from assumptions	**10,275**	(47,076)	**12,494**	(58,905)
Actuarial (gains) arising from changes in financial assumptions	**105,880**	(19,598)	**96,202**	(16,725)
Actuarial gains arising from changes in demographic assumptions	**(88,578)**	–	**(70,449)**	–
Benefits paid	**(48,141)**	(46,676)	**(47,395)**	(45,922)
Balance at end of year	**₱1,140,516**	₱944,675	**₱1,118,639**	₱920,363

Changes in the fair value of plan assets are as follows:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Balance at beginning of year	**₱831,915**	₱922,111	**₱826,189**	₱922,111
Contributions	**114,643**	136,750	**146,699**	130,433
Interest income	**89,428**	51,823	**60,725**	51,823
Remeasurements	**(17,232)**	(218,373)	**(17,257)**	(232,256)
Benefits paid	**(48,141)**	(46,676)	**(47,395)**	(45,922)
Balance at end of year	**₱970,613**	₱845,635	**₱968,961**	₱826,189

The fair value of plan assets by class are as follows:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Cash and cash equivalents	**₱26,290**	₱148,337	**₱26,290**	₱148,335
Equity instruments:				
Financial services	**778,715**	552,154	**777,063**	546,593
Real estate	**5,001**	5,001	**5,001**	5,001
Debt instruments:				
Private securities	**79,775**	72,508	**79,775**	72,508
Government securities	**78,988**	51,617	**78,988**	51,617
Others	**1,844**	2,135	**1,844**	2,135
Fair value of plan assets	**₱970,613**	₱831,752	**₱968,961**	₱826,189

The Parent Company's plan assets are carried at fair value. The fair value of investments in equity and debt securities are based on quoted price in the active market. The fair value of other assets and liabilities, which include deposits in banks, accrued interest and other receivables, and trust fee payables, approximate their carrying amounts due to the short-term nature of these accounts.

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

Each year, an Asset-Liability Matching Study (ALMS) is performed with the result being analyzed in terms of risk-and-return profiles. As of December 31, 2019 and 2018, the Parent Company's investment strategy consists of 82.00% of equity instruments, 8.00% of debt instruments, 3.00% cash and 67.00% of equity instruments, 15.00% of debt instruments, and 18.00% cash, respectively.

The Parent Company expects to contribute ₱149.80 million to the plan in 2020.

The cost of defined benefit retirement plans as well as the present value of the benefit obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used are shown below:

	Parent Company		EWRB		QMIS		Group	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Discount rate								
At January 1	**7.35%**	5.62%	**7.38%**	5.54%	**7.43%**	5.92%	**7.35%-7.43%**	5.54%-5.92%
At December 31	**4.87%**	7.35%	**5.09%**	7.38%	**5.11%**	7.43%	**4.87%-5.11%**	7.35%-7.43%
Future salary increase rate	**6.50%**	5.00%	**6.00%**	5.00%	**6.00%**	6.00%	**6.00%-6.50%**	5.00%-6.00%
Average remaining working life (in years)	**16.00**	17.00	**19.00**	18.00	**19.00**	19.00	**16.00-19.00**	17.00-19.00

The sensitivity analysis below on the defined benefit obligation as of December 31, 2019 and 2018 has been determined based on reasonably possible changes of each significant assumption, assuming all other assumptions were held constant.

	Parent Company		EWRB		QMIS		Group	
Increase (Decrease)	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Discount rate								
+1.00%	**(₱87,808)**	(₱73,528)	**(₱7,888)**	(₱2,809)	**(₱864)**	(₱498)	**(₱96,560)**	(₱76,835)
-1.00%	**103,473**	86,008	**9,908**	3,415	**1,063**	603	**114,444**	90,026
Turnover rate								
+1.00%	**₱101,468**	₱85,784	**₱9,711**	₱3,436	**₱1,043**	₱606	**₱112,222**	₱89,826
-1.00%	**(89,110)**	(75,854)	**(7,894)**	(2,898)	**(865)**	(510)	**(97,869)**	(79,262)
Future salary increase rate								
+1.00%	**₱32,703**	₱28,725	**₱3,788**	₱1,717	**₱269**	₱119	**₱36,760**	₱30,561
-1.00%	**(32,703)**	(28,725)	**(3,788)**	(1,717)	**(269)**	(119)	**(36,760)**	(30,442)

Shown below is the maturity analysis of the undiscounted benefit payments for 2019 follow:

	Parent Company		EWRB		QMIS		Group	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Less than one year	**₱163,475**	₱114,317	**₱1,874**	₱3,630	**₱–**	₱–	**₱165,349**	₱117,497
One to less than five years	**488,084**	365,734	**9,024**	9,742	**–**	1,982	**497,108**	377,458
Five to less than 10 years	**794,170**	795,217	**23,925**	25,496	**509**	–	**818,604**	820,713
10 to less than 15 years	**859,625**	1,150,689	**38,846**	43,106	**11,703**	8,569	**910,174**	1,202,364
15 to less than 20 years	**936,045**	1,428,581	**100,635**	78,412	**12,441**	9,026	**1,049,121**	1,516,019
20 years and above	**1,883,175**	3,578,076	**636,922**	335,605	**60,003**	43,330	**2,580,100**	3,957,011

The amounts included in 'Compensation and fringe benefits' in the statements of income are as follows:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Current service cost	**₱146,226**	₱140,200	₱124,684	**₱139,776**	₱133,944	₱123,429
Past service cost	**–**	18,858	–	**–**	–	–
Net interest expense	**(5,393)**	(3,237)	4,824	**(6,922)**	(3,510)	4,196
	₱140,833	₱155,821	₱129,508	**₱132,854**	₱130,434	₱127,625

26. **Leases**

The Group leases several premises occupied by its head office and branches. Some leases are subject to annual escalation of 5.00% to 10.00% and for periods ranging from 5 to 15 years, renewable upon mutual agreement of both parties.

In 2019, 2018, and 2017, the total rentals of the Group charged to operations amounted to ₱107.12 million, ₱1.04 billion, and ₱952.34 million, respectively. In 2019, 2018, and 2017, total rentals charged to operations by the Parent Company amounted to ₱83.99 million, ₱958.99 million, and ₱872.94 million, respectively.

As of December 31, 2018, future minimum annual rentals payable of the Group and the Parent Company under non-cancellable operating leases follow:

	Consolidated	Parent Company
Within one year	₱1,124,782	₱1,083,980
After one year but not more than five years	2,719,910	2,624,566
More than five years	860,887	804,289
	₱4,705,579	₱4,512,835

Adoption of PFRS 16

As discussed in Note 2, the Group adopted PFRS 16. The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for all leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Set out below is the carrying amount of lease liabilities and the movements during the year:

	Consolidated	Parent Company
As of January 1, 2019 (Note 2)	₱3,660,409	₱3,491,089
Additions	337,629	268,836
Payments and terminations	(962,655)	(890,495)
Accretion of interest	267,598	252,013
As of December 31, 2019	₱3,302,981	₱3,121,443

27. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group's related parties include:

- key management personnel, close family members of key management personnel, and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members;
- subsidiaries, joint ventures and associates and their respective subsidiaries; and
- post-employment benefit plans for the benefit of the Group's employees.

The Group has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business.

The amounts and the balances arising from significant related party transactions of the Group and of the Parent Company are as follows:

	2019		
Category	**Amount/ Volume**	**Outstanding Balance**	**Terms and Conditions/Nature**
Significant investors:			
Loans receivable	**₱–**	**₱5,621,850**	Loans granted with a term of seven years, interest of 4.06%, secured with deposit holdout, no impairment
Releases	**496,133**	–	
Collection	**200,000**	–	
Deposit liabilities	–	**1,614,419**	Earns interest at the respective bank deposit rates
Deposits	**19,453,783**	–	
Withdrawals	**18,749,600**	–	
Accrued interest receivable	–	**72,903**	Interest income accrued on outstanding loans receivable
Accrued expenses	–	**8,084**	Payable for management and professional fees paid by FDC (reimbursement for expenses)
Guarantees and commitments	–	**6,494**	Unused credit line (omnibus facility) with term of 10 months
Interest income	**228,219**	–	Interest income on loans receivable
Interest expense	**76,410**	–	Interest expense on deposit liabilities

Category	2019 Amount/ Volume	Outstanding Balance	Terms and Conditions/Nature
Key management personnel:			
Deposit liabilities	**₱–**	**₱524,669**	Earns interest at the respective bank deposit rates
Deposits	**1,271,119**	–	
Withdrawals	**1,231,326**	–	
Interest expense	**7,882**	–	Interest expense on deposit liabilities
Other related parties:			
Loans receivable	**₱–**	**₱7,626,665**	Loans granted with terms ranging from four days to thirteen and a half years, interest ranging from 2.00% to 6.35%, secured by real estate mortgage, no impairment
Releases	**19,450**	–	
Collection	**200,152**	–	
Receivables purchased (booked under 'Loans Receivable')	–	**130,108**	Receivables purchased by the Parent Company from FLI (Note 9)
Accounts receivable	–	**9,985**	Receivables from EW Ageas Life which represent expenses shouldered by the Parent Company
Deposit liabilities	–	**443,237**	Earns interest at the respective bank deposit rates
Deposits	**361,955**	–	
Withdrawals	**362,970**	–	
Accounts payable	–	**34,710**	Collection of loan insurance on behalf of EW Ageas Life that remained unremitted
Guarantees and commitments	–	**6,906**	Unused credit lines
Accrued interest receivable	–	**38,919**	Interest income accrued on outstanding loans receivable
Interest income	**428,994**	–	Interest income on loans receivable
Interest expense	**24**	–	Interest expense on deposit liabilities
Commission fees	**82,973**	–	Commission fees received from EW Ageas Life
Service fee expense	**123**	–	Service fees paid to FLI for account servicing equivalent to 1.12% of loan amounts collected by FLI on behalf of the Parent Company (Note 9)
Rent expense	**74,254**	–	Rent expenses paid for lease transactions with other related parties such as Filinvest Asia Corporation, FAI and FLI

Category	2018 Amount/ Volume	Outstanding Balance	Terms and Conditions/Nature
Significant investors:			
Loans receivable	₱–	₱5,621,850	Loans granted with a term of seven years, interest of 4.06%, secured with deposit holdout, no impairment
Releases	3,513,128	–	
Collection	150,000	–	
Deposit liabilities	–	933,837	Earns interest at the respective bank deposit rates
Deposits	19,199,440	–	
Withdrawals	19,303,059	–	
Accrued interest receivable	–	70,368	Interest income accrued on outstanding loans receivable
Accrued expenses	–	7,553	Payable for management and professional fees paid by FDC (reimbursement for expenses)
Guarantees and commitments	–	6,357,295	Unused credit line (omnibus facility) with term of 10 months
Interest income	228,219	–	Interest income on loans receivable
Interest expense	29,781	–	Interest expense on deposit liabilities
Key management personnel:			
Deposit liabilities	₱–	₱423,736	Earns interest at the respective bank deposit rates
Deposits	666,933		
Withdrawals	668,373		
Interest expense	271	–	Interest expense on deposit liabilities

Category	Amount/ Volume (2018)	Outstanding Balance (2018)	Terms and Conditions/Nature (2018)
Other related parties:			
Loans receivable	₱–	₱9,048,750	Loans granted with terms ranging from four days to thirteen and a half years, interest ranging from 2.00% to 6.35%, secured by real estate mortgage, no impairment
Releases	525,800	–	
Collection	138	–	
Receivables purchased	–	153,863	Receivables purchased by the Parent Company from FLI (Note 9)
Accounts receivable	–	22	Receivables from EW Ageas Life which represent expenses shouldered by the Parent Company
Deposit liabilities	–	4,599,503	Earns interest at the respective bank deposit rates
Deposits	434,361,757		
Withdrawals	433,554,204		
Accounts payable	–	28,120	Collection of loan insurance on behalf of EW Ageas Life that remained unremitted
Guarantees and commitments	–	4,785	Unused credit lines
Accrued interest receivable	–	44,414	Interest income accrued on outstanding loans receivable
Accounts receivable	–	108,315	Receivable from FAI on the sale of land by the Parent Company, payable in 5 years, interest of 6.00% (Note 11) and reimbursement of expenses paid on behalf of EW Ageas Life
Interest income	323,164	–	Interest income on loans receivable
Interest expense	7,165	–	Interest expense on deposit liabilities
Commission fees	58,032	–	Commission fees received from EW Ageas Life
Service fee expense	585	–	Service fees paid to FLI for account servicing equivalent to 1.12% of loan amounts collected by FLI on behalf of the Parent Company (Note 9)
Rent expense	44,334	–	Rent expenses paid for lease transactions with other related parties such as Filinvest Asia Corporation, FAI and FLI

The Group's significant investors pertain to FDC, the immediate Parent Company of the Group, and FDC Forex Corporation (a company under common control of FDC).

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The Group considers the members of the Management Committee to constitute key management personnel for purposes of PAS 24, *Related Party Disclosures*. The Group provides banking services to its key management personnel.

Other related parties pertain to the Group's affiliates (subsidiaries of FDC).

The Group and the Parent Company had no outright purchases and outright sale of debt securities with significant shareholders and key management personnel in 2019 and 2018.

No specific provision and allowance for credit losses were recognized by the Group for loans to significant investors, key management personnel and other related parties in 2019 and 2018.

The Parent Company's subsidiaries have no transactions with related parties outside of the Group. The transactions disclosed above are the same for the Group and the Parent Company.

Parent Company Related Party Transactions

Transactions between the Parent Company and its subsidiaries meet the definition of related party transactions. Details of the Parent Company's subsidiaries are disclosed in Note 10.

In addition to the transactions discussed above, the following are the transactions between the Parent Company and its subsidiaries that are recognized in the Parent Company's statements of financial position and statements of income and eliminated in the consolidated financial statements:

	2019		
Category	**Amount/ Volume**	**Outstanding Balance**	**Terms and Conditions/ Nature**
Subsidiaries:			
Receivables purchased	**₱–**	**₱1,977,981**	Receivables purchased by the Parent Company from EWRB (Note 9)
Receivable sold	**–**	**381,995**	Employee loans sold by the Parent Company to EWRB (Note 9)
Accounts receivable	**–**	**91,930**	Amount collected by EWRB from borrowers on behalf of the Parent Company that remained unremitted and other related expenses shouldered by the Parent Company on behalf of the Subsidiaries
Accounts receivable	**–**	**99,179**	Receivables from subsidiaries which represent expenses shouldered by Parent Company
Deposit liabilities	**–**	**759,108**	Earns interest at the respective bank deposit rates
Deposits	**129,333,782**	**–**	
Withdrawals	**128,976,890**	**–**	
Accounts payable	**–**	**105,791**	Cash reloading transactions between EWRB and the Parent Company
Interest expense	**935**	**–**	Interest expense on deposits of EWRB and EWIB
Interest income	**1,134**	**–**	Interest income on loans receivable
Service fee expense	**30,439**	**–**	Service fees paid to EWRB for account servicing equivalent to 0.37% of loan amounts collected by EWRB on behalf of the Parent Company for the receivables purchased (Note 9) and for collection of credit card payments
Service fee income	**776**	**–**	Service fees paid by EWRB for account servicing equivalent to 0.37% of loan amounts collected by the Parent Company on behalf of EWRB for the receivables sold (Note 9)
Commission expense	**232,191**	**–**	Commission expense paid by the Parent Company to QMIS
Rent income	**306**	**–**	Rent of office space leased to subsidiaries

	2018		
Category	Amount/ Volume	Outstanding Balance	Terms and Conditions/ Nature
Subsidiaries:			
Receivables purchased	₱1,350,322	₱5,910,020	Receivables purchased by the Parent Company from EWRB (Note 9)
Receivable sold	181,370	360,428	Employee loans sold by the Parent Company to EWRB (Note 9)
Accounts receivable	–	201,198	Amount collected by EWRB from borrowers on behalf of the Parent Company that remained unremitted and other related expenses shouldered by the Parent Company on behalf of the Subsidiaries
Accounts receivable	–	202,586	Receivables from subsidiaries which represent expenses shouldered by Parent Company
Deposit liabilities	–	402,217	Earns interest at the respective bank deposit rates
Deposits	89,633,956		
Withdrawals	89,955,934		
Accounts payable	–	18,650	Cash reloading transactions between EWRB and the Parent Company
Interest expense	487	–	Interest expense on deposits of EWRB and EWIB
Interest income	187	–	Interest income on loans receivable
Service fee expense	47,991	–	Service fees paid to EWRB for account servicing equivalent to 0.37% of loan amounts collected by EWRB on behalf of the Parent Company for the receivables purchased (Note 9) and for collection of credit card payments

(Forward)

Category	Amount/ Volume (2018)	Outstanding Balance (2018)	Terms and Conditions/ Nature (2018)
Service fee income	₱673	₱–	Service fees paid by EWRB for account servicing equivalent to 0.37% of loan amounts collected by the Parent Company on behalf of EWRB for the receivables sold (Note 9)
Commission expense	128,711	–	Commission expense paid by the Parent Company to QMIS
Rent income	306	–	Rent of office space leased to subsidiaries

Transactions with Retirement Plans

Under PFRS, certain post-employment benefit plans are considered as related parties. The Parent Company's retirement plan is in the form of a trust administered by the Parent Company's Trust Division under the supervision of the Retirement Committee.

The values of the assets of the fund are as follows:

	2019	2018
Cash and cash equivalents	**₱26,290**	₱148,335
Equity instruments	**782,064**	551,594
Debt instruments	**158,763**	124,125
Others	**1,844**	2,135
	₱968,961	₱826,189

The following are the amounts recognized by the retirement plan arising from its transactions with the Parent Company for the years ended December 31, 2019, 2018 and 2019.

	2019	2018	2017
Trust fees	**₱2,682**	₱2,534	₱2,623
Interest income on deposit liabilities	**945**	151	823
Interest income on debt securities	**7,964**	5,044	2,915
Gain (loss) on investments in equity shares	**230,515**	(15,272)	120,059

Remunerations of Directors and other Key Management Personnel

Total remunerations of key management personnel are as follows:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Short-term employee benefits	**₱270,081**	₱272,208	₱177,685	**₱253,355**	₱252,430	₱159,604
Post-employment benefits	**73**	754	20,801	**–**	–	20,801
	₱270,154	₱272,962	₱198,486	**₱253,355**	₱252,430	₱180,405

Remunerations given to directors which were approved by the Board Remuneration Committee amounted to ₱20.80 million in 2019, ₱20.10 million in 2018 and ₱19.14 million in 2017 for the Group and the Parent Company.

28. Trust Operations

Securities and other properties held by the Parent Company in fiduciary or agency capacity for clients and beneficiaries are not included in the accompanying statements of financial position since these are not assets of the Parent Company. The combined trust and managed funds of the Trust Department of the Parent Company amounted to ₱35.04 billion and ₱24.91 billion as of December 31, 2019 and 2018, respectively.

Government securities with total face value of ₱355.00 million and ₱245.00 million as of December 31, 2019 and 2018, respectively, are deposited with the BSP in compliance with current banking regulations related to the Parent Company's trust functions. These government securities are recorded as part of investment securities at FVTPL and at amortized cost as of December 31, 2019 and 2018, respectively.

In accordance with BSP regulations, 10.00% of the profits realized by the Parent Company from its trust operations are appropriated to surplus reserves. The yearly appropriation is required until the surplus reserves for trust operations amounts to 20.00% of the Parent Company's authorized capital stock.

The Parent Company's income from its trust operations amounted to ₱70.54 million, ₱51.33 million and ₱46.76 million in 2019, 2018 and 2017, respectively. For the years ended December 31, 2019, 2018 and 2017, the Group and the Parent Company appropriated ₱7.05million, ₱5.13 million and ₱4.67 million, respectively.

29. Commitments and Contingent Liabilities

In the normal course of the Group's operations, there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. The Group does not anticipate material unreserved losses as a result of these transactions.

The Group has several loan related suits, assessments or notices, and claims that remain unsettled. It is not practicable to estimate the potential financial impact of these contingencies. However, in the opinion of management, the suits and claims, if decided adversely, will not involve sums having a material effect on the Group's financial statements.

A summary of commitments and contingencies of the Parent Company at their peso-equivalent contractual amounts arising from off-balance sheet items is shown in Note 36.

30. Financial Performance

Earnings per share amounts were computed as follows:

		2019	2018	2017
a.	Net income attributable to equity holders of the Parent Company	**₱6,241,938**	₱4,508,064	₱5,050,699
b.	Weighted average number of outstanding common shares by the Parent Company, including effect of stock dividends issued in 2018 (Note 22)	**2,249,975**	2,249,975	2,249,975
c.	Basic and diluted EPS (a/b)	**₱2.77**	₱2.00	₱2.24

The Group's basic and diluted earnings per share are equal as there are no potential dilutive shares outstanding.

31. Offsetting of Financial Assets and Liabilities

PFRS 7 requires the Group to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments subject to enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

Financial assets

December 31, 2019

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial Instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative assets (Note 5)	**₱104,313**	**₱–**	**₱104,313**	**₱114,995**	**₱–**	**₱–**
Total	**₱104,313**	**₱–**	**₱104,313**	**₱114,995**	**₱–**	**₱–**

December 31, 2018

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial Instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative assets (Note 5)	₱201,033	₱–	₱201,033	₱136,595	₱–	₱64,438
Total	₱201,033	₱–	₱201,033	₱136,595	₱–	₱64,438

Financial liabilities

December 31, 2019

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial Instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities (Note 5)	**₱128,004**	**₱–**	**₱128,004**	**₱114,995**	**₱–**	**₱13,009**
Bills payable (Note 17)	**29,804,675**	–	**29,804,675**	–	**29,804,675**	–
Total	**₱29,932,679**	**₱–**	**₱29,932,679**	**₱114,995**	**₱29,804,675**	**₱13,009**

December 31, 2018

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial Instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities (Note 5)	₱146,548	₱–	₱146,548	₱136,595	₱–	₱9,953
Bills payable (Note 17)	15,889,215	–	15,889,215	–	15,889,215	–
Total	₱16,035,763	₱–	₱16,035,763	₱136,595	₱15,889,215	₱9,953

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. These include amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

32. Notes to Statement of Cash Flows

Transfers from loans and receivables to investment properties as a result of foreclosures amounted to ₱179.33 million, ₱142.45 million and ₱170.36 million in 2019, 2018 and 2017 respectively, for the Group, and ₱179.33 million, ₱142.45 million and ₱169.61 million in 2019, 2018 and 2017 respectively, for the Parent Company. Transfers from loans and receivables to other repossessed assets as a result of foreclosures amounted to ₱2.85 billion, ₱1.01 billion and ₱2.66 billion in 2019, 2018 and 2017 respectively, for the Group and for the Parent Company. Amounts mentioned are exclusive of loss on asset foreclosure and dacion transactions amounting to ₱200.00 million, ₱212.90 million and ₱236.35 million in 2019, 2018 and 2017, respectively, for the Group and for the Parent Company.

The table below provides for the changes in liabilities arising from financing activities:

	2019							
	Consolidated				Parent Company			
	Bills and acceptances payable (Note 17)	Subordinated debt (Note 19)	Lease Liability	Total liabilities from financing activities	Bills and acceptances payable (Note 17)	Subordinated debt (Note 19)	Lease Liability	Total liabilities from financing activities
January 1, 2019	₱17,969,927	₱6,214,479	₱3,660,409	₱27,844,815	₱17,969,927	₱4,975,862	₱3,491,089	₱26,436,878
Cash flows	12,979,826	–	(357,428)	12,622,398	12,979,826	–	(369,646)	12,610,180
Amortization of discount	–	4,532	–	4,532	–	3,478		3,478
December 31, 2019	₱30,949,753	₱6,219,011	₱3,302,981	₱40,471,745	₱30,949,753	₱4,979,340	₱3,121,443	₱39,050,536

	2018					
	Consolidated			Parent Company		
	Bills and acceptances payable (Note 17)	Subordinated debt (Note 19)	Total liabilities from financing activities	Bills and acceptances payable (Note 17)	Subordinated debt (Note 19)	Total liabilities from financing activities
January 1, 2019	₱4,159,695	₱6,211,138	₱10,370,833	₱4,159,695	₱4,972,572	₱9,132,267
Cash flows	13,810,232	–	13,810,232	13,810,232	–	13,810,232
Amortization of discount	–	3,341	3,341	–	3,290	3,290
December 31, 2019	₱17,969,927	₱6,214,479	₱24,184,406	₱17,969,927	₱4,975,862	₱22,945,789

33. Events Subsequent to the Reporting Period

Redemption of Lower Tier 2 unsecured subordinated notes due 2025
On January 4, 2020, the Parent Company exercised its redemption option to pre-terminate its ₱5.00 billion Lower Tier 2 (LT2), 5.50% coupon rate, unsecured subordinated notes issued on July 4, 2014 and due 2025.

Issuance of fixed-rate bonds due 2023
On February 21, 2020, the Parent Company issued ₱3.70 billion fixed rate bonds due 2023. The bonds carry an interest rate of 4.50% per annum to be paid quarterly for three years.

34. **Approval of the Financial Statements**

The accompanying financial statements of the Group and of the Parent Company were reviewed by the Audit Committee on February 20, 2020 and approved and authorized for issue by the Parent Company's BOD on February 27, 2020.

35. **Supplementary Information Required Under Revenue Regulations 15-2010**

On November 25, 2010, the BIR issued RR No. 15-2010, requiring the inclusion of information on various taxes paid and accrued during the taxable year in the notes to the financial statements.

The Parent Company reported and/or paid the following types of taxes for the year ended December 31, 2019:

Gross Receipts Tax
The Parent Company is subject to gross receipt tax on its gross income from Philippine sources. Gross receipt tax is imposed on interest, commissions and discounts from lending activities at 5.00% or 1.00%, depending on the remaining maturities of instruments from which such receipts are derived, and at 7.00% on non-lending fees and commissions, net trading and foreign exchange gains and other items constituting gross income.

In FCDU, income classified under 'All Other', which is subject to corporate income tax is also subject gross receipt tax at 7.00%.

Details of the Parent Company's income and gross receipt tax accounts in 2019 are as follows:

	Gross Receipts	Gross Receipts Tax
Income derived from lending activities	₱27,851,450	₱1,285,580
Other income	2,409,167	168,642
	₱30,260,617	₱1,454,222

Other Taxes and Licenses
This includes all other taxes, local and national, incurred in 2019 and presented under in the statement of income, as follows:

Documentary stamps taxes	₱760,479
Local taxes, permits and fees	70,617
Fringe benefit taxes	31,260
Others	16,545
	₱878,901

Withholding Taxes

Details of withholding taxes remitted and balances as of December 31, 2019 follow:

	Total Remittances	Balance
Withholding taxes on compensation and benefits	₱597,101	₱17,245
Expanded withholding taxes	219,550	19,605
Final withholding taxes	1,157,093	93,340
	₱1,973,744	₱130,190

The Parent Company has no outstanding assessments from the BIR as of December 31, 2019.

Tax Assessments and Cases

As of December 31, 2019, the Parent Company has no deficiency tax assessment and has no tax cases, litigation and/or prosecution in courts or bodies outside the BIR.

36. Supplementary Information Required Under BSP Circular No. 1074

On January 8, 2020, the Monetary Board (MB) amended BSP Circular No. 1074, requiring Banks to include the additional information on the following:

Financial Performance Indicators

The following basic ratios measure the financial performance of the Group and the Parent Company:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Return on average equity	**13.66%**	10.98%	13.98%	**13.66%**	10.98%	13.98%
Return on average assets	**1.62%**	1.36%	1.66%	**1.72%**	1.44%	1.74%
Net interest margin on average earning assets	**6.89%**	7.36%	7.77%	**7.09%**	7.56%	7.72%

Leverage Ratio and Total Exposure Measure

The Basel lll Leverage Ratio is designed to act as a supplementary measure to the risk-based capital requirement. The leverage ratio intends to restrict the buildup of leverage in the Bank and reinforce the risk-based requirements with a simple, non-risk based “backstop” measure. It is defined as a capital measure over its total exposure measure with a minimum requirement of 5.00% on both Group and Parent Company.

	2019	
	Consolidated	**Parent**
Capital Measure	₱37,439,942	₱34,100,854
Divided by: Exposure measure	420,909,115	393,622,139
Leverage ratio	8.90%	8.66%

Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)
The NSFR seeks to limit the overreliance on short-term wholesale funding and promoting enhanced assessment of funding risk across all on- and off-balance sheet accounts. It complements the LCR, which promotes short term resilience of a Bank's liquidity profile. The minimum LCR and NSFR requirement should be no lower than 100% at all times on both Group and Parent Company.

	2019	
	Consolidated	**Parent**
Total Stock of High-Quality Liquid Assets	₱61,635,603	₱60,841,217
Divided by: Total Net Cash Flows	31,560,166	39,791,801
Liquidity Coverage ratio	195.30%	152.90%

	2019	
	Consolidated	**Parent**
Available Stable Funding Ratio	₱268,531,985	₱249,897,222
Divided by: Required Stable Funding	242,005,827	229,239,981
Liquidity Coverage ratio	110.96%	109.01%

Capital Instruments
There are no capital instruments issued by the Group and Parent Company in 2019 and 2018.

Capital Stock
Capital stock consists of (amounts in thousands, except for par value and number of shares):

	Shares			Amount		
	2019	2018	2017	**2019**	2018	2017
Authorized:						
Common stock - ₱10.00 par value	**4,500,000,000**	4,500,000,000	1,500,000,000			
Preferred stock - ₱10.00 par value	**500,000,000**	500,000,000	500,000,000			
Common stock issued and outstanding:						
Balance at the beginning of the year	**2,249,975,411**	1,499,983,610	1,499,983,610	**₱22,499,754**	₱14,999,836	₱14,999,836
Issuance of stock dividends	–	749,991,801	–	–	7,499,918	–
Balance at the end of the year	**2,249,975,411**	2,249,975,411	1,499,983,610	**₱22,499,754**	₱22,499,754	₱14,999,836

Unsecured subordinated debt

A. Lower Tier 2 unsecured subordinated notes due 2025

On July 4, 2014, the Parent Company issued 5.50% coupon rate Lower Tier 2 unsecured subordinated notes (the 2025 Notes) with par value of ₱5.00 billion, maturing on January 4, 2025, but callable on January 4, 2020. The 2025 Notes qualify as Tier 2 capital pursuant to BSP Circular No. 781 (Basel III), BSP Circular No. 826 on risk disclosure requirements for the loss absorption features of capital instruments, and other related circulars and issuances of the BSP.

Unless the 2025 Notes are previously redeemed, the 2025 Notes are repayable to the Noteholders at 100.00% of their face value or at par on the maturity date of January 4, 2025.

From and including the issue date to, but excluding the optional redemption date of January 4, 2020, the 2025 Notes bear interest at the rate of 5.50% per annum and shall be payable quarterly in arrears on January 4, April 4, July 4, and October 4 of each year, which commenced on October 4, 2014. Unless the 2025 Notes are previously redeemed, the interest rate will be reset at the equivalent of the prevailing 5-year BVAL at reset date plus initial spread (i.e., the difference between the initial interest rate and the prevailing 5-year BVAL at the pricing date of the initial tranche), commencing on January 4, 2020.

The 2025 Notes are redeemable at the option of the Parent Company, in whole but not in part, on the call option date at 100.00% of the face value plus accrued but unpaid interest, subject to the following conditions:

a) the Parent Company has obtained prior written approval and complied with the requirements of the BSP prior to redemption of the 2025 Notes;
b) the 2025 Notes are replaced with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the Parent Company or the Parent Company demonstrates that its capital position is above the minimum capital requirements after redemption is exercised;
c) the Parent Company is not in breach of (and would not, following such redemption, be in breach) of applicable regulatory capital requirements (including regulatory capital buffers);
d) the Parent Company is solvent at the time of redemption of the 2025 Notes and immediately thereafter.

Furthermore, upon the occurrence of a Tax Redemption Event or a Regulatory Redemption Event, the Parent Company may, subject to compliance with BSP rules and BSP approval, and upon prior approval of the BSP and with prior written notice to the Noteholders on record, redeem all and not less than all of the outstanding 2025 Notes prior to the stated maturity by paying the Noteholder the Redemption Option Amount which, (a) in the case of a Tax Redemption Event is an amount equal to 100.00% of the face value of the 2025 Notes plus accrued interest at the interest rate relating to the then current interest period up to but excluding the date of such redemption, and (b) in the case of a Regulatory Redemption Event is an amount equal to 100.00% of the face value of the 2025 Notes plus accrued interest at the interest rate relating to the then current Interest Period up to but excluding the date of such redemption (the "Redemption Option Date").

The 2025 Notes have a loss absorption feature which means that the 2025 Notes are subject to a Non-Viability Write-Down in case of a Non-Viability Event. Non-viability is defined as a deviation from a certain level of Common Equity Tier 1 (CET1) Ratio or inability of the Parent Company to continue business (closure) or any other event as determined by the BSP, whichever comes earlier. A Non-Viability Event is deemed to have occurred when the Parent Company is considered non-viable as determined by the BSP.

Upon the occurrence of a Non-Viability Event, the Parent Company shall write-down the principal amount of the 2025 Notes to the extent required by the BSP, which could go to as low as zero. Additional Tier 1 (AT1) capital instruments shall be utilized first before Tier 2 capital instruments are written-down, until the viability of the Issuer is re-established. In the event the Parent Company does not have AT1 capital instruments, then the write-down shall automatically apply to Tier 2 capital.

Loss absorption feature is subject to the following conditions:

a) the principal amount of all series of Tier 1 Loss Absorbing Instruments outstanding having been Written-Down to zero or converted into common equity of the Parent Company (where possible) irrevocably, in accordance with, and to the extent possible pursuant to, their terms (the "Tier 1 Write-Down");
b) the Tier 1 Write-Down having been insufficient to cure the Non-Viability Event;
c) the Parent Company giving the relevant Non-Viability Notice to the Public Trustee and the Registrar and Paying Agent.

Each Noteholder irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed to it by the Parent Company arising under or in connection with the 2025 Notes and it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

On January 4, 2020, the Parent Company exercised its redemption option to pre-terminate the 2025 Notes.

B. Lower Tier 2 unsecured subordinated notes due 2027

On February 20, 2017, EWRB issued 5.50% coupon rate Lower Tier 2 unsecured subordinated note (the 2027 Notes) with par value of ₱1.25 billion, maturing on August 20, 2027 but callable on August 20, 2022.

Unless the 2027 Notes are previously redeemed, the 2027 Notes are repayable to the Noteholders at 100.00% of their face value or at par on the maturity date of August 20, 2027.

From and including the issue date to, but excluding the optional redemption date of August 20, 2022, the 2027 Notes bear interest at the rate of 5.50% per annum and shall be payable quarterly in arrears on February 20, May 20, August 20, and November 20 of each year, which commenced on February 20, 2017. Unless the 2027 Notes are previously redeemed, the interest rate will be reset at the equivalent of the prevailing 5-year BVAL at reset date plus initial spread (i.e., the difference between the initial interest rate and the prevailing 5-year BVAL at the pricing date of the initial tranche), commencing on August 20, 2022.

The 2027 Notes are redeemable at the option of EWRB, in whole but not in part, on the call option date at 100.00% of the face value plus accrued but unpaid interest, subject to the following conditions:

a) EWRB has obtained prior written approval and complied with the requirements of the BSP prior to redemption of the 2027 Notes;
b) the 2027 Notes are replaced with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of EWRB, or EWRB demonstrates that its capital position is above the minimum capital requirements after redemption is exercised;
c) EWRB is not in breach of (and would not, following such redemption, be in breach) of applicable regulatory capital requirements (including regulatory capital buffers);
d) EWRB is solvent at the time of redemption of the 2027 Notes and immediately thereafter.

Furthermore, upon the occurrence of a Tax Redemption Event or a Regulatory Redemption Event, the EWRB may, subject to compliance with BSP rules and BSP approval, and upon prior approval of the BSP and with prior written notice to the Noteholders on record, redeem all and not less than all of the outstanding 2027 Notes prior to the stated maturity by paying the Noteholder the Redemption Option Amount which, (a) in the case of a Tax Redemption Event is an amount equal to 100.00% of the face value of the 2027 Notes plus accrued interest at the interest rate relating to the then current interest period up to but excluding the date of such redemption, and (b) in the case of a Regulatory Redemption Event is an amount equal to 100.00% of the face value of the 2027 Notes plus accrued interest at the interest rate relating to the then current Interest Period up to but excluding the date of such redemption (the "Redemption Option Date").

The 2027 Notes have a loss absorption feature which means that the 2027 Notes are subject to a Non-Viability Write-Down in case of a Non-Viability Event. Non-viability is defined as a deviation from a certain level of Common Equity Tier 1 (CET1) Ratio or inability of the EWRB to continue business (closure) or any other event as determined by the BSP, whichever comes earlier. A Non-Viability Event is deemed to have occurred when EWRB is considered non-viable as determined by the BSP.

Upon the occurrence of a Non-Viability Event, EWRB shall write-down the principal amount of the 2025 Notes to the extent required by the BSP, which could go to as low as zero. Additional Tier 1 (AT1) capital instruments shall be utilized first before Tier 2 capital instruments are written-down, until the viability of the Issuer is re-established. In the event EWRB does not have AT1 capital instruments, then the write-down shall automatically apply to Tier 2 capital.

Loss absorption feature is subject to the following conditions:

a) the principal amount of all series of Tier 1 Loss Absorbing Instruments outstanding having been Written-Down to zero or converted into common equity of EWRB (where possible) irrevocably, in accordance with, and to the extent possible pursuant to, their terms (the "Tier 1 Write-Down");
b) the Tier 1 Write-Down having been insufficient to cure the Non-Viability Event;
c) EWRB giving the relevant Non-Viability Notice to the Public Trustee and the Registrar and Paying Agent.

Each Noteholder irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed to it by EWRB arising under or in connection with the 2027 Notes and it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

Significant credit exposures as to industry/economic sector

As of December 31, 2019 and 2018, information on the concentration of credit as to industry follows (in millions):

	Consolidated				**Parent Company**			
	2019		2018		**2019**		2018	
	Gross Amount	**%**	Gross Amount	%	**Gross Amount**	**%**	Gross Amount	%
Private households with employed persons	**₱153,831,859**	**57.16**	₱155,976,818	52.24	**₱153,831,859**	**63.27**	₱132,135,606	55.55
Real estate, renting and business activity	**27,637,409**	**10.27**	25,660,058	10.12	**27,620,891**	**11.36**	25,642,940	11.20
Wholesale and retail trade, repair of motor vehicles	**41,182,736**	**15.30**	23,330,445	9.46	**20,820,978**	**8.56**	23,322,085	10.47
Financial intermediaries	**10,873,659**	**4.04**	9,123,803	3.70	**9,836,231**	**4.05**	9,120,761	4.09
Manufacturing	**9,051,345**	**3.36**	8,726,041	3.54	**9,046,438**	**3.72**	8,721,134	3.91
Electricity, gas, steam and air-conditioning supply	**7,328,103**	**2.72**	8,096,361	3.27	**7,323,272**	**3.01**	8,095,934	3.63
Accommodation and food service activities	**3,246,720**	**1.21**	2,838,680	1.66	**3,246,720**	**1.34**	2,837,101	1.83
Transportation and storage	**2,667,979**	**0.99**	–	1.20	**2,667,979**	**1.10**	–	1.33
Construction	**2,122,608**	**0.79**	2,308,665	1.31	**2,119,171**	**0.87**	2,305,228	1.44
Other service activities	**1,742,681**	**0.65**	1,981,153	1.22	**1,741,687**	**0.72**	1,981,153	1.35
Agriculture, fisheries and forestry	**895,886**	**0.33**	1,056,265	0.43	**883,190**	**0.36**	1,043,456	0.47
Administrative and support service activities	**745,725**	**0.28**	1,069,882	1.98	**745,725**	**0.31**	1,069,882	2.19
Others*	**7,778,585**	**2.90**	6,564,752	9.87	**3,244,381**	**1.33**	6,530,099	2.54
	₱269,105,295	**100.00**	₱246,732,923	100.00	**₱243,128,522**	**100.00**	₱222,805,379	100.00

**Includes Arts and recreation activities, mining and quarrying, human health and social activities, education, and information and communication.*

Breakdown of total loans as to security and status

The following table shows the breakdown of receivable from customers as to secured and unsecured and the breakdown of secured receivables from customers as to the type of security as of December 31, 2019 and 2018 (amounts in millions):

	Consolidated				Parent Company			
	2019		2018		2019		2018	
	Gross Amount	**%**	Gross Amount	%	**Gross Amount**	**%**	Gross Amount	%
Loans secured by:								
Chattel	**₱97,766,172**	**36.33**	₱76,929,965	31.18	**₱97,501,762**	**40.10**	₱76,929,965	34.53
Real estate	**29,913,466**	**11.12**	26,084,403	10.57	**29,844,796**	**12.28**	26,064,028	11.70
Others*	**7,213,909**	**2.68**	17,354,964	7.03	**7,213,908**	**2.97**	17,104,795	7.68
	134,893,547	**50.13**	120,369,332	48.79	**134,560,466**	**55.35**	120,098,788	53.90
Unsecured	**134,211,748**	**49.87**	126,363,591	51.21	**108,568,056**	**44.65**	102,706,591	46.10
	₱269,105,295	**100.00**	₱246,732,923	100.00	**₱243,128,522**	**100.00**	₱222,805,379	100.00

Consists of government securities, corporate bonds, shares of stock, hold-out on deposits, assignment of receivables etc.

Breakdown of total loans as to status

BSP Circular No. 351 allows banks to exclude from non-performing classification receivables classified as 'Loss' in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said receivables shall not be accrued and that such receivables shall be deducted from the total receivable portfolio for purposes of computing NPLs. Subsequently, the BSP issued BSP Circular No. 772, which requires banks to compute their net NPLs by deducting the specific allowance for credit losses on the total loan portfolio from the gross NPLs. The specific allowance for credit losses shall not be deducted from the total loan portfolio in computing the NPL ratio.

As of December 31, 2019 and 2018, NPLs of the Group and of the Parent Company as reported to the BSP follow:

	Consolidated		Parent Company	
	2019	**2018**	**2019**	**2018**
Gross NPLs	**₱12,368,801**	**₱11,478,807**	**₱10,421,625**	**₱10,239,430**
Less NPLs fully covered by allowance for credit losses	**(4,167,128)**	**(4,263,528)**	**(3,982,544)**	**(4,027,290)**
	₱8,201,673	**₱7,215,279**	**₱6,439,081**	**₱6,212,140**

As of December 31, 2019 and 2018, secured and unsecured NPLs of the Group and of the Parent Company as reported to the BSP follow:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Secured	**₱5,565,238**	₱4,698,624	**₱5,496,219**	₱4,630,432
Unsecured	**6,803,563**	6,780,183	**4,925,406**	5,608,998
	₱12,368,801	₱11,478,807	**₱10,421,625**	₱10,239,430

Information on related party loans

As required by BSP, the Group discloses loan transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the Group. In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to said Circular, and new DOSRI loans, other credit accommodations granted under said circular:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Total outstanding DOSRI accounts	**₱13,304,737**	₱14,673,277	₱10,787,629	**₱13,304,737**	₱14,673,277	₱10,787,629
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**0.000%**	0.000%	0.000%	**0.000%**	0.000%	0.000%
Percent of DOSRI accounts granted after the effectivity of BSP Circular No. 423 to total loans	**4.944%**	6.364%	4.700%	**5.472%**	6.518%	5.143%
Percent of DOSRI accounts to total loans	**4.944%**	6.364%	4.700%	**5.472%**	6.518%	5.143%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**0.009%**	0.012%	0.009%	**0.009%**	0.012%	0.009%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.000%**	0.000%	0.000%	**0.000%**	0.000%	0.000%
Percent of nonperforming DOSRI accounts to total DOSRI accounts	**0.000%**	0.000%	0.000%	**0.000%**	0.000%	0.000%

The amounts of loans disclosed for related parties above differ with the amounts disclosed for key management personnel since the composition of DOSRI is more expansive than that of key management personnel.

BSP Circular No. 560 provides that the total outstanding loans, other credit accommodation and guarantees to each of the Parent Company's/quasi-Parent Company's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank.

On May 12, 2009, BSP issued Circular No. 654 allowing a separate individual limit of twenty-five (25.00%) of the net worth of the lending bank/quasi-bank to loans of banks/quasi-banks to their subsidiaries and affiliates engaged in energy and power generation.

Aggregate amount of secured liabilities and assets pledged as security

As of December 31, 2019 and 2018, 'Bills payable' amounting to ₱29.80 billion and ₱15.89 billion, respectively, are secured by a pledge of certain financial instruments as follows:

	2019		2018	
	Face value	**Fair value**	Face value	Fair value
Financial assets at FVTPL	**₱8,068,541**	**₱9,154,497**	₱2,798,191	₱2,603,601
Financial assets at FVTOCI	**3,747,829**	**4,368,253**	250,000	237,189
Investment securities at amortized cost	**16,419,473**	**19,332,692**	16,394,474	16,670,322
	₱28,235,843	**₱32,855,442**	₱19,442,665	₱19,511,112

Commitments and Contingencies
The following is a summary of commitments and contingencies of the Parent Company at their peso-equivalent contractual amounts arising from off-balance sheet items:

	2019	2018
Unused credit line - credit cards	**₱65,702,553**	₱54,315,720
Trust department accounts (Note 28)	**35,044,324**	24,470,187
Outstanding guarantees	**6,427,055**	4,649,566
Spot exchange sold	**5,721,431**	4,889,355
Spot exchange bought	**5,719,911**	4,889,915
Unused commercial letters of credit	**4,300,936**	4,323,703
Forward exchange bought	**3,229,841**	2,940,079
Forward exchange sold	**3,211,557**	2,917,193
Treasurer/cashier/manager’s checks	**1,392,247**	2,248,574
Financial futures sold	**1,208,990**	–
Inward bills for collection	**639,754**	2,765,184
Outward bills for collection	**280,721**	2,944,194
Late deposits/payments received	**34,386**	51,461
Items held for safekeeping	**1,721**	481
Others	**4,677**	109