CTBC BANK
中國信託銀行

**NOTICE OF ANNUAL STOCKHOLDERS' MEETING**

**TO ALL STOCKHOLDERS:**

**NOTICE IS HEREBY GIVEN** that the annual meeting of the stockholders of **CTBC BANK (PHILIPPINES) CORP.** will be held on **July 2, 2020, Thursday, at 9:30 AM at the 22nd Floor Fort Legend Tower, 31st Street cor. 3rd Ave., Bonifacio Global City, Taguig City 1634, Philippines.**

## Agenda

The Agenda for the meeting will be as follows:

1. Call to Order
2. Certification by the Corporate Secretary on the Sending of Notices and Existence of a Quorum
3. Approval of Previous Minutes:
   a. Annual Stockholders' Meeting of 25 July 2019
4. Chairman's Address
5. President's Report and Approval of the Annual Report
6. Submission of Audited Financial Statements of the Bank and of the Trust and Investment Services Department as of 31 December 2019
7. Ratification of All Acts, Decisions and Proceedings of the Board of Directors, Committees and Management since the last Annual Meeting
8. Election of Members of the Board of Directors
9. Appointment of External Auditor for the Bank and the Trust and Investment Services Department
10. Other Matters as May Come Before the Meeting

Registration starts at 8:30 o'clock a.m. Only stockholders of record at the close of business hours on **May 25, 2020** are entitled to notice of, and to vote at, this meeting.

Stockholders who do not expect to attend the meeting in person may send a duly signed and dated proxy letter to the Corporation at the 19th Floor Fort Legend Towers, 3rd Avenue corner 31st Street, Bonifacio Global City, Taguig City, Philippines. Please submit your proxies to undersigned whose contact numbers are as follows: Direct Line: +63 (2) 88118503; Fax: +63 (2) 8811 8594; Mobile: +63 (917) 809 5291; Email add: zimar.mendiola@ctbcbank.com.ph. All proxies shall be received by the Corporation on or before the close of business hours of **June 21, 2020.** Proxies submitted shall be validated by a Committee of Inspectors on **June 25, 2020 at 10:00 o'clock** in the morning at the same address. For corporate stockholders, the proxies should be accompanied by a Secretary's Certification on the appointment of the Corporation's authorized signatory.

To avoid inconvenience in registering your attendance at the meeting, please bring valid identification paper(s) containing a photograph and signature, e.g. passport, driver's license.

Taguig City, 3 June 2020

**ZIMAR B. MENDIOLA**
Assistant Corporate Secretary

# COVER SHEET

AS95088814A

S.E.C. Registration Number

CTBC BANK (PHILIPPINES) CORP.

Company's Full Name

Fort Legend Towers Third Avenue corner 31st Street Bonifacio Global City Taguig City

(Business Address: No. Street/ City/ Town / Province)

Atty. Maritess Parilla-Elbinias

Contact Person

88988927

Company Telephone Number

12 31

Month Day

Fiscal Year

SEC 20-IS (Definitive Information Statement)

Form Type

05 4

Month Day

Annual Meeting

Secondary License Type, If Applicable

Market and Securities Regulation Department

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

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To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

*sye/jps*

**SEC FORM 20-IS**

**INFORMATION STATEMENT PURSUANT TO SECTION 17.1(b)**
**OF THE SECURITIES REGULATION CODE**

1. Check the appropriate box:

| | |
|---|---|
| _______ | Preliminary Information Sheet |
| ___X___ | Definitive Information Sheet |

2. Name of Registrant as specified in its Charter:

**CTBC BANK (PHILIPPINES) CORP.**

3. Province, country and other jurisdiction or incorporation or organization:

**Philippines**

4. SEC Identification Number: **AS9508814A**

5. BIR Tax Identification Code: **004-665-166**

6. Address of the Principal Office: Postal Code:

**Fort Legend Towers,**
**Third Avenue corner 31st Street**
**Bonifacio Global City, Taguig City** **1634**

7. Registrant's telephone number, including area code: **(632) 89889 287**

8. Date, time and place of the meeting of security holders:

| | | |
|---|---|---|
| Date | : | **July 2, 2020 (Thursday)** |
| Time | : | **9:30 a.m.** |
| Place | : | **22nd Floor Fort Legend Tower, 31st Street cor. 3rd Ave., Bonifacio Global City, Taguig City 1634, Philippines.** |

9. Approximate date of which the Information Statement is to be first sent or given to security holders: ***June 10, 2020***

10. Securities registered pursuant to Sections 4 and 8 of the RSA:

a. Authorized Capital Stock PhP4,000,000,000

Common Shares 400,000,000 (PhP10.00 par value)

b. Number of Shares Outstanding as of April 30, 2020:

**Common Shares** **348,307,202 shares**

c. Amount of Debt Outstanding as of December 31, 2019
(Total liabilities including deposits, bills payable, accrued expenses, etc.)
**Php46,284,343,593.**

11. Are any of the registrant's securities listed in the Philippine Stock Exchange

__________ Yes ____X____ No

# INFORMATION REQUIRED IN INFORMATION STATEMENT

## A. <u>GENERAL INFORMATION</u>

**<u>WE ARE NOT ASKING FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY</u>**

### Item 1. *Date, Time and Place of Meeting of Security Holders.*

(a) Date : **July 2, 2020**
Time : **9:30 a.m.**
Place : **22nd Floor Fort Legend Tower, 31st Street cor. 3rd Ave., Bonifacio Global City, Taguig City 1634, Philippines.**

Principal Office: **Fort Legend Towers, Third Avenue corner 31st Street, Bonifacio Global City, Taguig City.**

(b) **APPROXIMATE DATE OF WHICH THE INFORMATION STATEMENT IS TO BE FIRST SENT OR GIVEN TO SECURITY HOLDERS: *<u>June 10, 2020</u>***

### Item 2. *Dissenter's Right of Appraisal*

There is no matter that will be taken up at the meeting that will give rise to a possible exercise by security holders of their appraisal rights. However, in the instances mentioned by the Revised Corporation Code of the Philippines, the stockholders of the Bank have the right of appraisal provided that the procedures and the requirements of Title X thereof governing the exercise of appraisal right is complied with.

### Item 3. *Interest of Certain Persons in or Opposition to Matters to be Acted Upon*

(a) There is no substantial interest, direct or indirect, by security holdings or otherwise, of any director or officer of CTBC Bank (Philippines) Corp. ("Bank" or "Corporation" or "Issuer" or "Registrant" for brevity).

(b) The Bank is not aware of any director or security holder who intends to oppose any action to be taken by the registrant during the stockholders' meeting.

# B. CONTROL AND COMPENSATION INFORMATION

## Item 4. *Voting Securities and Principal Holders Thereof*

(a) Number of Shares Outstanding as of April 30, 2020:

Common Shares: 348,307,202 shares

Number of Votes Entitled: **one (1) vote per share**

(b) **All stockholders of record at the close of business hours on May 25, 2020 are entitled to notice and to vote at the Annual Stockholders' Meeting.**

A copy of this SEC Form 20-IS shall likewise be distributed to stockholders of record as of **May 25, 2020** upon advice from our stock transfer agent.

(c) **Nomination and Election of Directors and Manner of Voting**

(1) In compliance with Rule 38 of the Amended Implementing Rules and Regulations of the Securities Regulation Code (SRC), the Bank adopted in its By-Laws and Manual on Corporate Governance the requirement that the Bank's Nomination, Remuneration and Governance Committee (NRGC) shall review and evaluate the qualifications of all persons nominated to the Board as well as those other persons requiring the appointment by the Board of Directors [Section 4, Article V of the Amended By-Laws; Section V.2 of the Manual on Corporate Governance].

(2) With respect to the election of directors, Article II Section 8 of the Amended By-Laws of the Corporation allows the shareholders to vote in person or by proxy and to accumulate their votes. Thus:

> "Section 8. <u>Cumulative Voting for Election of Directors</u> - In accordance with Section 24 of the Corporation Code, at each election for directors, every shareholder entitled to vote at such election shall have the right to vote, in person or by proxy, the number of shares owned by him for as many persons as there are directors to be elected and for whose election he has a right to vote, or to cumulate his votes by giving one candidate as many votes as the number of such directors multiplied by the number of his shares shall equal, or by distributing such votes on the same principle among any number of candidates." [Article II Section 8 of the Amended By-Laws]

(3) On questions or matters submitted during the stockholders' meeting, stockholders are entitled to vote on a "one-vote per one share" basis. Thus:

> "Section 7. Voting of Shares in General - At each meeting of the stockholders, every stockholder entitled to vote on the particular question or matter involved shall be entitled to one (1) vote for each share of stock standing in his name on the books of the Bank at the time of closing of the transfer books for such meeting." [Section 7, Article II of the Amended By-Laws]

(d) **Security Ownership of Certain Record and Beneficial Owners and Management as of April 30, 2020**

1. **Security Ownership of Certain Record and Beneficial Owners of More than 5% as of April 30, 2020:**

| Title of Class | Name, address of record owner and relationship with issuer | Name of Beneficial Owner and Relationship with Record Owner | Citizenship | No. of Shares Held | Percent |
|---|---|---|---|---|---|
| Common | CTBC Bank Co., Ltd. No. 168 Jingmao 2nd Road, Taipei, Taiwan, R.O.C. | CTBC Bank Co., Ltd. | Taiwanese | 347,319,203 | 99.72% |

CTBC Bank Co., Ltd. through a resolution of the Board of Directors, may authorize the Bank's Chairman, Mr. Jack Lee, or such other such person as it may deem fit to exercise the voting power over its shareholdings for and on its behalf.

CTBC Bank Co., Ltd. is wholly owned by CTBC Financial Holding Co., Ltd. (CTBC Holding).

The following are the Top 10 stockholders of CTBC Holding as of April 21, 2020:

| NAME | NUMBER OF SHARE | PERCENTAGE |
|---|---|---|
| | | |
| 1. Fubon Life Insurance Co., Ltd. Representative: Richard M. Tsai | 749,870,943 | 3.75% |
| 2. Yi Kao Investment Co., Ltd. Representative: Feng-Fu Wu | 479,580,574 | 2.40% |
| 3. China Life Insurance Co., Ltd. Representative: Yu-Ling Kuo | 410,629,303 | 2.05% |
| 4. Citibank Taiwan in custody for the government of Singapore | 396,557,571 | 1.98% |
| 5. CTBC Bank Trust Account for CTBC Financial Holding Employee Welfare Savings Committee | 353,843,028 | 1.77% |
| 6. Labor Pension Fund | 335,092,217 | 1.68% |
| 7. JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds | 320,112,922 | 1.60% |
| 8. Citibank Taiwan in custody for Norges Bank | 317,452,024 | 1.59% |
| 9. Bank of Taiwan Co., Ltd. Representative: Joseph Jye-Cherng Lyu | 299,632,426 | 1.50% |
| 10. Shin Kong Life Insurance Co., Ltd. Representative: Tung-Chin Wu | 290,063,335 | 1.45% |

Information on beneficial owners of the corporate stockholders of CTBC Holding and the complete list of the Top 20 stockholders is inaccessible considering that records are located in Taiwan.

2. **Security Ownership of Management as of April 30, 2020:**

**a. Directors**

| *Title of Class* | **Name of Beneficial Owner** | **Amount and Nature of Beneficial Ownership** | **Citizenship** | **Percent of Class** |
|---|---|---|---|---|
| Common | Jack Lee | 1 | Taiwanese | 0% |
| Common | William B. Go | 52 | Filipino | 0% |
| Common | Oliver D. Jimeno | 1 | Filipino | 0% |
| Common | YG Chen | 1 | Taiwanese | 0% |
| Common | CC Huang | 1 | Taiwanese | 0% |
| Common | Edwin B. Villanueva | 1 | Filipino | 0% |
| Common | Alexander A. Patricio | 1 | Filipino | 0% |
| Common | Stephen D. Sy | 1 | Filipino | 0% |

b. **Executive Officers as of April 30, 2020:**

| *Title of Class* | **Name of Beneficial Owner** | **Amount and Nature of Beneficial Ownership** | **Citizenship** | **Percent of Class** |
|---|---|---|---|---|
| Common | Oliver D. Jimeno | 1 | Filipino | 0% |

c. **Directors and Officers**

The aggregate shareholding of the directors and executive officers amounted to *59* shares of the Bank's total outstanding shares.

3. **Voting Trust Holder of 5% or More**

There are no voting trust holders of 5% or more.

4. **Change in Control**

There is no change in control of the Bank and no change in control has occurred since the beginning of the last fiscal year. Moreover, there is no arrangement which may result in a change of control of the Bank.

## Item 5. *Directors and Executive Officers*

### (a) Directors and Executive Officers

| **Name** | **Nationality** | **Age** | **Position** | **Period Served** |
|---|---|---|---|---|
| Jack Lee | Taiwanese | 66 | Chairman | Oct. 26, 2011 to present |
| William B. Go | Filipino | 80 | Vice-Chairman | Sep. 1995 to present |
| Oliver D. Jimeno | Filipino | 48 | President and CEO | December 2, 2019 to present |
| YG Chen | Taiwanese | 64 | Director | Sept. 26, 2018 to present |
| CC Huang | Taiwanese | 57 | Director | May 19, 2014 to present |
| Edwin B. Villanueva | Filipino | 69 | Independent Director | Nov. 25, 2002 to present |
| Alexander A. Patricio | Filipino | 67 | Independent Director | Dec. 12, 2018 to present |
| Stephen D. Sy | Filipino | 69 | Independent Director | July 25, 2019 to present |

## 1. Board of Directors

The following are the incumbent members of the Board who shall be nominated for re-election as directors during the meeting and who shall each hold office from date of elections until the next annual shareholders meeting or until his resignation as director, unless sooner terminated or removed in accordance with law:

**LEE WEN-HUNG** a.k.a. Jack Lee, Taiwanese, has been Chairman of the Board since October 26, 2011. He obtained his Master's in Business Administration from California State University in 1979 and Bachelor of Arts in Economics from Soochow University, Taipei. Mr. Lee has been with CTBC Bank Co., Ltd. since 1983. He served various positions as the President Commissioner of PT Bank CTBC Indonesia (Bank CTBC Indonesia) from 2011 to 2019, Chairman of CTBC Venture Capital Co., Ltd. from 2008 to 2014, Chairman of CTBC Asset Management Co., Ltd. from 2011 to 2012, Vice Chairman of CTBC Securities Co. Ltd. from 2005 to 2008, the Executive Vice President and General Auditor of CTBC Bank Co., Ltd. from 2002 to 2005, the Senior Vice President and General Manager of Credit Department and International Department from 1995 to 2002 at the Bank. He is 66 years old.

**WILLIAM B. GO,** Filipino, has been the Vice Chairman of the Board since October 15, 2001. He also served as concurrent President & CEO from April 3, 2008 to January 31, 2009. A Certified Public Accountant, he earned his Bachelor of Science degree from the University of the East and a Master of Science in Business Administration degree from the University of Missouri in the United States. He is Chairman of Investors Securities, Inc., Serico, Inc., and Gama Enterprises, Inc.; Chairman and President of The Big Blue Sky Realty Corporation, and GGS Holdings, Inc.; and holds various directorship positions in other institutions. He served as the President of Philippine Bank of Communication from 1985 to 1995. Mr. Go founded Chinatrust Philippines in 1995, and served as President until October 15, 2001, when he was elected Vice Chairman. He is 80 years old.

**OLIVER D. JIMENO** , Filipino, was elected to the Board as Director on July 25, 2019 and President and CEO of CTBC Bank (Philippines) Corp. on December 2, 2019. He also served as Head of Treasury Group from 2009 to 2019. Mr. Jimeno has been with the Bank since December 1999, having served as Head of Treasury's Domestic Desk in the same year and Head of Liquidity and Balance Sheet Management Desk in 2005. Prior to joining CTBC Bank Philippines, he was a Swap Trader at PCIBank and a Trust Marketing Officer at Citytrust. He obtained his Bachelor's and Master's in Business Administration from the University of the Philippines. Mr. Jimeno is 48 years old.

**CHEN YEUN-GINN** a.k.a. James Chen and. Y.G. Chen, Taiwanese, was appointed as member of the Board on September 26, 2018. He obtained his Masters in Business of Economics in Nankai University in China, and International Trade Department in Tamkang University, Taiwan. He is currently Head of South East Asia Region Division of CTBC Bank Co., Ltd. He was CEO, Japan Business of CTBC Financial Holding Co., Ltd. from 2013 to 2017. Prior to that, he served various positions with Chang Hwa Bank as President from 2012-2013, Executive Vice President from 2007-2012, Head of International Banking Division from 2005-2007, Head of Treasury Division from 2004-2005, and General Manager, London Branch from 2000-2004. He is 64 years old.

**HUANG CHIH-CHUNG** a.k.a. C.C. Huang, Taiwanese, has been a member of the Board since 19 May 2014. He obtained his Masters in Business Administration from Indiana University, Bloomington, U.S.A. and Bachelor of Economics from the National Taiwan University in Taiwan. He is currently Head of Global Risk Management Group of CTBC Bank Co., Ltd. He was Head of Global Institutional Credit Risk Division from 2012 to 2019, and Head of Institutional Banking Taiwan Corporate Banking Division and Head of South East Asia Region Division of CTBC Bank Co., Ltd. from 2010 to 2012. Prior to that, he served as Executive Director of ABN AMRO Bank, Taipei Branch from 1990 to 2010. He was seconded to ABN AMRO Bank Head Officer in Amsterdam from 1996 to 1999. He is 57 years old.

## 2. Independent Directors

### 2.1 Incumbent Independent Directors

The following are the incumbent Independent Directors:

**STEPHEN D. SY,** Filipino, is an independent director, who was elected to the Board on July 27, 2019. He obtained his Master of Science in Management from Stanford University, U.S.A. and his Bachelor of Science in Industrial Engineering from the University of the Philippines. He is currently President and CEO of the following companies: Focus Global Inc. from 1991 to present, SLA Prime Ventures Corp. from 2007 to present, and Focus Palantir Inc. from 2013 to present. He is also member of the Board of Director of Lian Hong Co., Inc. from 1980 to present. He is 69 years old.

**EDWIN B. VILLANUEVA**, Filipino, has been an Independent Director of the Bank since 2002 and is the Chairman of the Audit Committee. He received his Bachelor of Science degree in Management Engineering (cum laude) from Ateneo De Manila University and Master's degree in Business Administration from Wharton School at the University of Pennsylvania. He is the Chairman of VFL Advisors, Inc. and President of ABV Inc., a real estate holding company. He is President of CIBI Foundation Inc. He holds directorships in the Credit Access Philippines Financing Corp (formerly Microventures Financing Corp.), Makati Supermart Group, Testech Inc., DFNN Inc., and Iwave Inc., and Advisor to the Board of CDC/Quadrillion Group, and to the Board of Philratings, Inc. He is 69 years old.

**ALEXANDER A. PATRICIO**, Filipino, is an independent director, who was elected to the Board on July 5, 2018 subject to the SEC approval of the amendments to the Articles of Incorporation and By-Laws. He assumed the post on December 12, 2018 after the SEC approval. He received his Bachelor of Science degree in Industrial Management Engineering from De La Salle University and Master in Business Management from the Asian Institute of Management. He is at present an Independent Director of the Intellicare Group and the Unicapital Group. He was Executive Vice President and Chief Risk Officer of Development Bank of the Philippines from 2013-2017; held various positions with ING Bank Philippines as Director/Country Risk Manager from 2012-2013, Director/Head of Corporate Lending from 2011-2012, and Director/Country Risk Manager from 1995-2011; Vice President and Senior Credit Officer/Head, Credit Policy and Risk Management Group of Citytrust Banking Corporation from 1991-1995; Vice President and Senior Risk manager of Citibank Australia Ltd., Melbourne from 1989-1991; Citibank Philippines, Makati from 1984-1989 and from 1976-1979; and Citibank Philippines-Cebu from 1979-1984. He is 67 years old.

### 2.2 Final List of Candidates for Independent Director

In accordance with the procedures prescribed in the Securities Regulation Code Rule 38.8, the Bank's Nomination, Remuneration and Governance Committee endorsed Messrs. Edwin B. Villanueva (recommended by Jack Lee, a director of the Bank) and Alex A. Patricio (recommended by C.C. Huang, also a director of the Bank) and Stephen D. Sy (recommended by William B. Go also a director of the Bank) for nomination as Independent Directors. Messrs. Edwin B. Villanueva, Alex A. Patricio, and Stephen D. Sy are not related to Messrs. Jack Lee, C.C. Huang, and William B. Go respectively.

These independent directors have met and continue to meet all the qualifications and possess none of the disqualifications of an Independent Director under the Bank's Code of Corporate Governance, Section 38 of the Securities Regulation Code and relevant BSP rules.

The qualifications of Messrs. Edwin B. Villanueva, Alexander A. Patricio and Stephen D. Sy are as aforestated.

The foregoing is the Final List of Candidates eligible for election as Independent Directors. No further nominations shall be entertained nor allowed on the floor during the actual annual stockholders' meeting pursuant to the 2015 Implementing Rules and Regulations of the Securities Regulations Code Rule 38.8.5.

## 3. Brief Description of Material Legal Proceedings to which the Bank or Its Subsidiary is a Party

Except for cases or proceedings, which are incidental to its business such as suits for sum of money, foreclosures, writs of possession, employee relations, and other cases arising from loan transactions and operations, the Bank has no material pending legal proceedings for or against it.

Neither is the Bank aware of any material proceedings to be contemplated by government authorities or any other entity.

## 4. Executive Officers

The following are the Bank's executive officers:

**OLIVER D. JIMENO**, Filipino, holds a Master's and Bachelor's degree in Business Administration from the University of the Philippines. He was appointed as President and CEO of CTBC Bank (Philippines) Corp. on December 02, 2019. Mr. Jimeno has been with the Bank since December 1999, having served as Head of Treasury's Domestic Desk in 1999 and Head of the Liquidity and Balance Sheet Management Desk in 2005, before eventually being appointed as the Bank's Treasurer in 2009. Prior to joining CTBC Bank Philippines, he was a Swap Trader at PCIBank and a Trust Marketing Officer at Citytrust. Mr. Jimeno is 48 years old.

**NENGSHIH WANG,** a.k.a. Arthur Wang, Taiwanese, joined CTBC Bank (Philippines) Corp. as Deputy Chief Executive Officer on July 24, 2019. He was previously with Sydney Representative Office of CTBC Bank Co. Ltd where he was Chief Representative. Prior to his assignment in Australia, Arthur held several positions at CTBC Bank Co. Ltd., most recently as SVP and Head of SME Marketing Department. He also brings in extensive experience in Debt Capital Markets from his position as Director of ABN AMRO Bank N.V. (Taipei Branch). Arthur holds a Business Administration degree in Transportation and Communication Management from National Cheng Kung University as well as a Master's degree in Business Administration from University of Wisconsin-Madison. He is 53 years old.

**TSAI-FU LIU,** a.k.a Sam Liu, Taiwanese, joined CTBC Bank (Philippines) Corp. as Information Technology Group Head on January 10, 2020. Before his assignment to the Philippines, he was the Principal Project Manager of CTBC Taiwan responsible for leading projects dealing with endpoint mobility and security management. Sam is an accomplished IT executive with over 39 years of experience in the IT industry cutting across various financial sectors from Retail, Wholesale and Credit Card businesses. For more than 20 years with CTBC Taiwan, he held various positions and critical roles such as Data Centre Head, Chief Information Officer for Tokyo Star, Corporate Banking IT Head and Head of System Development. His previous external work experience includes Vice President/Technology Group Head of Citibank Card Centre and Division Head of Electronic Data Systems. Sam obtained his Bachelor of Computer Science degree from Tamkang University in Taiwan. He also completed an executive MBA program from the Extension Education Centre of Taiwan University. He is 62 years old.

**LOLITO RAMON A. CERRER, JR.**, Filipino, earned his AB Philosophy degree from the Ateneo De Manila University. He is Senior Vice President and Consumer Finance Sales Unsecured Head in April 2017. Prior to joining CTBC Bank, he was the Head of Personal Loans of Security Bank, a role he performed for five years. He likewise had stints at Philippine Savings Bank, APEX Distributors Inc., Metrovet Philippines, Century Canning Corporation, Universal Food Corporation and Philippines Commercial International Bank. At the early part of his career, Jun taught philosophy at the Holy Apostles Senior Seminary. Jun is 57 years old.

**JUSTINE BENEDICT G. DELA ROSA,** Filipino, acquired his AB Economics degree and BS Management of Financial Institutions degree from De La Salle University. He is Senior Vice President and Head of Treasury Group. His career in banking started in 1997, when he was selected to be part of Solid Bank's Officer Development Program. Upon completion of the program, he chose to start a career in Treasury as a Liquidity Trader. In his more than 18 years with CTBC Bank, he has quickly moved up the corporate ladder and has assumed positions of increasing responsibility. From being a Department Head of Trading Desk in 2006, Mr. Dela Rosa was appointed as Treasury Group Head last December 02, 2019. He is 45 years old.

**JOSEPH B. ESTAVILLO,** Filipino, earned his Business Administration degree, Major in Economics from San Sebastian College. He currently holds the position of Senior Vice President and Head of the Banking Operations Group. He joined CTBC Bank in 2011 as First Vice President and Head of Branch Operations. Prior to joining CTBC Bank, he was Vice President and Operational Risk Management Head of Bank of Commerce. From 2007 to 2010, he was Assistant Vice President and Head of Export and Industry Bank's Operations Division under Audit Group. In 2001, he joined Rizal Commercial Banking Corporation (RCBC) as Head of Operational Risk. From 1994 to 2000, he was with Solidbank Corporation as Senior Manager of its Audit and Credit Examination Group until its acquisition by Metrobank in 2011. Mr. Estavillo is 58 years old.

**REMO ROMULO M. GARROVILLO, JR.**, Filipino, holds an AB Economics degree from Ateneo de Manila University. He is Senior Vice President and Head of Retail Banking Group. He joined CTBC Bank on December 09, 2014 as Head of Global Transaction and Other Banking Channels followed by his appointment as full-fledged Retail Banking Group Head effective July 25, 2019. Prior to CTBC Bank, he was Director of Merchant Acquisition of Globe Telecom. He started his banking career at Union Bank of the Philippines in 1999, initially as Customer Service Officer and later on as Cash Solutions

Manager. In 2003, he joined Philippine National Bank (PNB) as Assistant Vice President and Head of its e-Business Solutions Division. After his three-year stint with PNB, he moved to East West Banking Corporation in 2006 where he was Head of the Product Development and Marketing Support Division. In 2007, he joined Rizal Commercial Banking Corporation (RCBC) as Assistant Vice President of Channel Management and Product Development. He left RCBC as Senior Vice President and Head of Global Transactions Services. Mr. Garrovillo is 41 years old.

**MARIA GRETCHEN S. MACABASCO,** Filipino, earned her Bachelor's degree in Business Management from Ateneo de Manila University. She is Senior Vice President and Head of Top Tier Department under Institutional Banking Group. Prior to joining the CTBC Bank in August 2008, she was Senior Vice President and Head of Trade of Australia and New Zealand Bank, Manila Branch. She also served as First Vice President and Structured Products Group Head at Philippine Bank of Communications. She worked almost 6 years at ABN AMRO Philippines, most recently as Vice President and Working Capital Head. Previous to her position with ABN AMRO, she worked for almost 16 years at Citibank N.A. Manila where her last role was Assistant Vice President/Relationship Manager under Global Relationship Banking. Ms. Macabasco is 56 years old.

**RAFAEL V. RUFINO III**, Filipino, holds a degree in Commerce from De La Salle University. Mr. Rufino was first introduced to the banking profession in 1991 when he joined the Private Development Corporation of the Philippines (PDCP) initially as an Account Analyst and later on as an e-Business Banking Unit Head. He spent the next 11 years with the institution, which was later renamed PDCP Bank, then 1st E-Bank, before joining CTBC Bank in 2003. At CTBC, Mr. Rufino further expanded and solidified his knowledge of the credit process as a result of his being assigned in various roles of increasing responsibility from Account Officer to Credit Officer to Credit Control Department Head and eventually Group Head. He is currently Senior Vice President and the Chief Risk Officer of the Bank. He is 51 years old.

**JIMMY ARSENIO Y. SAMONTE,** Filipino, obtained his Bachelor's degree in Commerce, Major in Accountancy (*cum laude*) from the University of Santo Tomas and is a Certified Public Accountant. Jimmy also attended the Banking Intermediate Industry Training School at the Center for Professional Education of Arthur Andersen and Co. in Illinois, USA. He is Senior Vice President and Head of Internal Audit. He also served as the Bank's Compliance Officer from 2000 to 2001. Prior to joining the Bank, he was Audit Manager of the Financial Services Group of Sycip, Gorres, Velayo & Co. (SGV & Co.), a member firm of Ernst & Young Global Limited. He has been with the Bank since October 1998. Jimmy is 50 years old.

**(b) Significant Employees**

There is no significant employee who is not an Executive Officer and who is expected to make significant contribution to the business.

**(c) Family Relationships**

No family relationship exists among the Bank's directors and executive officers.

**(d) Certain Relationships and Related Transactions**

The Bank, in its regular course of trade and business, enters into transactions with its Directors, Officers, Stockholders, and Related Interests (DOSRI) involving mainly loans and these are disclosed to the *Bangko Sentral ng Pilipinas* (BSP) in accordance with the Manual of Regulations for Banks.

All transactions of the Bank, whether with DOSRI, related parties or non-related parties, are conducted and entered in the Bank's best interest and on "arm's length basis".

There are no parties that fall outside the definition of "Related Parties" under PAS 24 with whom the Bank or its related parties have a relationship that enables such parties to negotiate terms and material transactions that may not be available from other more clearly independent parties on an "arm's length basis".

Note 24 page 99 of the Bank's Audited Financial Statements for the fiscal year ended as of December 31, 2019, attached as Exhibit 2 of this Report, discusses the nature of such Related Party Transactions, which discussion is incorporated hereto by reference.

Disclosures required by Annex 68-E of the amended Securities Regulation Code Rule 68 and 68.1 are in Schedules IV to VII of said Audited Financial Statements.

**(e) Involvement in Certain Legal Proceedings of Directors and Officers**

To the knowledge and/or information of the Bank, none of the nominees for election as director, nor any of the Bank's executive officers, during the last five (5) years and up to this date, has had any involvement in the following: (a.) Any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (b.) Any conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses; (c.) Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any time of business, securities, commodities or banking activities; and (d.) Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

## Item 6. *Compensation of Directors and Executive Officers*

### *1. Compensation of Directors & Officers*

**Summary Compensation Table of Directors and Executive Officers**

| | IN MILLION PESOS | | | |
|---|---|---|---|---|
| Name | Annual Salary | Bonus | Others | Total |
| | | | | |
| **2018** | | | | |
| Executives (5) | 36.20 | 3.28 | 23.80 | 63.28 |
| | | | | |
| **2019** | | | | |
| Executives (5) | 37.38 | 4.65 | 29.69 | 71.72 |
| | | | | |

| | | | | |
|---|---|---|---|---|
| **2020** | | | | |
| Executives (5) | 43.31 | 3.73 | 20.45 | 67.50 |
| (Estimate) | | | | |
| Directors and Officers Unnamed | 26.31 | 3.66 | 13.11 | 43.09 |

Each director receives a monthly professional fee for attending Board and committee meetings. This is also in consideration of their valuable contributions in the formulation of the Bank's overall strategy. The total per diem and attending fee paid to the directors for their attendance in Board meetings amounted to P11.97 million, P8.79 million and P8.64 million in 2019, 2018 and 2017 respectively. This translates to an average of P199,547, P183,300 and P240,062 per month for each director in 2019, 2018 and 2017 respectively. Further, for 2019, average director's fee is P54,495 and per diem of P103,385 per director per month. For 2020, approximately P10.19 million will be paid to the directors, at an average of P169,842 per director per month. Average director's fee is at P42,675 and per diem is P85,500 per director per month. Aside from said amounts, they have no other compensation plan or arrangement with the Bank.

Chief Executive Officer and four other most highly compensated executive officers:

| | |
|---|---|
| Oliver D. Jimeno | President and CEO |
| Nengshih (Arthur) Wang | Executive Vice President |
| Tsai-Fu (Sam) Liu | Executive Vice President |
| Maria Gretchen S. Macabasco | Senior Vice President |
| Justine Benedict G. dela Rosa | Senior Vice President |

***2. Employment Contract and Termination of Employment and Change-in-Control Arrangements***

There is no formal employment contract between the Bank and the named executive officers covering compensation package. Incidentally, the said executive officers, just like other officers and employees, are also entitled to standard fringe benefits granted by the Bank such as coverage under the Bank's non-contributory Retirement Plan and Group Life Insurance.

***3. Warrants and Options Outstanding***

There are no warrants, option, or right to purchase shares arrangement between the Bank and its directors and officers.

Similarly, there are also no actions to be taken as regards any bonus, profit sharing, pension or retirement plan, granting of any option, warrant, or right to purchase shares between the Bank and its directors and officers.

## Item 7. *Independent Public Accountants*

For the calendar years 2019, 2018, and 2017 RGM, the local firm of KPMG International has been appointed as the Bank's external auditor. The signing partner of the external auditor is rotated after every five (5) years with a two (2) year cooling off period in accordance with SRC 68(3)(b)(ix).

For calendar year 2020, the Bank's Board of Directors in its meeting held on April 23, 2020 appointed R.G. Manabat and Co. (RGM) (Ms. Vanessa Macamos) the local firm of KPMG International as the external auditor for the Bank and the Trust and Investments Department, respectively, subject to ratification by the shareholders in the scheduled meeting.

RGM will be present at the Annual Stockholders' Meeting. They will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

The Bank has no disagreement with any of its external auditors in any matter of accounting principle, practice, or financial disclosures.

**INFORMATION ON INDEPENDENT ACCOUNTANT (EXTERNAL AUDIT FEES (MC No. 14, Series of 2004)**

***(a) Audit and Audited-Related Fees***

The Bank paid the following audit fees to R.G. Manabat & Co (RGM) and for the fiscal year indicated:

| Fiscal Year | Amount |
|---|---|
| RGM | |
| For 2017 paid in 2017 | Php739,200.00 |
| For 2017 paid in 2018 | Php492,800.00 |
| For 2018 paid in 2018 | Php739,200.00 |
| For 2018 paid in 2019 | Php1,639,538.00 |
| For 2019 paid in 2019 | Php446,136.00 |
| For 2019 paid in 2020 | Php446,135.00 |

To date, RGM has unbilled charges of Php875,811 for 2019 audit.

***(b) Tax & Other Fees***

There are no fees paid to tax and other related services.

***(c) Audit Committee's Approval Policies and Procedures for the above services***

The engagement of the services of the Bank's external auditor is evaluated by the Audit Committee. Consistent with the provisions of the Code of Corporate Governance and the Bank's Audit Committee Charter, the appointment of the external auditor is nominated by the Audit Committee for Board approval and subsequently for the ratification/approval by the shareholders. Annex "C" discusses the composition of the Audit Committee.

### Item 8. *Compensation Plans* – NOT APPLICABLE

## C. ISSUANCE AND EXCHANGE OF SECURITIES

### Item 9. *Authorization or Issuance of Securities Other than for Exchange* – NOT APPLICABLE

.

**Item 10.** ***Modification or Exchange of Securities* – NOT APPLICABLE**

**Item 11.** ***Financial and Other Information***

(a) Brief Description of the General Nature and Scope of the Business of the Registrant, attached as **Annex "A"**;
(b) Market Information, Dividends, and Top 20 Stockholders, attached as **Annex "B"**;
(c) Discussion of Compliance with leading practice on Corporate Governance, attached as **Annex "C"**;
(d) Management's Discussion and Analysis or Plan of Operation, attached as **Annex "D"**;
(e) Statement of Management Responsibility for Financial Statements, attached as **Annex "E"**;
(f) Audited Financial Statements for the fiscal year ended as of December 31, 2019, attached hereto as **Annex "F"**;
(g) Unaudited Financial Statements as of the end of March 31, 2020, attached as **Annex "F-1"**;
(h) As part of the Bank's corporate governance practice which requires an evaluation of relationship on a regular basis, the RGM was appointed as the external auditor for the calendar years 2019 and 2020.

**Item 12.** ***Mergers, Consolidations, Acquisitions and Similar Matters* – NOT APPLICABLE**

**Item 13.** ***Acquisition or Disposition of Property***

Except for the acquisition of properties in connection with ordinary course of business or disposition of real and other properties owned or acquired (ROPOA) and non-performing loans (NPL), there are no actions to be taken as regards acquisition or disposition of properties.

**Item 14.** ***Restatement of Accounts* – NOT APPLICABLE**

## D. <u>OTHER MATTERS</u>

**Item 15.** ***Action with Respect to Reports***

The following are the matters pertaining to reports which will be submitted to the shareholders for action:

1. Approval of the Minutes of Annual Stockholders' Meeting of July 25, 2019 attached as **Annex "G"**. Action on the minutes will not constitute approval or disapproval of any of the matters referred to in the said minutes but will most likely be approved thereof as written as traditionally done, or at most correction or modification thereof may be made prior to actual approval.

2. Submission of Audited Financial Statements of the Bank as of 31 December 2019 (Annex F).

**Item 16.** ***Matters Not Required to be Submitted* – NOT APPLICABLE**

## Item 17. ***Amendment of Charter, By-Laws or Other Documents* – NOT APPLICABLE**

## Item 18. ***Other Proposed Actions*.**

The following are the other proposed actions which will be submitted to the shareholders for action:

1. Election of Members of the Board of Directors.

   Majority of the incumbent directors are expected to be re-nominated during the annual meeting.

2. Appointment of External Auditor for the Bank and the Trust and Investment Services Department for the Calendar Year 2020.

   The Bank's Board of Directors in its meeting held on April 23, 2020 appointed R.G. Manabat and Co. (RGM) the local firm of KPMG International as the external auditor for the Bank and the Trust and Investments Department, respectively, for calendar year 2020 subject to ratification by the shareholders in the scheduled meeting.

3. Ratification of All Acts, Decisions and Proceedings of the Board of Directors, Committees and Management since the last Annual Meeting.

   All the actions of Management and the Board of Directors were done in accordance with the general or specific resolutions of the Board of Directors. Among the significant actions undertaken which were endorsed by Management and approved by the Board of Directors (or approved by a Committee then noted or confirmed by the Board of Directors as may be proper), are as follows: i. approval of items for the 2020 stockholders' meeting such as date of meeting, record date, endorsement of nominees for directors, including the final list of candidates for independent directors; ii. appointments to the Committees; iii. Appointment of directors and executive officers.

## Item 19. ***Voting Procedures.***

### (a) **Vote required for approval or election**

The actions to be taken shall only require the vote of security holders representing at least a majority of the issued and outstanding capital stock entitled to vote.

### (b) **Method by which votes will be counted**

Straight and Cumulative Voting

In all items for approval except election of directors, each share of stock entitles its registered owner to one vote. With respect to election of directors, a security holder shall have cumulative voting rights under Article II, Section 8 of the amended By-Laws as previously stated.

Representatives of the Bank's stock transfer agent, Stock Transfer Service, Inc. shall be authorized to count the votes cast.

## S I G N A T U R E  P A G E

**PURSUANT TO THE REQUIREMENTS OF THE SECURITIES REGULATION CODE, THE ISSUER HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED HEREUNTO DULY AUTHORIZED.**

After reasonable inquiry and to the best of our knowledge and belief, we certify that the information set forth in this report is true, complete and correct.

This report is signed in the City of Taguig on 4 June 2020.

**CTBC BANK (PHILIPPINES) CORP.**
Issuer
By:

**ATTY. MARITESS PARILLA- ELBINIAS**
Corporate Secretary and FVP/Legal Head
**TIN: 135-899-542**

## U N D E R T A K I N G

The Bank shall provide, without charge to any person upon a written request directed to ATTY. MARITESS PARILLA-ELBINIAS, First Vice President and Legal Department Head at the 22nd Floor, Fort Legend Towers, Third Avenue corner 31st Street, Bonifacio Global City, Taguig City, a copy of the registrant's annual report on SEC form 17A. At the discretion of the management, a charge may be made for exhibits, provided that such charge is limited to reasonable expenses incurred by the registrant in furnishing such exhibits.

# ANNEX "A"

## BRIEF DISCRIPTION OF THE GENERAL NATURE AND SCOPE OF BUSINESS OF THE REGISTRANT

### (1) Description of Business

***Business Development***. CTBC Bank (Philippines) Corp. ("Bank") is the Philippine subsidiary of CTBC Bank Co., Ltd. ("CTBC Ltd.") of Taiwan. CTBC Ltd. is the biggest privately-owned commercial bank, the most awarded financial institution in the island nation, and one of the world's top two hundred (200) banks in terms of capital.

The Bank was incorporated on September 7, 1995 initially as Access Banking Corporation, and commenced operation on September 26, 1995 as a domestic commercial bank. The Bank has an authorized capital stock of P3.0 Billion.

On November 22, 1995, the Monetary Board approved the investment of CTBC Ltd. in sixty percent ("60%") of the voting stock of Access Banking Corporation through the outright purchase of fifty percent ("50%") or P487.5 Million of its P975.0 million outstanding voting stock and an additional subscription of P262.5 million of the P275.0 million additional voting stock issued. On January 8, 1996, the Bank's name was changed to Chinatrust (Philippines) Commercial Bank Corporation.

In line with the capital build-up program of the Bank, its Board of Directors approved in 1997 the issuance of 25 million common shares at P10.00 per share from its authorized capital stock via a stock rights offering to existing stockholders. This entitled the existing shareholders to subscribe to one (1) common share for every five (5) shares held. As of December 31, 1997, the stock rights offering was fully subscribed; partial payment to the subscription amounted to P209.99 million which resulted in the Bank's attainment of its P1.647 Billion capital, fully complying with minimum capital requirements of BSP of P1.625 billion by the end of the year. On March 31, 1998, all subscriptions to the stock rights were fully paid. On April 23, 1998, the SEC approved the stock rights offering.

On June 2, 1999, the Bank's share was listed in the Philippine Stock Exchange ("PSE") through an Initial Public Offering ("IPO") of 37,500,000 common shares from its unissued authorized capital stock. The proceeds of the IPO were utilized for branch expansion and investment in information technology.

In December 2000, CTBC Ltd. substantially increased its equity in the Bank through the acquisition of shares held by a minority group, thus controlling approximately 91% of the Bank's capital stock, compared to 57% prior to the acquisition. A further acquisition of shares held by the public representing 9% of the Bank's equity was made by CTBC Ltd. in January 2001 through a tender offer at a price of PhP19.00 per share, the same price at which the shares from the minority group was acquired. To date, CTBC Ltd. holds 99.41% of the Bank's outstanding capital stock.

On August 25, 2005, the Board of Directors of the Bank declared 15% stock dividends out of its unissued shares. It was subsequently approved by the shareholders in a special meeting called for the same purpose on December 22, 2005. The BSP later approved the 15% stock dividend on February 20, 2006. On April 4, 2006, 28,124,997 common shares representing the 15% stock dividends were issued to the Bank's shareholders and simultaneously listed with the PSE.

On March 30, 2007, the Bank's Board of Directors once again made another 15% stock dividend declaration, to be paid out of the Bank's unissued shares. The same was ratified by the shareholders during the Bank's annual shareholders' meeting held on June 28, 2007, and subsequently approved by the BSP on September 20, 2007. On November 15, 2007, an additional 32,343,734 common shares representing 15% stock dividends were listed in the PSE and issued to the Bank's stockholders of record as of record date.

On December 23, 2011, the Bank a filed Petition for Voluntary Delisting at the Philippine Stock Exchange ("PSE"). Pursuant to the PSE Voluntary Delisting Rules, a tender offer was conducted by the Bank at a tender offer price of Php26.14. The PSE in its Memorandum No. 2012-0010 dated February 20, 2012 approved the Petition for Voluntary Delisting effective February 24, 2012.

On September 19, 2013, the SEC approved the amendment to Article FIRST of the Bank's Articles of Incorporation amending the Bank's name to CTBC Bank (Philippines) Corp. The Bank started using the new corporate name effective October 30, 2013.

On July 25, 2019, the Bank's shareholders elected the following as members of the Board: Messrs. Jack Lee, William B. Go, Y.G. Chen, C.C. Huang, and Erh-Chang Wei; Messrs. Edwin B. Villanueva, Alexander A. Patricio and Stephen D. Sy were elected as independent directors. Messrs. Jack Lee and William B. Go were elected Chairman and Vice-Chairman, respectively. During the Organizational Meeting of the Board on July 25, 2019, Mr. Peter Wei, voluntarily resigned as director. On the same day, Mr. Oliver Jimeno was elected as member of the Board and appointed OIC-President and CEO. On December 2, 2019, the Board appointed Mr. Oliver D. Jimeno as full-fledged President and CEO.

On the same shareholders' meeting of July 25, 2019, the shareholders approved the amendment to Article Seventh of the Articles of Incorporation increasing the authorized capital stock from 3 Billion Pesos to 4 Billion Pesos and increasing the common stock from 300,000,000 to 400,000,000, in connection with the Bank's Capital Build Up Program to comply with the Bangko Sentral Ng Pilipinas Circular No. 854 Series of 2014 on Minimum Capitalization of Banks. The shareholders also approved the issuance to Parent Bank CTBC Bank Co., Ltd. of the following shares at the share price of Php29.755: the 484,920 Treasury Shares, the remaining 51,031,269 from the unissued common shares, and 48,307,202 common shares from the increase in the authorized capital stock subject to the approval of the Securities and Exchange Commission to said amendment in the Bank's articles of incorporation. The Bank entered into subscription agreements dated September 12, 2019 with CTBC Bank Ltd. for the said shares. The subscriptions were fully paid. The Bank issued the Treasury Shares and the remaining unissued common shares so that the shareholdings of CTBC Bank Ltd. increased from 99.60% to 99.67% of the Bank's outstanding shares. On March 6, 2020, the Securities and Exchange Commission approved the aforestated amendment to Article Seventh of the Articles of Incorporation. The Bank thus issued the 48,307,202 common shares from the increase in its authorized capital stock so that the shareholdings of CTBC Bank Ltd., further increased from 99.67% to 99.72%

Based on the data as of December 31, 2019 posted by Business World, out of the forty six (46) universal and commercial banks operating in the Philippines, the Bank ranked 26th in terms of Total Assets; 21st in terms of Total Loans; 24th in terms of Total Deposits; and 26th in terms of Total Capital.

**(2) Business of Issuer**

***Products and Services.*** As a full-service commercial bank, the Bank offers various products and services, such as the following:

**PESO DEPOSITS**
Savings Account
Checking Account
 Regular
 CheckLite
 Ultimate Earner
Time Deposit

**FOREIGN CURRENCY DEPOSITS**
Dollar Savings Account
Dollar Time Deposit
Third Currency Deposits

**CARD PAYMENTS**
Visa Debit and Cash Card
Co-Branded Cash Cards

**CONSUMER LOANS**
My Family Home Loan
Salary Stretch Personal Loan
 (Public and Corporate)
Small and Medium Enterprise (SME) Loan
Credit Facility Secured by Deposit
Credit Facility Secured by Government
 Security/Bonds

**CREDIT FACILITIES & CORPORATE LOANS**
Short-term Loans
Term Loan Financing
Syndicated Financing
Omnibus Facilities
Discounting Facilities
Domestic Bills Purchase

**CASH MANAGEMENT SERVICES**
Account Information Management
 NetBanking (Retail and Corporate)
 E-Mail Statement
Disbursement Management
 Payroll
 Ultimate CheckWriter
 Customs Duties
 BIR eFPS
 BancNet eGov
 MC Bulk Preparation
Receivables Management
 Post-Dated Check Warehousing
 Ultimate Money Mover (Deposit Pick-up)

**TREASURY SERVICES**
Foreign Exchange
 Spot, Forward, Swap & Options
Peso Fixed Income
 Treasury Bills
 Fixed Rate Treasury Notes
 Retail Treasury Bonds
 Global Peso Notes
 Peso Corporate Bonds
 Peso Short Term Commercial Papers

Dollar Fixed Income
 ROP Bonds
 ROP Onshore Dollar Bonds
 Other Sovereign Bonds
 Dollar Philippine Corporate Bonds

**TRUST AND INVESTMENT SERVICES**
CTBC Bank Peso Unit Investment Trust Fund
 Money Market Fund
 Balanced Feeder Fund
 Stock Index Feeder Fund
Employee Benefit Plan Management
Investment Management Account
Personal Management Trust
Escrow Agency
Mortgage Trust Indenture

**REMITTANCE SERVICES**
Inward Remittances
Outward Remittances

**TRADE SERVICES**
Letters of Credit
 Import Letters of Credit
 Domestic Letters of Credit
 Standby Letters of Credit
Shipping Guarantee
Import Bills Negotiation
Loans Against Trust Receipts
Documentary Collections – Import and
 Domestic
 Document Against Payment (D/P)
 Document Against Acceptance (D/A)
 Open Account (O/A)
 Direct Remittance (D/R)
 Advance Import Payments (AIP)
Export LC Advising

BancNet Bills Payment
Bills Payment (Merchant Biller)
Merchant Acquiring
BancNet Point-of-Sale (POS)

Export Bills Negotiation (LC and Non-LC)

From the foregoing products and services, the Bank's revenues are categorized into three (3) major segments, namely: (1) Portfolio Products; (2) Transactional Banking Products; and (3) Exposure Management Products. The remaining revenues are classified under Others. Portfolio Product revenues consist of spreads earned on loans. Transactional Banking Product revenues consist of spreads earned on deposits as well as fees earned from cash management products and trade services. Exposure Management Product revenues consist of income earned from the investment portfolio and trading activities. Other revenues consist of fees earned on trust services, gain on sales of acquired assets, service fees and charges earned on all other banking activities. The contributions of the 3 major segments in terms of percentage to the Bank's total revenues during the last two years are as follows:

| ***Major Segment*** | ***2018*** | ***2019*** |
|---|---|---|
| **Portfolio Products** | ***58.25%*** | ***49.02%*** |
| **Transactional Banking Products** | ***22.44%*** | ***25.02%*** |
| **Exposure Management Products** | ***11.28%*** | ***14.03%*** |

***Status of New Products or Services.*** The Bank launched Wealth Management in May 2016, which offers a suite of products apt for the affluent market.

***Distribution Network.*** The Bank's products and services are made available to its clients through its offices, branch network, all automatic teller machines (ATMs), and for some services/products, thru its 39 ATMs and other ATM networks. Likewise, some products can now be accessed through internet and mobile banking channels and other electronic channels i.e. interactive voice response system, internet and short message system (SMS). In addition to its Main Office Branch in Bonifacio Global City, the Bank operates 24 branches as of end of December 2019.

***Competition.*** The Bank faces competition from both domestic and foreign banks that operate in the Philippines. In the light of such competitive environment, the Bank focuses on key businesses to include consumer finance, the trading of fixed-income instruments and foreign exchange, the Taiwanese business, and selective corporate lending. By being a specialist, it is able to properly concentrate its resources and capital to ensure service excellence and good risk management and corporate governance. The Bank likewise adopts applicable business models from its parent bank and custom fits these to local market conditions. These efforts make the Bank a strong player in its chosen businesses.

***Sources and availability of raw materials and the names of principal supplier. -*** **Not applicable.**

***Dependence upon a single/few customers.*** **– Not applicable.**

***Transactions with and/or dependence on related parties.*** Except in the ordinary course of business such as DOSRI transactions and employee loans, there are no transactions with and/or dependence on related parties.

***Trademarks, Licenses, Franchises., etc.*** The Bank is the owner of the marks "CTBC" and "We Are Family". The mark "Salary Stretch" is pending registration at the Intellectual Property Office. As to other licenses, the Bank is a registered Government Securities Eligible Dealer (GSED) with Broker Dealer of Securities Functions.

***Effect of existing or probable government regulations****.* As a domestic commercial bank, the Bank is governed by the rules and regulations of the BSP. The Bank observes and complies with all government laws, rules and regulations that exist.

***Amount spent on research and development*****.** There are no major expenses on research and development activities and these are just incorporated into the ordinary business expense of the Bank.

***Cost and effect of compliance with environmental laws. -*** **Not applicable.**

***Number of Employees.*** As of March 31, 2020, the Bank had seven hundred (700) employees composed of 400 officers and 300 staff, with 663 regular employees and 37 probationary employees. The Bank has no existing employees' union. It has also no collective bargaining agreement.

In addition to salary, the Bank gives its employees fringe benefits, consisting of 13th month pay, mid-year bonus, Christmas bonus, profit sharing/performance bonus, medical allowance, health benefits, group life insurance, car plan, company car benefit, parking allowance, meal allowance, out-of-base allowance, salary loans, retirement pay loan, retirement benefits, and various leaves (sick, vacation, emergency, maternity, paternity, solo parent, etc.).

***Major Business Risks.*** The Bank's business activities are exposed to a variety of financial risks – market risks, credit risk, liquidity risk and interest rate risk. The Bank is strongly committed to judiciously managing risks. For this purpose, it has put in place the necessary processes and platforms that enable it to prudently manage all categories of risk. It is the presence of this risk infrastructure and consciousness that has made the Bank either a leader or a major player in businesses where the required core competency is astute risk management capability. The Bank's risk management programs seek to minimize potential adverse effects on its financial performance.

***Market risk*** is the risk that the value of a currency position or financial instrument will fluctuate due to changes in foreign exchange rates and interest rates. The Bank's market risk originates from its holdings in its foreign exchange instruments, debt securities and derivatives. The Bank utilizes market risk factor sensitivities as a tool to manage market risk. Market risk factor sensitivities of a position are defined as a change in the value of a position caused by a unit shift in a given market factor. The Market Risk Management Unit implements a trading risk limits that is in line with the Bank's risk appetite. The Bank also maintains a rigid system of loss limits and action triggers that prompt management to immediately act in the event that these thresholds are breached. These actions may include, but are not limited to, the partial liquidation of existing positions in order to cut losses. The objective of these thresholds is to ensure that losses, if any, will be limited to what the Bank's earning capability can sufficiently cover.

***Credit risk*** is the risk that a borrower /obligor, guarantor, debtor or counterparty, or issuer of a security held by the Bank will not pay the obligation when it falls due. The

Bank manages its credit risk by setting limits for individual borrowers and group of borrowers. It also places a cap on exposures to top borrowers, specific products, identified market segments, selected industries and loan tenors. The Bank likewise monitors borrower-specific credit exposures, and continually assesses the creditworthiness of counterparties. In addition, the Bank obtains security where appropriate, enters into collateral arrangements with counterparties and limits the duration of the exposures.

***Liquidity risk*** is the risk that the Bank will be unable to meet its obligations as they fall due at a reasonable cost within a reasonable timeframe. To effectively manage liquidity risk, the Bank diversifies its funding sources and maintains a set of prudent liquidity risk limits, liquidity indicators, maturity gap analysis, and maximum cumulated outflows per tenor bucket. In addition, the Bank maintains sufficient cash and marketable securities, ensuring the availability of funding through an adequate amount of committed credit facilities and having the ability to close out market positions.

***Interest rate risk in banking book*** is the risk to future earnings or equity arising from the movement of interest rates. The Bank is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. The Bank measures the impact of 1 basis point change in interest rate on net interest income (NII) and that on economic value of equity (EVE). The analysis of such impact on NII (1bp△NII) focuses on changes in interest income and expense within a year, hence, a short-term perspective. The analysis of such impact on EVE (1bp△EVE) is of a long-term perspective as it focuses on changes of economic value which will become net interest income received every year later on. Accordingly, both delta Net Interest Income and delta Economic Value of Equity limits in relation to the interest rate sensitivity of the banking book have been established by Management.

In addition to financial risks, the Bank is also exposed to operations risks. Operational risk is defined as the risk of loss arising from direct or indirect loss from inadequate or failed internal processes, people and systems, or from external events. The Direct Loss results primarily from an operational failure while the Indirect Loss relates to the impact of operational risk on other risks such as Market, Credit or Liquidity Risk. The Bank ensures that specific business policies, processes, procedures and staff are in place to manage overall operational risks by way of identifying, assessing, controlling, mitigating, monitoring and reporting risk events. The Bank manages other types of risks such as regulatory and reputational risk.

# ANNEX "B"

## MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

***1. Market Information***

As stated earlier, the PSE in its Memorandum No. 2012-0010 dated February 20, 2012 approved the Petition for Voluntary Delisting effective February 24, 2012. Market prices of the Bank's shares since 1st quarter of 2010 to 1st quarter of 2012 are as follows:

| QUARTER | HIGH | LOW |
|---|---|---|
| 1Q '12 | 25.50 | 20.00 |
| 4Q'11 | 28.00 | 19.00 |
| 3Q'11 | 21.00 | 20.00 |
| 2Q '11 | 22.00 | 21.00 |
| 1Q '11 | 21.00 | 21.00 |
| 4Q'10 | 23.50 | 21.00 |
| 3Q'10 | 22.00 | 20.00 |
| 2Q '10 | 22.00 | 15.25 |
| 1Q '10 | 25.00 | 24.00 |

As of February 20, 2012, which is the last trading date prior the effective date of delisting at the PSE, the information showed a closing price of P20.00.

There was no sale of any securities made by the Bank within the last three (3) years.

***2. Holders***

The number of shareholders of record as of April 30, 2020 is 112.

Common Shares outstanding as of April 30, 2020 are 348,307,202.

The Top 20 Stockholders of record as of April 30, 2020 are as follows:

| Name | Number of Shares Held | % to Total |
|---|---|---|
| CTBC Bank Co., Ltd. | 347,319,203 | 99.72 |
| Ma. Asuncion M. Ortoll | 241,551 | 00.07 |
| Alfonso Lao | 185,150 | 00.05 |
| Arlene Ravalo Ulanday &/Or Bethel Ann Ravalo &/Or Eliodoro Ravalo | 75,000 | 00.02 |
| Chen Li Mei | 65,992 | 00.02 |
| Bettina V. Chu | 31,078 | 00.01 |
| Carlos M. Ortoll | 26,838 | 00.01 |
| Ma. Beatriz Ortoll-Manahan | 26,838 | 00.01 |
| Ma. Elena Ortoll-Mijares | 26,838 | 00.01 |
| Jose Antonio M. Ortoll | 26,838 | 00.01 |
| Ma. Marta M. Ortoll | 26,838 | 00.01 |
| Martin M. Ortoll | 26,838 | 00.01 |
| Ma. Teresa Ortoll-Garcia | 26,838 | 00.01 |

| | | |
|---|---|---|
| Regan C. Sy | 26,450 | 00.01 |
| PCD Nominee Corporation (Filipino) | 13,795 | 00.00 |
| Bernardito U. Chu | 13,225 | 00.00 |
| Ching L. Tan | 13,225 | 00.00 |
| Guat Tioc Chung | 13,225 | 00.00 |
| Razul Z. Requesto | 13,225 | 00.00 |
| Oliverio Guison Laperal | 13,225 | 00.00 |

### *3. Dividends*

The Bank declared 15% stock dividends last August 25, 2005, which was subsequently approved by its shareholders on December 22, 2005. The BSP later approved the 15% stock dividend on February 20, 2006. On April 4, 2006, 28,124,997 common shares representing the 15% stock dividends were paid to the Bank's shareholders and simultaneously listed with the PSE.

On March 30, 2007, the Bank's Board of Directors once again made another 15% stock dividend declaration, to be paid out of the Bank's unissued shares. The same was ratified by the shareholders during the Bank's annual shareholders' meeting held on June 28, 2007, and subsequently approved by the BSP on September 20, 2007. On November 15, 2007, an additional 32,343,734 common shares representing 15% stock dividends were listed in the PSE and issued to the Bank's stockholders of record as of record date.

Any dividend declaration to be made by the Bank is subject to approval by the BSP and SEC. At the regular meeting of the BOD held on June 23, 2015, the BOD approved the amendments on the restriction of the retained earnings for the following purposes: i) to comply with the minimum capital requirements set by the Bangko Sentral ng Pilipinas (BSP) pursuant to Circular No. 854; ii) to comply with the requirements of the Internal Capital Adequacy Assessment Process (ICAAP) pursuant to BSP Circular No. 639; iii) to cover the resulting treasury shares acquired in relation to the Bank's delisting and tender offer exercise; and iv) to provide for buffer to comply with BASEL III requirements.

# ANNEX “C”

## DISCUSSION ON COMPLIANCE WITH LEADING PRACTICE ON CORPORATE GOVERNANCE

The Bank has a Manual of Corporate Governance which is regularly updated to align with the world’s best and leading practices on corporate governance and comply with latest relevant regulatory issuances.

Conformably with existing rules and regulations, its Articles of Incorporation and By-Laws, the Bank’s Manual on Corporate Governance has Board level committees organized to assist it in governance matters**.** These are the following: (1) Executive Committee; (2) Nomination, Remuneration and Governance Committee; (3) Audit Committee; (4) Risk Management Committee; and (5) Trust Committee.

- The Executive Committee is headed by Jack Lee as Chairman, with William B. Go, Oliver D. Jimeno and Huang Chih-Chung as Members. It is authorized to act on behalf of the full Board as to urgent matters that arise between its regular meetings. The committee shall have the power to direct and transact all business and affairs of the Bank which otherwise may come to the Board except as limited by the Bank’s Articles of Incorporation or By-Laws or by applicable law or regulation on decisions on any matter related to mergers and acquisitions of the Bank, to issuance of debts instruments and of share capital of the Bank. It is also authorized to act immediately in order to protect the Bank or its important interests from loss or damage and these acts and decisions shall be reported and ratified at the next board meeting.

- The Nomination, Remuneration and Governance Committee is headed by Independent Director Stephen D. Sy as Chairman, with Jack Lee, William B. Go, Edwin B. Villanueva, and Alexander Patricio as Members. The NRGC which also functions as the Bank’s “Committee on Corporate Governance” and “Compensation and Remuneration Committee” is responsible for ascertaining that the Board seats, including those of Independent Directors, as well as other positions that necessitate Board appointment, are filled by individuals who meet the required qualifications as set forth in the by-laws of the Bank. It oversees the periodic performance evaluation of the Board, its Committees, and the Bank’s Executive Management, as well as conducts an annual self-evaluation of its performance. In its assessment of a director’s performance, it considers competence, candor, attendance, preparedness, and participation in meetings. It monitors not only the Board’s performance, effectiveness, and observance of corporate governance principles, but also those of the various other committees and the Executive Management of the Bank. Further, it adopts guidelines for directors serving on multiple boards and makes recommendations to the Board on the continuing education of directors, their assignment to Board committees, succession, and remuneration. It also approves the hiring and promotion of the Bank’s Group Heads. Likewise, it is also involved in Human Resources matters such as the review and revision of the Performance Management System, Management Succession Plan, Organizational Structure, Headcount Management, Compensation and Benefits Policy, Merit Increase, and Performance Bonus distribution.

- The Audit Committee is headed by Independent Director Edwin B. Villanueva as Chairman, with Alexander A. Patricio and Stephen D. Sy as Members. The members of the Audit Committee must possess accounting, auditing, or related financial management expertise and experience. Tasked primarily with assisting the Board in fulfilling its oversight responsibilities, the Audit Committee reviews the Bank's financial information, its systems of internal controls and risk management, the audit process, and compliance with significant applicable legal, ethical, and regulatory requirements. It monitors the Bank's compliance with approved internal policies and controls, as well as statutory regulations, emphasizing an accounting system that is compliant with International Accounting Standards. The Committee facilitates free and open communication among Management, Compliance, Risk Management, Internal Audit, the external auditors, BSP examiners, and the Committee. It enjoys sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit recommendations. It is also empowered, among others, to endorse to the shareholders the appointment of the Bank's external auditors and oversee external audit engagements; review and comment on internal and external audit reports; and resolve financial reporting disputes between management and the auditor. –

- The Risk Management Committee is headed by Alexander Patricio as Chairman, with Huang Chih-Chung, Edwin B. Villanueva, Y.G. Chen, and Stephen Sy, as Members. Responsible for the development and oversight of the Bank's Risk Management Program, the Risk Management Committee oversees the system of limits to discretionary authority that the Board delegates to management. It is tasked to ensure that the system remains effective, that the limits are observed, and that immediate corrective actions are taken whenever limits are breached. To achieve this, the Committee takes on the critical role of identifying and evaluating the Bank's risk exposures, ensuring that the appropriate risk management strategies and plans are in place and ready to be executed as necessary, and evaluating the risk management plan to ensure its continued relevance, comprehensiveness, and effectiveness. Hand in hand with the Chief Risk Officer which functions under the auspices of the Committee, it performs oversight functions in managing credit, market, liquidity, and operational risks.

- The Trust Committee is headed by Jack Lee as Chairman, with William B. Go, Oliver D. Jimeno, Huang Chih-Chung and the Trust Officer as Members. It reviews and approves the quality and movement of the Bank's trust assets, including the opening and closing of trust, investment management and other fiduciary accounts; the initial review of assets placed under management or safekeeping; the investments, reinvestment and disposition of funds or property; the review and approval of transactions between trust, investment management and/or fiduciary accounts, and of acceptable fixed income, equity and other investment outlets. Further, it reviews trust, investment management and other fiduciary accounts at least once yearly to determine the advisability of retaining or disposing of the trust, investment management or fiduciary assets, and/or whether the account is being managed in accordance with the instrument creating the trust, investment management or other fiduciary relationship. It reports to the Board any changes in regulations, market conditions, and other factors that may affect the trust business.

The Bank is generally in compliance with leading practices on good corporate governance. Taking into account global best practices, the Bank constantly updates its tools for monitoring the performance of the Board and individual Board members, and the process by which it determines whether a director conducts fair business transactions, devotes necessary time and attention to discharge his duties, acts judiciously, exercises independent judgment, has working legal knowledge affecting the Bank, observes confidentiality and ensures soundness, effectiveness and adequacy of the Bank's risk management system and control environment.

The Bank has no knowledge of any instance of non-compliance with its Manual of Corporate Governance by the Board of Directors or its members, nor by the Bank's officers or employees.

The Bank is committed to ensuring that the corporate governance framework supports the equitable treatment of all shareholders, including minority shareholders. All shareholders are entitled to have the opportunity to obtain effective redress for any violation of their rights.

# ANNEX "D"

## MANAGEMENT DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

### FY 2019 Compared to FY 2018

Total Bank's assets grew by Php1.29 billion as of year end as compared to Php54.37 billion last December 2018. The growth in bank's resources is mainly from Financial Assets at Fair Value through Other Comprehensive Income (FVOCI) which increased by Php4.02 billion or 167% year on year. Loans and Receivables – net is also up by Php1.79 billion, from Php35.20 billion to Php36.99 billion this 2019. On the other hand, Interbank Loans Receivables decreased by Php4.62 billion or 75% compared last year. Bills Payable dropped by Php3.14 billion to Php4.77 billion due to partial settlement of the peso long term borrowing. Meanwhile, other liabilities grew by P1.07 billion as a portion of the capital injected by CTBC Bank co. Ltd. was still lodged under Deposit for Stock subscription classified as liability as of December 31, 2019. Please refer to Note 18 of the Audited Financial Statements for the detailed discussion.

For the year ending December 31, 2019, the Bank's audited net income improved to Php331 million from Php237 million in 2018. Total revenue increased by 19.7% owing to the significant growth in Interest Income from Loans Receivables which jumped by 23.2% to Php2.83 billion. Furthermore, trading gains increased by Php165 million from Php14 million to Php179 million. In addition, provision for income taxes decreased to Php30 million vs. Php180 million in 2018. The decrease in 2019 income tax is due to the recognition of deferred tax asset on expense accrual. This performance translated to a 3.9% return on equity (ROE) and 0.6% return on assets (ROA).

On the other hand, net income before tax dropped to Php360 million from last year's Php418 million. The lower pretax income was mainly attributed to the increase in provision for impairment and credit losses which moved up by 137% to Php509 million from Php214 million.

Non-performing loans (NPL) ratio as of December 31, 2019 increased to 2.0% from 1.36% in December 2018. The NPL coverage decreased to 92% from 110% as of end of last year. The Bank's capital adequacy ratio stood at 19.07% as of year-end.

### FY 2018 Compared to FY 2017

Total resources of the Bank expanded by 35% to Php54.37 billion this year as compared to Php40.33 billion level of previous year. These were mainly attributed to growth in Loans and receivables – net, which increased by 28% to Php35.20 billion from Php27.50 billion in December 2017 level, as corporate loan portfolio posted a robust growth. Meanwhile, Deposit Liabilities registered an increase of 36% to Php36.36 billion from Php26.70 billion in 2017.

For the year ending December 31, 2018, CTBC audited net income softened to Php237 million from Php288 million in 2017. This bottom-line figure is lower than 2017 net income mainly on account of increase in provision for income taxes at Php180 million vs. Php111 million in 2017. The increase in 2018 income tax is due to the decrease in deductible expenses attributed to RBU operations. This performance translated to a 3.2% return on equity (ROE) and 0.5% return on assets (ROA).

On the other hand, net income before tax inched up to Php418 million from last year's Php399 million. The higher pretax income was mainly attributed to the increase in net interest income which moved up by 8.7% to Php1.96 billion from Php1.81 billion. The improvement in net interest income was spurred by a 25% increase in average loan balances, which grew by Php6.3 billion. The Bank set aside Php214 million as provisions for impairment and credit losses for the year, this is Php14 million higher than last year's Php200 million provisions.

Non-performing loans (NPL) ratio as of December 31, 2018 increased to 1.36% from 0.72% in December 2017. The NPL coverage, on the other hand, improved to 110% from 95% as of end of last year. The Bank's capital adequacy ratio stood at 16.3% as of year-end.

**FY 2017 Compared to FY 2016**

For the year ending December 31, 2017, CTBC audited net income grew by 35% to P288 million from P213 million in 2016. The higher net income was mainly attributed to the increase in revenues which moved up by 5% to P2.35B from P2.25B.This performance translated to a 4.0% return on equity (ROE) and 0.8% return on assets (ROA).

Net interest income rose by 11.6%, from PhP1.618 billion to PhP1.806 billion. The improvement in net interest income was spurred by a 18% increase in average loan balances, which grew by Php3.78 billion.

The Bank set aside Php200 million as provisions for impairment and credit losses for the year, this is Php34M lower than last year's Php234 million provisions.

Total resources of the Bank grew by 12% to P40.33 billion this year as compared with 2016 year-end level of Php36.06 billion. Net loans and receivables increased by 22%, or P5.01 billion, owing to the steady growth on corporate loans. Total liabilities increased by 14% to P32.99 billion mainly on account of higher bills payable at the end of the period.

Asset quality showed better ratios in 2017. Non-performing loans (NPL) ratio as of December 31, 2017 slightly increased to 0.72% from 0.70% in December 2016 while

NPL coverage is at 95% from 98% as of end of last year. Further, the Bank once again manifested its financial strength with a high capital adequacy ratio, which stood at 19.4% for 2017. This ratio is considerably above industry as well as the regulatory requirement of 10%.

**Comparison of Interim Periods**

For the first nine months of 2019, the Bank registered a net income after tax of Php241 million, while for the last quarter of 2019, the net income after tax was Php90 million. The last quarter income represents 27% of the Bank full year income. Meanwhile, for the year 2018, the fourth quarter income of Php57 million represents 24% of the Bank's full year income. Thus, the Bank did not note any material changes on the seasonality of income flow.

**Key Financial Indicators**

The following ratios are used to assess the performance of the Bank presented on a comparable basis:

| | December 31, 2019 | December 31, 2018 | December 31, 2017 |
|---|---|---|---|
| Return on Average Equity (ROE) | 3.9% | 3.2% | 4.0% |
| Return on Average Assets (ROA) | 0.6% | 0.5% | 0.8% |
| Cost-to-Income Ratio | 70.4% | 74.2% | 74.5% |

| | December 31, 2019 | December 31, 2018 | December 31, 2017 |
|---|---|---|---|
| Non-Performing Loan Ratio (NPL) | 2.0% | 1.36% | 0.72% |
| Non Performing Loan Cover | 92% | 110% | 95% |
| Capital Adequacy Ratio | 19.07% | 16.3% | 19.4% |

The manner by which the Bank calculates the above indicators is as follows:

- Return on Average Equity ---- Net Income divided by average total capital funds for the period indicated
- Return on Average Assets ---- Net Income divided by average total resources for the period indicated
- Cost to income ratio --- Total Operating expenses divided by the sum of net interest income plus other income
- Non-Performing Loan Ratio --- Total non-performing loans divided by gross loan portfolio
- Non-Performing Loan Cover --- Total allowance for probable loan losses divided by total non-performing loans
- Capital Adequacy Ratio --- Total capital divided by risk-weighted assets

## SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
## DECEMBER 31, 2019

*Liquidity Ratios*
The ratios for the years 2019 and 2018 are as follows:

| *In thousands* | **2019** | 2018 |
|---|---|---|
| Current assets | **P30,857,533** | P31,950,789 |
| Current liabilities | **41,038,988** | 42,351,497 |
| Ratio of current assets to current liabilities | **75.2%** | 75.4% |
| Net liquid assets[1] | **P14,527,691** | P11,435,446,831 |
| Total deposits | **37,685,525** | 36,361,391 |
| Ratio of net liquid assets to total deposits | **38.5%** | 31.4% |

*Solvency Ratio*
The ratio for the years 2019 and 2018 is as follows:

| *In thousands* | **2019** | 2018 |
|---|---|---|
| Total liabilities | **P46,284,344** | P47,010,912 |
| Total equity | **9,382,437** | 7,363,985 |
| Ratio of debt to equity | **493.3%** | 638.4% |

*Assets to Equity Ratio*
The ratio for the years 2019 and 2018 is as follows:

| *In thousands* | **2019** | 2018 |
|---|---|---|
| Total assets | **P55,666,781** | P54,374,897 |
| Total equity | **9,382,437** | 7,363,985 |
| Ratio of total assets to equity | **593.3%** | 738.4% |

*Interest Rate Coverage Ratio*
The ratio for the years 2019 and 2018 is as follows:

| *In thousands* | **2019** | 2018 |
|---|---|---|
| Income before interest and taxes | **P1,325,723** | P1,032,771 |
| Interest expense | **965,512** | 615,258 |
| Interest coverage ratio | **137.3%** | 167.9% |

*Profitability Ratios*
The ratios for the years 2019 and 2018 are as follows:

| *In thousands* | **2019** | 2018 |
|---|---|---|
| Net income | **P330,683** | P237,355 |
| Average total equity[2] | **8,373,211** | 7,352,087 |
| Return on average equity | **3.9%** | 3.2% |
| Net income | **P330,683** | P237,355 |
| Average total assets[2] | **55,020,839** | 47,350,585 |
| Return on average assets | **0.6%** | 0.5% |
| Net interest income | **P2,278,589** | P1,963,249 |
| Average interest earning assets[2] | **49,915,579** | 42,276,464 |
| Net interest margin on average earning assets | **4.6%** | 4.6% |

[1/] Net liquid assets consist of cash, due from BSP, due from other banks, interbank loans, securities held for trade and available for sale less derivatives liabilities and interbank borrowings.
[2/] Average balances were determined as the average of the current and previous calendar balances of the respective statements of financial position accounts.

**Additional Management Discussion and Analysis (for those with variances of more than 5% December 31, 2017 vs. December 31, 2016)**

**Balance Sheet –**

Cash and other cash items increased by 6% from P428M to P452M this year.

Due from Bangko Sentral ng Pilipinas went down by 43% from P6.08 billion to P3.49 billion. Likewise, Due from other banks decreased by 59% from P2.13 billion to Php879 million. Also, Interbank loans receivable rose from P2.16 billion to P4.62 billion in December 2017 mainly due to increase in local currency lending this year as compared last year.

Financial assets at FVPL decreased to P416.13 million from P567.09 million due to decrease in the volume of peso held-for-trading (HFT) – treasury notes. Meanwhile, Available for Sale securities rose to P1.07 billion from P963.7 million and Held to Maturity (HTM) investments went up by P579.88 million mainly attributable to higher volume of foreign currency denominated HTM securities by P366.67 million.

Loans and receivables (net) went up by 22% from P22.5 billion to P27.5 billion on account of additional corporate loans booked during the period.

Property, Plant, & Equipment (net) increased by 7% from P144.22.million to P154.98 million mainly due to newly purchased assets this year. Likewise, Investment Properties rose to P109.78 million from P93.73 million on account of various foreclosures during the year. Also, Deferred Income Tax (DIT) increased by 29% from P106.18 million to P136.62 million.

Bills payable increased by P4.28 billion on account of additional borrowings this year. Likewise, Derivative liabilities went up by P30.55 million from P32.59 million last year as a result of the movements in the fair value of derivative products. Also, Outstanding Acceptances rose by P253.85 million due to the higher volume of foreign currency acceptances. Conversely, the Managers' check went down by P16.9 million from P52.2 million last year

Accrued Interest, Taxes and Other Expenses rose by 19% from P359.7 million to P427.8 million due to higher interest payable on borrowings at period-end. Accrued Income Tax Payable increased by Php18.6 million this year, while Other Liabilities went down by 21% mainly due to lower accounts payable, miscellaneous liabilities, and withholding taxes payable.

**Income Statement (variance analysis for December 31, 2017 vs. December 31, 2016)**

Interest income on loans and receivables went up by 12% from P1.67 billion to P1.87 billion this year. Also, Interest income on trading and investment securities increased by P43.98 million to P93.08 million this period. Likewise, interest income from deposits with other banks rose by P18.83 million from P17.92 last year. Furthermore, interest income on interbank loans went up by 16.75% due to the increase in average volume of both peso and foreign currency interbank loans receivable.

Interest expenses on deposit liabilities rose by 44.44% owing to the higher average volume of both peso and foreign currency deposits. Similarly, interest expense on bills payable went up by P15.6 million from P7.87 million due to higher average volume of foreign currency borrowings during the period.

Service charges, handling fees and commission income increased by 5.48% mainly due to higher ATM related transaction fees this year. Also, Miscellaneous income rose by P34.3 million from P104.6 million registered last year. While total trading gains and foreign exchange gains went down by P132.6 million, 45.2% lower than the same period last year.

Provision for impairment and credit losses totaled Php200 million as of December 31, 2017, or a 14.0% decrease from the Php234 million provision last year.

Various operating expense lines registered relative increases as compared to the same period last year. Occupancy and other equipment-related costs went up by 10% from P197.5 million to P217.3 million. Taxes and licenses rose by P18.3 million to P176.3 million last year. Depreciation and amortization increased by 25.93% to P58.8 million on account of various assets' purchased during the period. On the other hand, Amortization of software licenses dropped by 7.9% from P36.2 million to P33.4 million.

Provision for income taxes went down by P10.2 million from Php121.1 million to P110.8 million.

**Additional Management Discussion and Analysis (for those with variances of more than 5% December 31, 2018 vs. December 31, 2017)**

**Balance Sheet –**

Total resources of the Bank grew by 35% or P14 billion year on year. The growth was spread across various financial assets.

Cash and other cash items increased by 12% from P452M to P505M this year.

Due from Bangko Sentral ng Pilipinas went up by 43% from P3.5 billion to P5.0 billion. Likewise, Due from other banks increased by 44% from P879 million to Php1.3 billion. Also, Interbank loans receivable rose from P4.6 billion to P6.1 billion in December 2018 mainly due to increase in local currency lending this year as compared last year.

Financial assets at Fair Value through Profit or Loss (FVPL) dropped to P127.4 million from P416.1 million due to decrease in the volume of peso – government securities. Meanwhile, Financial Assets at Fair Value through Other comprehensive Income (FVOCI) rose to P2.4 billion from P1.0 billion and Investment Securities at Amortized Cost (AC) increased to P2.8 billion from P1.1 billion mainly attributable to higher volume of foreign currency denominated securities.

Loans and receivables (net) went up by 28% from P27.5 billion to P35.2 billion on account of additional corporate loans booked during the period.

Property, Plant, & Equipment (net) decreased by 26% from P154.98 million to P113.97 million mainly due to depreciation of computer equipments. On the other hand, Investment Properties rose to P172.2 million from P109.8 million on account of various foreclosures during the year. Also, Deferred Income Tax (DIT) increased by 47% from P136.6 million to P201.0 million.

Deposit liabilities increased by 36% from P26.7 billion to P36.4 billion mainly attributable to the increase in time deposits. Bills payable also increased by P3.6 billion due to the borrowings made toward the end of the year, while Derivative liabilities went down by P37.7 million from P63.1 million last year as a result of the movements in the fair value of derivative products. Manager's Check increased by 128% from P35.2 million to P80.3 million this year. On the contrary, Outstanding Acceptances decreased by P70 million due to the lower volume of foreign currency acceptances.

Accrued Income Tax Payable increased by Php6.4 million this year, together with Other Liabilities which also went up by 65% mainly due to higher accounts payable remittance.

**Income Statement (variance analysis for December 31, 2018 vs. December 31, 2017)**

The significant increase in average volume across different financial assets resulted to higher interest income this year.

Interest income on loans and receivables went up by 22% from P1. 87 billion to P2.29 billion this year. Also, Interest income on trading and investment securities increased by P67.6 million to P160.6 million this period. Likewise, interest income on interbank loans went up by 118.76% from P41.1 million to P89.8 million due to the increase in average volume of both peso and foreign currency interbank loans receivable. Conversely, interest income from deposits with other banks decreased by 7.14% this year.

Interest expenses on deposit liabilities rose by 141% owing to the higher average volume of both peso and foreign currency deposits. Similarly, interest expense on bills payable went up by P73.8 million from P23.4 million due to higher average volume of foreign currency borrowings during the period.

Service charges, handling fees and commission income increased by 5% mainly due to higher Bank Commission this year. Trading gains went up to P14.1 million from P11.4 million, while Foreign Exchange – gain dropped by P62.2 million, 41.7% lower than last year. Also, Miscellaneous Income decreased from P138.9 million to P128.0 million this year.

Provision for impairment and credit losses totaled Php214.4 million as of December 31, 2018, or a 7% increase from the Php200.4 million provision last year.

Various operating expense lines registered relative increases as compared to the same period last year. Taxes and licenses rose by P27.2 million to P203.5 million last year. Similarly, Miscellaneous Expense increased by 15.8% to P247.5 million mainly due to higher Business Insurance Fees and Management and other Professional fees. On the other hand, Security, Messengerial and Janitorial expenses decreased by 6.2% from P161.3 million to P151.2 million.

Provision for income taxes went up by P69.3 million from Php110.8 million to P180.2 million.

**Additional Management Discussion and Analysis (for those with variances of more than 5% December 31, 2019 vs. December 31, 2018)**
**Balance Sheet –**

Cash and other cash items increased by 44% from Php505M to Php725M this year due to higher foreign currency notes and coins. Due from BSP went down by 14% from Php5.0 billion to P4.3 billion. Likewise, Interbank Loans Receivable dropped by 75% from Php6.1 billion to Php1.5 billion, the decrease is attributable to local interbank loans. Also, Financial Assets at Fair Value through Profit or Loss (FVTPL) decreased from Php127 million to Php81 million in December 2019 as compared last year.

Due from other banks increased to Php1.6 billion from Php1.3 billion. Financial Assets at Fair Value through Other comprehensive Income (FVOCI) rose to Php6.4 billion from Php2.4 billion and Loans and Receivables-net also increased to Php37.0 billion from Php35.2 billion. Moreover, Property and equipment-net is up by 89% or Php101 million due to capitalization of leases starting January 1, 2019 under PFRS 16. Deferred income tax also increased by Php173 million to Php374 million at year end.

Financial Liabilities at Fair Value through Profit or Loss (FVTPL) increased by 290% from Php25.5 million to Php99.2 million. Accrued Interest, Taxes and Other Expenses also increased by Php94.4 million, mainly coming from Retirement Liability amounting to Php59.3 million this year. Other liabilities grew by Php1.09 billion from the Deposit for Stock subscription.

Bills Payable dropped to Php4.8 billion from Php7.9 billion due to partial settlement of the peso long term borrowing. Outstanding acceptances went down by Php139.8 million from Php194.5 million. Moreover, Manager's checks and Income Tax payable also decreased by Php6.3 million and Php5.2 million, respectively.

Common Stock and Additional Paid-In Capital ended at Php3.0 billion and Php1.1 billion, respectively as at December 31, 2019. Additional capital was injected by CTBC Ltd. to meet the required capital level based under BSP Circular No. 854. Total Treasury Stocks amounting to P16.0 million were re-issued as of year-end. Cumulative Translation Adjustment is now at negative Php8.2 million from positive P8.8 million last year-end. Moreover, Net Unrealized Loss on Retirement Obligation increased by Php52.1 million, from Php14.4 million loss to Php66.4 million loss. On the other hand, Net Unrealized Gain on Available-for-Sale Investments improved by Php202.3 million, from Php94 million loss to Php108.2 million gain as at December 2019.

**Income Statement (variance analysis for December 31, 2019 vs. December 31, 2018)**

Interest income on loans and receivables went up by 23% from Php2.29 billion to Php2.83 billion this year attributable to loan average volume increase of Php3.72 billion. Also, Interest income on trading and investment securities increased by Php125.6 million to Php286.3 million this period. Moreover, interest income from deposits with other banks increased by 19% this year or Php6.4 million.

Interest expenses on deposit liabilities rose by 35% or Php183.8 million owing to the higher average volume of peso deposits. Similarly, interest expense on bills payable went up by Php157.8 million from P97.2 million due to higher average volume of borrowings during the period. Interest expense relating to lease liabilities amounted to Php8.6 million were recorded this year due to the implementation of PFRS 16.

Service charges, handling fees and commission income decreased by 12% mainly due to lower bank commissions this year. Trading gains recorded a substantial increase of 1176%, from Php14.1 million to Php179.4 million. Also, Foreign exchange gain - net increased by Php38.2 million to Php125.1 million this year.

Provision for impairment and credit losses totaled to Php508.9 million as of December 31, 2019, or a 137% increase from the Php214.4 million provision last year.

Various operating expense lines registered relative increases as compared to the same period last year. Taxes and licenses rose by Php51.2 million to Php254.7 million this year. Similarly, Miscellaneous Expenses increased by 28% to Php316.1 million mainly due to higher Stationery and Supplies-Cash Card and Management and other Professional Fees. Compensation and fringe benefits jumped up to Php993.9 million from Php901.3 million last year. Security, messengerial and janitorial expenses also increased by 10% or Php14.6 million this year. Moreover, Amortization of software license went up by Php8.5 million to Php41.9 million from Php33.4 million last year. Depreciation and amortization expenses increased by Php79.2 million mainly from depreciation charges on the capitalized leases. On the other hand, occupancy and other equipment-related costs dropped by Php69.4 million due to the rental expenses now being depreciated.

Provision for income taxes went down by Php150.6 million from Php180.2 million to Php29.5 million due to the recognition of deferred tax asset on expense accrual.

**Material Events and Uncertainties (Including Discussion on the Risk and Impact of COVID 19)**:

On March 11, 2020, the World Health Organization declared the Coronavirus COVID-19 outbreak to be a pandemic in recognition of its rapid spread across the globe, with over 150 affected countries.

On March 16, 2020, Proclamation No. 929, Series of 2020, declared a state of calamity throughout the Philippines for a period of six (6) months, unless earlier lifted or extended as circumstances may warrant. Consequently, an Enhanced Community Quarantine was imposed throughout the entire Luzon until April 12, 2020, unless earlier lifted or extended as circumstances may warrant.

Economic impacts of these events include disruption to banking operations; significant disruption to client businesses in ‘highly exposed sectors’, particularly, trade and transportation, travel and tourism, hospitality/entertainment/sport, manufacturing, construction and retail; and a significant increase in economic uncertainty, evidenced by more volatile asset prices and currency exchange rates.

As of June 3, 2020, the effects of the COVID 19 pandemic has not resulted to material impact on the Bank’s liquidity. The Bank is continuously monitoring its loan portfolio, asset quality and net interest margin to determine if there has been significant impact of the Bank’s profitability, especially on the loan moratorium granted under Republic Act No. 11469, otherwise known as the Bayanihan to Heal as One Act.

Other than this, there are no known trends, events, uncertainties that had or reasonably expected to have a material favorable or unfavorable impact on income from continuing operations. There are also no known material commitments for capital expenditures as of reporting date. There are no significant elements of income or loss that arose from the Bank’s continuing operations. Likewise, there are no seasonal aspects that had material effect on the financial condition or results of operations.

There are no known events that will trigger direct or contingent financial obligation that is material to the Bank, including any default or acceleration of an obligation. Also, there are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Bank with unconsolidated entities or other persons created as of the reporting date.

The BSP recognizes that the outbreak of COVID-19 has potential significant impact on the operations of BSP-supervised financial institutions (BSFIs) in terms of risks related to exposures to borrowers and/or industries or businesses severely disrupted or affected by the COVID-19 as well as disruption in operations due to measures implemented to control the spread of virus such as lockdown situation, localized work suspension, heightened health and safety risks faced by BSFIs’ employees and customers.

In this light, the BSP issued Memorandum No. M-2020-008 (the “Memorandum”) granting temporary regulatory relief measures to BSFIs affected by COVID-19. Relief measures relevant to the Bank are as follows:

a. Allowing BSFIs to provide financial assistance to officers who are affected even in the absence of BSP-approved purposes or even if not within the scope of the existing BSP-approved purposes, for the grant of loans, advances, or any other forms of credit accommodations to officers, subject to subsequent regularization of the BSP, as specified in the Memorandum;

b. Upon grant by BSFIs of a temporary grace period for payment or upon approval of the restructuring, but subject to reporting to the BSP, exclusion from the computation of past due ratio of the loans of borrowers in affected areas which should have been reclassified as past due from 8 March 2020, the date of declaration of the President of the state of public health emergency under Presidential Proclamation No. 922 (the "reference date"), including those loans becoming past due six (6) months thereafter, subject to conditions specified in the Memorandum;

c. Non-imposition of monetary penalties for delays incurred in the submission of all supervisory reports due to be submitted from the reference date up to six (6) months thereafter;

d. Subject to prior approval of the Bangko Sentral, staggered booking of allowance for credit losses computed over a maximum period of five (5) years for all types of credits extended to individuals and businesses directly affected by COVID-19 as of the reference date; and

e. Subject to prior approval of the Bangko Sentral, non-imposition of penalties on legal reserve deficiencies starting from reserve week following the reference date up to six (6) months thereafter.

There are no known events that will trigger direct or contingent financial obligation that is material to the Bank, including any default or acceleration of an obligation. Also, there are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Bank with unconsolidated entities or other persons created as of the reporting date.

### 3. Plan of Operations

With the strong support from our Parent Bank, the Bank aims to further strengthen the new CTBC Bank (Phils.) brand in the Philippines. CTBC Bank (Phils.) overall strategy is to become a Bank for Mid-and-small cap businesses and middle class customers and to be in the league of top tier foreign banks with localized approach in the Philippines. The bank intends to improve market position and profitability by continuous expansion of its retail and corporate loan portfolio. Institutional Banking Group (IBG) aims to grow middle market business while Treasury continues to focus on the expansion of client base revenues both for corporate and retail market. In addition, Retail Banking Group will continue to expand SME market while Mortgage will penetrate primary mortgage market.

**ANNEX “E”**

# STATEMENT OF MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL STATEMENTS

CTBC BANK
中國信託銀行

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **CTBC BANK (PHILIPPINES) CORP.** (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, 2018 and 2017, 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 accessing 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.

R.G. Manabat & Co., the independent auditor, appointed by the stockholders, has 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.

**WILLIAM B. GO**
Vice Chairman

**OLIVER D. JIMENO**
President and Chief Executive Officer

**ANDREW A. FALCON**
First Vice-President
Chief Financial Officer

Signed this June 3, 2020.

ANNEX "F"

# CTBC BANK (PHILIPPINES) CORPORATION

**FINANCIAL STATEMENTS**
**December 31, 2019 and 2018**

With Independent Auditors' Report

R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Website home.kpmg/ph
Email ph-inquiry@kpmg.com

# REPORT OF INDEPENDENT AUDITORS

The Board of Directors and the Stockholders
**CTBC Bank (Philippines) Corporation**
Fort Legend Towers, Third Avenue corner 31st Street
Bonifacio Global City, Taguig

## Report on the Audit of the Financial Statements

*Opinion*

We have audited the financial statements of CTBC Bank (Philippines) Corporation (the "Bank"), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of income, statements of other comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

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

*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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our 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.



PRC-BOA Registration No. 0003, valid until November 21, 2023
SEC Accreditation No. 0004-FR-5, Group A, valid until November 15, 2020
IC Accreditation No. F-2017/010-R, valid until August 26, 2020
BSP - Selected External Auditors, Category A, valid for 3-year audit period (2017 to 2019)

*Emphasis of Matter*

Without modifying our opinion, we draw your attention to Note 2 to the financial statements which discusses that on June 3, 2020, the Bank amended its financial statements as at December 31, 2019, previously approved by the Board of Directors on March 30, 2020, on which we have rendered our report dated on March 31, 2020. Such amendment is intended to present the comparative statements of income, statements of other comprehensive income, statements of changes in equity and statements of cash flows for the three years ended December 31, 2019, 2018 and 2017, in accordance with paragraph 5 of Part II of the Revised Securities Regulations Code Rule 68. Accordingly, the relevant notes to the financial statements were presented following the prescribed format.

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

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

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

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

*Auditors' Responsibilities for the Audit of the Financial Statements*

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

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

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

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

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

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

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

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

**Report on Other Legal and Regulatory Requirements**

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 29 and Revenue Regulations 15-2010 in Note 30 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 Bank. 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.

**R.G. MANABAT & CO.**

Vanessa P. Macamos

VANESSA P. MACAMOS
Partner
CPA License No. 0102309
BSP Accreditation No. 102309-BSP, Group A, valid for 5-year audit period (2019 to 2023)
SEC Accreditation No. 1619-A, Group A, valid until June 30, 2020
Tax Identification No. 920-961-311
BIR Accreditation No. 08-001987-38-2019
Issued September 25, 2019; valid until September 24, 2022
PTR No. MKT 8116770
Issued January 2, 2020 at Makati City

June 3, 2020
Makati City, Metro Manila

KPMG

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## REPORT OF INDEPENDENT AUDITORS TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE BUREAU OF INTERNAL REVENUE

The Board of Directors and the Stockholders
**CTBC Bank (Philippines) Corporation**
Fort Legend Towers, Third Avenue corner 31st Street
Bonifacio Global City, Taguig

We have audited the accompanying financial statements of CTBC Bank (Philippines) Corporation (the "Bank") as at and for the year ended December 31, 2019, on which we have rendered our report dated June 3, 2020.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholders of the Bank.

**R.G. MANABAT & CO.**

Vanessa P. Macamos

VANESSA P. MACAMOS
Partner
CPA License No. 0102309
BSP Accreditation No. 102309-BSP, Group A, valid for 5-year audit period (2019 to 2023)
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BSP - Selected External Auditors, Category A, valid for 3-year audit period (2017 to 2019)

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## REPORT OF INDEPENDENT AUDITORS TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE SECURITIES AND EXCHANGE COMMISSION

The Board of Directors and the Stockholders
**CTBC Bank (Philippines) Corporation**
Fort Legend Towers, Third Avenue corner 31st Street
Bonifacio Global City, Taguig

We have audited the accompanying financial statements of CTBC Bank (Philippines) Corporation (the "Bank") as at and for the year ended December 31, 2019, on which we have rendered our report dated June 3, 2020.

In compliance with Revised Securities Regulation Code Rule 68, we are stating that the Bank has a total number of eighty-two (82) stockholders owning one hundred (100) or more shares each.

**R.G. MANABAT & CO.**

Vanessa P. Macamos

VANESSA P. MACAMOS
Partner
CPA License No. 0102309
BSP Accreditation No. 102309-BSP, Group A, valid for 5-year audit period (2019 to 2023)
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## REPORT OF INDEPENDENT AUDITORS TO ACCOMPANY SUPPLEMENTARY INFORMATION FOR FILING WITH THE SECURITIES AND EXCHANGE COMMISSION

The Board of Directors and the Stockholders
**CTBC Bank (Philippines) Corporation**
Fort Legend Towers, Third Avenue corner 31st Street
Bonifacio Global City, Taguig

We have audited, in accordance with Philippine Standards on Auditing, the accompanying financial statements of CTBC Bank (Philippines) Corporation (the "Bank") as at and for the year ended December 31, 2019, on which we have rendered our report dated June 3, 2020.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Bank taken as a whole. The following supplementary information in the Index to the Financial Statements and Supplementary Schedules is the responsibility of the Bank's management:

a. Reconciliation of Retained Earnings Available for Dividend Declaration (Part I); and
b. Schedules Required by Annex 68-J of the Revised Securities Regulation Code (SRC) Rule 68 (Part II).

This supplementary information is presented for purposes of complying with the Revised SRC Rule 68 and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**R.G. MANABAT & CO.**

Vanessa P. Macamos

VANESSA P. MACAMOS
Partner
CPA License No. 0102309
BSP Accreditation No. 102309-BSP, Group A, valid for 5-year audit period (2019 to 2023)
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June 3, 2020
Makati City, Metro Manila

## CTBC BANK (PHILIPPINES) CORPORATION
## STATEMENTS OF FINANCIAL POSITION

| | Note | December 31 2019 | 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Cash and Other Cash Items** | *17, 27* | **P725,063,226** | P504,999,873 |
| **Due from Bangko Sentral ng Pilipinas (BSP)** | *5, 17, 27* | **4,277,491,280** | 5,001,859,955 |
| **Due from Other Banks** | *5, 17, 27* | **1,591,079,273** | 1,266,759,792 |
| **Interbank Loans Receivable** - net | *5, 17, 27* | **1,518,431,320** | 6,142,778,572 |
| **Financial Assets at Fair Value through Profit or Loss (FVTPL)** | *7, 17, 27* | **81,140,674** | 127,362,442 |
| **Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)** | *7, 17, 27* | **6,433,660,166** | 2,413,219,048 |
| **Investment Securities at Amortized Cost** - net | *7, 17, 27* | **2,852,383,715** | 2,790,519,408 |
| **Loans and Receivables** - net | *8, 12, 27* | **36,987,482,471** | 35,197,027,258 |
| **Property and Equipment** - net | *9, 17* | **215,065,549** | 113,972,195 |
| **Investment Properties** - net | *10, 17* | **178,880,010** | 172,218,735 |
| **Deferred Tax Assets** - net | *17, 21* | **373,931,669** | 200,953,992 |
| **Other Assets** | *11, 17* | **432,171,728** | 443,226,113 |
| | | **P55,666,781,081** | P54,374,897,383 |
| **LIABILITIES AND EQUITY** | | | |
| **LIABILITIES** | | | |
| **Deposit Liabilities** | *13, 17, 27* | | |
| Demand | | **P8,022,741,163** | P7,646,599,849 |
| Savings | | **7,306,283,512** | 7,597,339,059 |
| Time | | **22,356,499,970** | 21,117,452,342 |
| | | **37,685,524,645** | 36,361,391,250 |
| **Financial Liabilities at FVTPL** | *17, 26, 27* | **99,175,116** | 25,452,851 |
| **Bills Payable** | *14, 17, 27* | **4,774,481,380** | 7,910,300,863 |
| **Outstanding Acceptances** | *17, 27* | **54,618,030** | 194,467,418 |
| **Manager's Checks** | *17, 27* | **73,938,307** | 80,275,446 |
| **Accrued Interest, Taxes and Other Expenses** | *15, 17* | **540,575,013** | 446,136,646 |
| **Income Tax Payable** | *17* | **19,805,124** | 24,999,134 |
| **Other Liabilities** | *16, 17* | **3,036,225,978** | 1,967,888,714 |
| | | **46,284,343,593** | 47,010,912,322 |

*Forward*

RECEIVED BY:
SHIENNA M. JAVIER
Revenue Officer I (A)
Assessment Division
(SIGNATURE OVER PRINTED NAME)
DESIGNATION: JUN 03 2020
DATE:
TIME:
TEL. NO.

| | Note | December 31 2019 | 2018 |
|---|---|---|---|
| **EQUITY** | | | |
| **Capital Stock** | *18* | **P3,000,000,000** | P2,479,687,310 |
| **Treasury Stock** | *18* | **-** | (15,951,674) |
| **Additional Paid-in Capital** | *18* | **1,073,283,696** | 53,513,675 |
| **Restricted Retained Earnings** | *18* | **5,270,539,979** | 4,941,428,129 |
| **Statutory Reserve** | *18, 29* | **4,981,159** | 4,981,159 |
| **Cumulative Translation Adjustments** | | **(8,165,508)** | 8,793,915 |
| **Net Unrealized Gain (Loss) on Financial Assets at FVOCI** | *7* | **108,233,872** | (94,093,041) |
| **Net Remeasurement Loss on Retirement Liability** | *19* | **(66,435,710)** | (14,374,412) |
| | | **9,382,437,488** | 7,363,985,061 |
| | | **P55,666,781,081** | P54,374,897,383 |

*See Notes to the Financial Statements.*

RECEIVED BY: SHIENNA M. JAVIER
Revenue Officer I (A)
(SIGNATURE OVER PRINTED NAME)
DESIGNATION:
DATE: JUN 03 2020
TIME:
TEL. NO.

## CTBC BANK (PHILIPPINES) CORPORATION
## STATEMENTS OF INCOME

| | Note | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| | | **Years Ended December 31** | | |
| **INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD** | | | | |
| Loans and receivables | 8 | **P2,826,315,936** | P2,293,930,336 | P1,873,229,847 |
| Investment securities | 7 | **236,452,290** | 146,042,636 | 63,247,030 |
| Interbank loans receivable | | **91,032,796** | 89,811,973 | 41,055,225 |
| Deposits with BSP and other banks | | **40,494,440** | 34,124,747 | 36,747,816 |
| **INTEREST INCOME ON FINANCIAL ASSETS AT FVTPL** | 7 | **49,805,270** | 14,598,029 | 29,834,951 |
| | | **3,244,100,732** | 2,578,507,721 | 2,044,114,869 |
| **INTEREST EXPENSE** | | | | |
| Deposit liabilities | 13 | **701,918,625** | 518,078,498 | 214,880,466 |
| Bills payable and other borrowings | 14 | **254,983,291** | 97,179,935 | 23,418,807 |
| Lease liabilities | 20 | **8,609,871** | - | - |
| | | **965,511,787** | 615,258,433 | 238,299,273 |
| **NET INTEREST INCOME** | | **2,278,588,945** | 1,963,249,288 | 1,805,815,596 |
| Service fees and commission income | 22 | **228,256,096** | 259,256,243 | 245,886,894 |
| Trading and securities gain - net | 7 | **179,394,490** | 14,064,637 | 11,418,383 |
| Foreign exchange gain - net | | **125,109,937** | 86,886,064 | 149,084,463 |
| Miscellaneous - net | 22 | **122,597,430** | 128,028,359 | 138,931,306 |
| **TOTAL OPERATING INCOME** | | **2,933,946,898** | 2,451,484,591 | 2,351,136,642 |
| Compensation and fringe benefits | 19 | **993,875,296** | 901,250,849 | 891,036,648 |
| Impairment losses | 10, 12 | **508,913,135** | 214,391,945 | 200,414,216 |
| Taxes and licenses | 21 | **254,662,771** | 203,512,137 | 176,342,703 |
| Security, messengerial and janitorial expenses | | **165,852,980** | 151,228,017 | 161,284,282 |
| Occupancy and other equipment-related costs | 20 | **155,448,428** | 224,871,529 | 217,287,958 |
| Depreciation and amortization | 9, 10 | **136,984,510** | 57,766,657 | 58,823,070 |
| Amortization of computer software costs | 11 | **41,889,713** | 33,411,885 | 33,384,896 |
| Miscellaneous | 22 | **316,108,405** | 247,539,281 | 213,792,075 |
| **TOTAL OPERATING EXPENSES** | | **2,573,735,238** | 2,033,972,300 | 1,952,365,848 |
| **INCOME BEFORE INCOME TAXES** | | **360,211,660** | 417,512,291 | 398,770,794 |
| **INCOME TAXES** | 21 | **29,528,438** | 180,157,052 | 110,816,674 |
| **NET INCOME** | | **P330,683,222** | P237,355,239 | P287,954,120 |
| **BASIC/DILUTED EARNINGS PER SHARE** | 23 | **P1.26** | P0.96 | P1.16 |

*See Notes to the Financial Statements.*

RECEIVED BY: SHIENNA M. JAVIER
Revenue Officer I (A)
(SIGNATURE OVER PRINTED NAME)
DESIGNATION:
DATE: JUN 0 3 2020
TIME:
TEL. NO.

## CTBC BANK (PHILIPPINES) CORPORATION
## STATEMENTS OF OTHER COMPREHENSIVE INCOME

| | | Years Ended December 31 | | |
|---|---|---|---|---|
| | *Note* | **2019** | 2018 | 2017 |
| **NET INCOME FOR THE YEAR** | | **P330,683,222** | P237,355,239 | P287,954,120 |
| **OTHER COMPREHENSIVE (LOSS) INCOME FOR THE YEAR** | | | | |
| ***Items that may not be reclassified to profit or loss*** | | | | |
| Net unrealized (loss) gain on equity financial assets at FVOCI | 7 | **(200,000)** | 382,000 | - |
| Net remeasurement (loss) gain on retirement liability - net of tax | 19 | **(52,061,298)** | 41,033,581 | (68,916,987) |
| | | **(52,261,298)** | 41,415,581 | (68,916,987) |
| ***Items that may be reclassified to profit or loss*** | | | | |
| Net unrealized gain (loss) on debt financial assets at FVOCI | 7 | **202,526,913** | (107,682,438) | - |
| Net unrealized gain on AFS investments | | **-** | - | 13,420,325 |
| Cumulative translation adjustments | | **(16,959,423)** | 333,087 | (21,421,477) |
| | | **185,567,490** | (107,349,351) | (8,001,152) |
| | | **133,306,192** | (65,933,770) | (76,918,139) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **P463,989,414** | P171,421,469 | P211,035,981 |

*See Notes to the Financial Statements.*

RECEIVED BY: SHIENNA M. JAVIER
(SIGNATURE OVER PRINTED NAME) Assessment Division
DESIGNATION:
DATE: JUN 03 2020
TIME:
TEL. NO.

# CTBC BANK (PHILIPPINES) CORPORATION
## STATEMENTS OF CHANGES IN EQUITY

| | Note | Capital Stock (Note 18) | Treasury Stock (Note 18) | Additional Paid-in Capital (Note 18) | Restricted Retained Earnings (Note 18) | Statutory Reserve (Notes 18 and 29) | Cumulative Translation Adjustments | Net Unrealized Loss on Financial Assets at FVOCI (Note 7) | Net Remeasurement Loss on Retirement Liability (Note 19) | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2019** | | P2,479,687,310 | (P15,951,674) | P53,513,675 | P4,941,428,129 | P4,981,159 | P8,793,915 | (P94,093,041) | (P14,374,412) | P7,363,985,061 |
| Net income for the year | | - | - | - | 330,683,222 | - | - | - | - | 330,683,222 |
| **Other comprehensive income for the year** | | | | | | | | | | |
| Items that may not be reclassified to profit or loss: | | | | | | | | | | |
| Net unrealized loss on equity financial assets at FVOCI | 7 | - | - | - | - | - | - | (200,000) | - | (200,000) |
| Net remeasurement loss on retirement liability | 19 | - | - | - | - | - | - | - | (52,061,298) | (52,061,298) |
| Items that may be reclassified to profit or loss: | | | | | | | | | | |
| Net unrealized gain on debt financial assets at FVOCI | 7 | - | - | - | - | - | - | 202,526,913 | - | 202,526,913 |
| Cumulative translation adjustments | | - | - | - | - | - | (16,959,423) | - | - | (16,959,423) |
| **Total other comprehensive income** | | - | - | - | - | - | (16,959,423) | 202,326,913 | (52,061,298) | 133,306,192 |
| **Total comprehensive income for the year** | | - | - | - | 330,683,222 | - | (16,959,423) | 202,326,913 | (52,061,298) | 463,989,414 |
| **Transactions with Parent Bank** | | | | | | | | | | |
| Issuance of capital stock | 18 | 520,312,690 | - | 1,019,770,021 | - | - | - | - | - | 1,540,082,711 |
| Re-issuance of treasury stock | 18 | - | 15,951,674 | - | - | - | - | - | - | 15,951,674 |
| Cost of re-issuance of treasury stock charged to retained earnings | 18 | - | - | - | (1,571,372) | - | - | - | - | (1,571,372) |
| **Total transactions with Parent Bank** | | 520,312,690 | 15,951,674 | 1,019,770,021 | (1,571,372) | - | - | - | - | 1,554,463,013 |
| **Balance at December 31, 2019** | | P3,000,000,000 | P - | P1,073,283,696 | P5,270,539,979 | P4,981,159 | (P8,165,508) | P108,233,872 | (P66,435,710) | P9,382,437,488 |

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TIME:
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| | Note | Capital Stock (Note 18) | Treasury Stock (Note 18) | Additional Paid-in Capital (Note 18) | Restricted Retained Earnings (Note 18) | Statutory Reserve (Notes 18 and 29) | Cumulative Translation Adjustments | Net Unrealized Loss on Financial Assets at FVOCI (Note 7) | Net Unrealized Loss on AFS Investments (Note 7) | Net Remeasurement Loss on Retirement Liability (Note 19) | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at January 1, 2018 | | P2,479,687,310 | (P15,951,674) | P53,513,675 | P4,880,412,185 | P4,981,159 | P8,460,828 | P - | (P15,506,159) | (P55,407,993) | P7,340,189,331 |
| Adjustment on initial application of PFRS 9, net of tax | | - | - | - | (176,339,295) | - | - | 13,207,397 | 15,506,159 | - | (147,625,739) |
| Restated balance at January 1, 2018 | | 2,479,687,310 | (15,951,674) | 53,513,675 | 4,704,072,890 | 4,981,159 | 8,460,828 | 13,207,397 | - | (55,407,993) | 7,192,563,592 |
| Net income for the year | | - | - | - | 237,355,239 | - | - | - | - | - | 237,355,239 |
| Other comprehensive income for the year | | | | | | | | | | | |
| Items that may not be reclassified to profit or loss: | | | | | | | | | | | |
| Net unrealized gain on equity financial assets at FVOCI | *7* | - | - | - | - | - | - | 382,000 | - | - | 382,000 |
| Net remeasurement gain on retirement asset | *19* | - | - | - | - | - | - | - | - | 41,033,581 | 41,033,580 |
| Items that may be reclassified to profit or loss: | | - | - | - | - | - | - | - | - | - | - |
| Net unrealized loss on debt financial assets at FVOCI | *7* | - | - | - | - | - | - | (107,682,438) | - | - | (107,682,438) |
| Cumulative translation adjustments | | - | - | - | - | - | 333,087 | - | - | - | 333,088 |
| Total other comprehensive income | | - | - | - | - | - | 333,087 | (107,300,438) | - | 41,033,581 | (65,933,770) |
| Total comprehensive income for the year | | - | - | - | 237,355,239 | - | 333,087 | (107,300,438) | - | 41,033,581 | 171,421,469 |
| Balance at December 31, 2018 | | P2,479,687,310 | (P15,951,674) | P53,513,675 | P4,941,428,129 | P4,981,159 | P8,793,915 | (P94,093,041) | P - | (P14,374,412) | P7,363,985,061 |
| Balance at January 1, 2017 | | P2,479,687,310 | (P15,951,674) | P53,513,675 | P4,592,458,065 | P4,981,159 | P29,882,305 | P - | (P28,926,484) | P13,508,994 | P7,129,153,350 |
| Net income for the year | | - | - | - | 287,954,120 | - | - | - | - | - | 287,954,120 |
| Other comprehensive income for the year | | | | | | | | | | | |
| Items that may not be reclassified to profit or loss: | | | | | | | | | | | |
| Net remeasurement loss on retirement asset | *19* | - | - | - | - | - | - | - | - | (68,916,987) | (68,916,987) |
| Items that may be reclassified to profit or loss: | | - | - | - | - | - | - | - | - | - | |
| Net unrealized gain on AFS investments | | - | - | - | - | - | - | - | 13,420,325 | - | 13,420,325 |
| Cumulative translation adjustments | | - | - | - | - | - | (21,421,477) | - | - | - | (21,421,477) |
| Total other comprehensive income | | - | - | - | - | - | (21,421,477) | - | 13,420,325 | (68,916,987) | (76,918,139) |
| Total comprehensive income for the year | | - | - | - | 287,954,120 | - | (21,421,477) | - | 13,420,325 | (68,916,987) | 211,035,981 |
| Balance at December 31, 2017 | | P2,479,687,310 | (P15,951,674) | P53,513,675 | P4,880,412,185 | P4,981,159 | P8,460,828 | P - | (P15,506,159) | (P55,407,993) | P7,340,189,331 |

*See Notes to the Financial Statements.*

# CTBC BANK (PHILIPPINES) CORPORATION
## STATEMENTS OF CASH FLOWS

| | Note | Years Ended December 31 2019 | 2018 | 2017 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Income before income taxes | | **P360,211,660** | P417,512,291 | P398,770,794 |
| Adjustments for: | | | | |
| Impairment losses | *10, 12* | **508,913,135** | 214,391,945 | 200,414,216 |
| Foreign exchange revaluation (gain) loss on financial assets at FVOCI and investment securities at amortized cost | | **154,650,840** | (351,752,434) | (41,147,491) |
| Foreign exchange revaluation (gain) loss on bills payable | | **(146,454,552)** | 145,414,396 | - |
| Depreciation and amortization | *9, 10* | **136,984,510** | 57,766,657 | 58,823,070 |
| Realized gain on sale on financial assets at FVOCI and investment securities at amortized cost | | **(77,020,897)** | (32,197,473) | - |
| Amortization of computer software costs | *11* | **41,889,713** | 33,411,885 | 33,384,896 |
| Amortization of net discount on financial assets at FVOCI and investment securities at amortized cost | | **34,151,434** | 47,727,059 | - |
| Contribution to the plan assets | *19* | **(19,083,347)** | (27,283,631) | (20,857,694) |
| Retirement benefit expense | *19* | **19,062,925** | 14,881,981 | 20,857,694 |
| Gain on disposal of investment properties | | **(12,030,487)** | (1,909,561) | (6,963,144) |
| Dividend income | *22* | **(1,622,000)** | (2,801,240) | (4,066,000) |
| Mark-to-market gain on financial assets at FVTPL | *7* | **(443,328)** | (2,728,319) | 2,307,282 |
| Loss on disposal of property and equipment | *22* | **145,870** | 27,988 | (16,578) |
| Amortization of deferred charges | | **-** | 1,402 | 77,263 |
| Loss on disposal of computer software | | **-** | 85 | 666,313 |
| Amortization of net discount on AFS and HTM investments | | **-** | - | 26,242,701 |
| Realized gain on sale of AFS and HTM | | **-** | - | (21,722,474) |
| Changes in operating assets and liabilities: | | | | |
| Decrease (increase) in amounts of: | | | | |
| Loans and receivables | | **(2,299,564,740)** | (8,147,890,406) | (5,205,586,647) |
| Financial assets at FVTPL | | **46,665,095** | 291,495,548 | 148,656,132 |
| Other assets | | **23,119,379** | 130,550,496 | (69,587,145) |
| Increase (decrease) in amounts of: | | | | |
| Deposit liabilities | | **1,324,133,396** | 9,659,490,267 | (265,185,237) |
| Manager's checks | | **(6,337,139)** | 45,033,456 | (16,934,974) |
| Accrued taxes and other expenses | | **106,982,594** | 18,374,897 | 68,057,989 |
| Financial liabilities at FVTPL | | **73,722,264** | (37,694,637) | 30,554,721 |
| Outstanding acceptances | | **(139,849,389)** | (69,970,414) | 253,853,721 |
| Other liabilities | | **(542,067,548)** | 808,205,083 | (354,515,841) |
| Net cash (used in) generated from operations | | **(413,840,612)** | 3,210,057,321 | (4,763,916,433) |
| Income taxes paid | | **(185,388,140)** | (167,017,366) | (122,655,134) |
| Net cash (used in) provided by operating activities | | **(599,228,752)** | 3,043,039,955 | (4,886,571,567) |

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Assessment Division
DESIGNATION:
DATE: JUN 03 2020
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| | Note | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| | | **Years Ended December 31** | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Acquisitions of: | | | | |
| Financial assets at FVOCI | | **(P27,070,503,950)** | (P21,662,960,000) | P - |
| Investment securities at amortized cost | | **(1,598,506,630)** | (2,265,508,458) | - |
| Computer software costs | *11* | **(68,995,251)** | (209,278,025) | (14,754,659) |
| Property and equipment | *9* | **(51,609,630)** | (20,044,417) | (75,558,522) |
| Investment properties | *10* | **(20,709,458)** | (71,245,611) | (43,074,950) |
| AFS investments | | **-** | - | (948,810,000) |
| HTM investments | | **-** | - | (606,399,711) |
| Proceeds from disposals of: | | | | |
| Financial assets at FVOCI | | **1,427,488,727** | 436,481,658 | - |
| Investment securities at amortized cost | | **658,255,000** | - | - |
| Investment properties | | **20,843,409** | 6,356,112 | 29,563,655 |
| Property and equipment | | **5,499,456** | 7,238,802 | 8,705,548 |
| AFS investments | | **-** | - | 812,378,841 |
| Proceeds from maturities of: | | | | |
| Financial assets at FVOCI and investment securities at amortized cost | | **22,590,135,077** | 20,457,848,161 | - |
| AFS and HTM investments | | **-** | - | 69,576,911 |
| Dividends received | *22* | **1,622,000** | 2,801,240 | 4,066,000 |
| Net cash used in investing activities | | **(4,106,481,250)** | (3,318,310,538) | (764,306,887) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Availments of bills payable | | **2,758,825,000** | 37,623,856,919 | 28,848,285,527 |
| Settlement of bills payable | | **(5,748,189,930)** | (34,143,793,290) | (24,563,462,689) |
| Payment of lease liabilities | *20* | **(84,142,546)** | - | - |
| Proceeds from issuance of capital stock | *18* | **1,540,082,711** | - | - |
| Deposits for future stock subscriptions | *18* | **1,437,380,796** | - | - |
| Proceeds from issuance of treasury stock | *18* | **14,380,302** | - | - |
| Net cash (used in) provided by financing activities | | **(81,663,667)** | 3,480,063,629 | 4,284,822,838 |
| **EFFECT OF EXCHANGE RATE DIFFERENCES ON CASH AND CASH EQUIVALENTS** | | **(16,959,424)** | 269,114,022 | 14,896,014 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **(4,804,333,093)** | 3,473,907,068 | (1,351,159,602) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | | | |
| Cash and other cash items | | **504,999,873** | 452,374,266 | 428,066,149 |
| Due from BSP | | **5,001,859,955** | 3,492,925,784 | 6,078,965,189 |
| Due from other banks | | **1,266,759,792** | 879,092,880 | 2,129,327,639 |
| Interbank loans receivable - net | | **6,142,778,572** | 4,618,098,194 | 2,157,291,749 |
| | | **12,916,398,192** | 9,442,491,124 | 10,793,650,726 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | | | |
| Cash and other cash items | *17* | **725,063,226** | 504,999,873 | 452,374,266 |
| Due from BSP | *17* | **4,277,491,280** | 5,001,859,955 | 3,492,925,784 |
| Due from other banks | *17* | **1,591,079,273** | 1,266,759,792 | 879,092,880 |
| Interbank loans receivable - net | | **1,518,431,320** | 6,142,778,572 | 4,618,098,194 |
| | | **P8,112,065,099** | P12,916,398,192 | P9,442,491,124 |
| **OPERATIONAL CASH FLOWS FROM INTEREST** | | | | |
| Interest received | | **P2,957,843,173** | P2,417,867,057 | P1,951,032,889 |
| Interest paid | | **(713,055,816)** | (495,612,504) | (193,594,032) |
| | | **P2,244,787,357** | P1,922,254,553 | P1,757,438,857 |

*See Notes to the Financial Statements.*

## 1. Organization

CTBC Bank (Philippines) Corporation (the “Bank”) is a 99.67%-owned entity of CTBC Bank Co. Ltd., formerly Chinatrust Commercial Bank Ltd. (“Parent Bank”), a Taiwan-based commercial bank. The ultimate parent of the Bank is CTBC Financial Holding Co., Limited (formerly Chinatrust Financial Holding Co., Ltd.) which was incorporated in Taiwan. The Bank was incorporated as a domestic commercial bank on September 7, 1995 under the name of Access Banking Corporation and started business operations on September 26, 1995. The term of existence of the Bank is fifty (50) years from the date of incorporation.

It was renamed as Chinatrust (Philippines) Commercial Bank Corporation in January 1996. On October 30, 2013, the Bank changed its corporate name to CTBC Bank (Philippines) Corporation.

The Bank was organized to provide commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange, and trust services. In addition, the Bank is licensed to engage in regular financial derivatives as a means of reducing and managing the Bank’s and its customers’ foreign exchange exposure.

The Bank’s principal place of business is located at Fort Legend Towers, Third Avenue corner 31st Street, Bonifacio Global City, Taguig City.

The Bank’s common shares were listed in the Philippines Stock Exchange (PSE) in June 1999. On October 7, 2011, the Board of Directors (BOD) authorized the Bank to file a petition for voluntary delisting with the PSE and to purchase the outstanding shares through a tender offer in accordance with the rules of the PSE and Philippine Securities and Exchange Commission (SEC). On December 15, 2011, the Bank obtained approval for the delisting and share buyback through a special stockholders’ meeting as required by the Bank’s By-Laws. On December 19, 2011, the Bank received the approval of the Monetary Board for the delisting and share buyback. As of January 27, 2012, common shares held by minority stockholders amounting to P12.7 million were tendered to and reacquired by the Bank. On February 8, 2012, the PSE approved the Bank’s petition for voluntary delisting. Official delisting of the Bank’s shares from the Trading Board became effective on February 24, 2012. As at December 31, 2019, the Bank remains as a SEC-registered issuer of securities to the public.

The Bank received its Foreign Currency Deposit Unit (FCDU) license and launched its FCDU operations on December 28, 1995. The Bank received its Expanded FCDU license on November 22, 1995. The Bank has authority to engage in trust operations as approved by Monetary Board in its Resolution No. 765 dated July 31, 1996.

## 2. Basis of Preparation and Statement of Compliance

Statement of Compliance

The financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). PFRSs are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). PFRSs which are issued by the Philippine Financial Reporting Standards Council (FRSC) consist of PFRSs, Philippine Accounting Standards (PAS) and Philippine Interpretations.

This is the first set of the Bank's financial statements in which PFRS 16, *Leases* has been applied. The related changes to significant accounting policies are described in Note 3.

Basis of Measurement

These financial statements have been prepared on a historical cost basis except for the following items:

| Items | Measurement Bases |
|---|---|
| Financial assets and liabilities at fair value through profit or loss (FVTPL) | Fair value |
| Financial assets at fair value through other comprehensive income (FVOCI) | Fair value |
| Net retirement liability | Present value of the defined benefit obligation less fair value of plan assets |
| Lease liability | Present value of the lease payments not yet paid discounted using the Bank's incremental borrowing rate |

The financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and the FCDU. These financial statements are the combined financial information of these units after eliminating inter-unit accounts.

Functional and Presentation Currency

The functional currency of RBU and FCDU is the Philippine Peso (PHP) and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in PHP (see Note 3 on foreign currency translation).

The financial statements of the Bank are presented in PHP. All financial information presented in PHP has been rounded off to the nearest peso, except as otherwise indicated.

Presentation of Financial Statements

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

Approval of Issuance of Financial Statements
Under Section 17.2 (a) of the Securities Regulation Code (SRC), issuers of securities that have sold a class of their securities pursuant to a registration under Section 12 of the Code are required to comply with the reportorial requirements under SRC Rule 20; provided, however, that the obligation of such issuers to file reports shall be suspended for any fiscal year after the year such registration became effective if such issuer, as of the first day of any such fiscal year, has less than one hundred (100) holders of such class of securities and it notifies the Commission of such.

As of December 31, 2019, the Bank has only eighty-two (82) shareholders owning more than one hundred shares each which renders it qualified for suspension of reportorial obligation under the aforementioned provisions of the SRC. It was not able to notify the SEC at the beginning of the year that it has less than one hundred (100) holders of such class of securities; however, it confirms that it has the intention to suspend its reportorial obligations. As the meeting of its stockholders is already forthcoming on July 2, 2020, the Bank has opted to submit and distribute its information statement with annual audited financial statements that present three-year comparative periods of statements of income, statements of comprehensive income, statements of equity and statements of cash flows in the financial statements.

The Bank has thus, amended its financial statements as at December 31, 2019, previously approved on March 30, 2020, to present the comparative statements of income, statements of other comprehensive income, statements of changes in equity and statements of cash flows for the three years ended December 31, 2019, 2018 and 2017, in accordance with paragraph 5 of Part II of the Revised SRC. Accordingly, the relevant notes to the financial statements are also presented following the prescribed format.

These amended financial statements have been reviewed, approved and authorized for issue by the Board of Directors (BOD) on June 3, 2020.

## 3. Summary of Significant Accounting Policies

Except for the changes explained in the foregoing, the accounting policies set out below have been applied consistently to all years presented in these financial statements.

Adoption of New Standards, Amendments to Standards and Interpretation
The Bank has adopted the following new standards, amendments to standards and interpretation starting January 1, 2019 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption did not have any significant impact on the Bank's financial statements.

- PFRS 16, *Leases* supersedes PAS 17, *Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements.

Prior to the adoption of PFRS 16, the Bank classified property leases as operating leases under PAS 17. These pertain to office premises used for its operations. These leases typically run for a period of five (5) years. Some leases provide for additional rent payments or fixed escalation clauses.

The Bank used the following practical expedients in its transition from PAS 17 to PFRS 16:

- Applied PFRS 16 only to contracts that were previously identified as leases applying PAS 17 at the date of initial application;
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Excluded leases expiring within 12 months from the date of initial application;
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

*Impact on Transition*
The Bank used the modified retrospective approach as its transition option in applying PFRS 16. Accordingly, the comparative information presented for 2018 is not restated, that is, it is presented, as previously presented, under PAS 17 and related interpretations.

The Bank measured on a lease-by-lease basis, the right-of-use asset 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 statements of financial position immediately before the date of initial application. The impact on transition [(increase (decrease)] is summarized below:

| *in thousands* | *Note* | January 1, 2019 |
|---|---|---|
| Lease liabilities presented in other liabilities | *20* | P160,783 |
| Right-of-use assets presented in property and equipment - net | *20* | 148,239 |
| Retained earnings, beginning | | - |
| Accrued rent presented in accrued interest, taxes and other expenses | | (12,544) |

When measuring lease liabilities that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average incremental borrowing rate applied is 4.88%.

| *in thousands* | *Note* | January 1, 2019 |
|---|---|---|
| Operating lease commitment at December 31, 2018 as disclosed under PAS 17 in the Bank's financial statements | *20* | P211,125 |
| Discounted using the incremental borrowing rate at January 1, 2019 | | 198,046 |
| Value added tax component | | (22,233) |
| PAS 17 adjustments | | (11,415) |
| Recognition exemption for leases with less than 12 months of term at transition | | (3,615) |
| Lease liabilities recognized at January 1, 2019 | | P160,783 |

- *Prepayment Features with Negative Compensation (Amendments to* PFRS 9, *Financial Instruments)*. The amendments cover the following areas:

  - *Prepayment features with negative compensation*. The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or fair value through other comprehensive income irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination.

  - *Modification of financial liabilities.* The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset - i.e. the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in the statements of income.

  If the initial application of PFRS 9 results in a change in accounting policy for these modifications or exchanges, then retrospective application is required, subject to relevant transition reliefs.

- *Plan Amendment, Curtailment or Settlement (Amendments to* PAS 19, *Employee Benefits)*. The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

- *Income Tax Consequences of Payments on Financial Instruments Classified as Equity (Amendments to* PAS 12, *Income Taxes)*. The amendments clarify that all income tax consequences of dividends, including payments on financial instruments classified as equity, are recognized consistently with the transactions that generated the distributable profits, i.e. in the statements of income, other comprehensive income (OCI) or equity.

- *Philippine Interpretation* IFRIC 23, *Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes* when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Bank's chosen tax treatment. If it is not probable that the tax authority will accept the Bank's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value.

  The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

Foreign Currency Transactions and Translation
Transactions in foreign currencies are initially recorded at the functional rate of exchange at the date of transaction.

Foreign currency-denominated monetary assets and liabilities in the RBU and FCDU are translated into their respective functional currencies based on the Bankers Association of the Philippines (BAP) closing rate prevailing as at the reporting date and foreign currency-denominated income and expenses are translated at the BAP closing rate prevailing as at the date of transaction. Foreign exchange differences arising from foreign currency transactions and translation of foreign currency-denominated assets and liabilities are credited to or charged against the statements of income in the period in which the rates change.

Foreign currency-denominated non-monetary items that are measured at historical cost are translated using the exchange rate at the transaction date. 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 monetary assets and liabilities of the FCDU of the Bank are translated from its functional currency into its equivalent in PHP, the presentation currency, at the BAP closing rate prevailing at the reporting date. Foreign currency-denominated non-monetary items that are measured at historical cost are translated using the exchange rate at the transaction date. 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. The income and expenses are translated using the BAP weighted average rate for the year. Foreign exchange differences arising from translation of the FCDU balances to the presentation currency are taken directly to "Cumulative translation adjustments" in the statements of OCI. Upon disposal of the FCDU or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statements of OCI is recognized in the statements of income.

*Foreign Exchange Gain - net*
Foreign exchange gain - net consists of gains and losses due to the differences in exchange rate from translating transaction currency to functional currency in the statements of income.

Financial Instruments

*Recognition and Initial Measurement*

The Bank recognizes a financial asset or a financial liability on the trade date when it becomes a party to the contractual provisions of the financial instrument. Purchases or sales of financial assets that require delivery of asset within the time frame established by regulation or convention in the marketplace are recognized on the trade date. Deposits, amounts due to and from BSP and other banks and loans and receivables are recognized when cash is received by the Bank or advanced to the customers.

A financial asset or financial liability is measured initially at fair value plus or minus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issuance.

*Classification and Measurement*

Financial Assets

The Bank classifies its financial assets in the following categories: financial assets at amortized cost, financial assets at FVOCI or financial assets at FVTPL.

Debt Instruments

*Financial Assets at Amortized Cost*

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest (SPPI).

Debt financial assets meeting these criteria are measured initially at fair value plus transaction costs. These financial assets are subsequently measured at amortized cost using the effective interest method less any loss allowance. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is recognized under “Interest income calculated using the effective interest method” in the statements of income. The losses arising from impairment of financial assets at amortized cost are recognized in “Impairment losses” in the statements of income.

When such financial assets are sold or disposed of under specific circumstances, the gain or loss is recognized as “Trading and securities gain - net” in the statements of income.

The Bank’s financial assets at amortized cost include cash and other cash items, due from BSP, due from other banks, interbank loans receivable - net, investment securities at amortized cost, loans and receivables - net, and returned checks and other cash items and rental deposits included under “Other assets” in the statements of financial position.

*Financial Assets at FVOCI*

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give rise on specific dates to cash flows that are SPPI.

Debt financial assets meeting these criteria are measured initially at fair value plus transaction costs. These instruments are subsequently measured at fair value with gains and losses due to changes in fair value recognized under “Net unrealized gain (loss) on financial assets at FVOCI” in the statements of OCI. Interest earned on these instruments is recognized under “Interest income calculated using the effective interest method” in the statements of income.

*Financial Assets at FVTPL*
All other financial assets not measured at amortized cost or at FVOCI are classified as measured at FVTPL.

This category includes held-for-trading (HFT) investments and derivative assets.

a. *HFT Investments*
HFT investments are recorded in the statements of financial position at fair value. Changes in fair value relating to the held-for-trading positions are recognized in “Trading and securities gain - net” in the statements of income. Interest earned is recorded under “Interest income on financial assets at FVTPL” in the statements of income.

*b. Derivative Assets*
The Bank is counterparty to derivative contracts, such as forwards and cross-currency swaps. These derivatives are entered into as a service to customers, as a means of reducing or managing their respective foreign exchange exposures and for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value.

Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting cash flow hedges and hedges in net investment in foreign operation) are taken directly to “Foreign exchange gain - net” in the statements of income. Derivatives are carried as assets when the fair value is positive.

The method of recognizing fair value gains and losses depends on whether derivatives are held-for-trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. When derivatives are designated as hedges, the Bank classifies them as either: (a) hedges of the change in fair value of recognized assets or liabilities or firm commitments (‘fair value hedges’); (b) hedges of the variability in highly probable future cash flows attributable to a recognized asset or liability or a forecast transaction (‘cash flow hedges’); or (c) a hedge of a net investment in a foreign operation (‘net investment hedges’). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value, cash flow or net investment hedge provided certain criteria are met.

The Bank does not apply hedge accounting treatment for any of its derivative transactions since the derivatives are held-for-trading and not designated as hedging instruments.

The Bank’s derivative transactions include cross-currency swap and forward contracts.

The Bank may, at initial recognition, irrevocably designate financial assets that are debt instruments as measured at FVTPL, subject to the following requirements:

- The Bank has in place appropriate risk management systems including related risk management policies, procedures, and controls; and

- The Bank applies the fair value option only to instruments for which fair values can be reliably estimated.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Equity Instruments
Financial assets that are equity instruments shall be classified under any of the following categories:

a. Financial assets measured at FVTPL which shall include financial assets HFT; or

b. Financial assets at FVOCI which shall consist of:

    i. Equity instruments that are irrevocably designated at FVOCI at initial recognition that are neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which PFRS 3, *Business Combinations* applies; or

    ii. Financial assets mandatorily measured at fair value. These include investments in equity instruments which do not have quoted price in an active market for an identical instrument.

In limited circumstances, PFRS 9 permits an entity to use the cost as an appropriate estimate of the fair value of unquoted equity investments on cases such as:

- When insufficient more recent information is available to measure fair value; or
- When there is a wide range of possible fair value measurements and cost represents the best estimate of fair value in the range.

Dividends earned from equity instruments are recognized in “Miscellaneous - net” in the statements of income when the Bank’s right to receive payment has been established.

*Business Model in Managing Financial Assets*
The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio operation and the operation of those policies in practice. In particular, whether management’s strategy focuses in earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Bank’s management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;

- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and

- the frequency, volume and timing of sales in prior periods, the reason for such sales and its expectation about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

Sale of financial assets under the business model of held-to-collect is permitted under these circumstances:

- Sales of assets before maturity date is immaterial or infrequent and is due to reasons such as:

    - Credit deterioration of obligor/issuer.
    - Change of tax treatment.
    - Switch of eligible assets that better meet the regulatory compliance objective.
    - Excess assets no longer required for meeting regulatory ratio/limit as a result of material balance sheet change.

Each sale must be pre-approved by the Treasury Group Head and the Chief Financial Officer. In consideration of market movements that may affect sales, pre-approvals must be completed within one business day.

Recurring sales under the business model of held-to-collect-and-sell are permitted as long as any of the following conditions are met:

- sale of securities sold have been held for at least 30 days to realize capital gain or loss. There is no limitation on the number or the contract size of sale;

- approval of the Treasury Group Head has been obtained for the sale of securities that have been held for less than 30 days, unless the sale is due to any of the following, in which case, the holding period requirement is not necessary:

    - credit deterioration of the issuer;
    - liquidity stress;
    - undue market risk; or

- excess assets no longer required for regulatory purposes; and

- other reasons for the approval of sale of securities that have been held for less than 30 days such as to adjust or re-balance the Bank's net risk and value realization per security should be approved by the Treasury Group Head and sale of securities do not exceed five times in a calendar year.

*Assessment of Whether Contractual Cash Flows are Solely Payments of Principal and Interest*

For the purposes of assessment, principal is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

Financial Liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or at FVTPL.

Financial liabilities are classified and subsequently measured at amortized cost using the effective interest method, except for financial liabilities measured at FVTPL. Financial liabilities measured at FVTPL consist of: (a) financial liabilities HFT, including derivative liabilities that are not accounted for as hedging instruments; and (b) financial liabilities designated at fair value through profit or loss.

The Bank may, at initial recognition, irrevocably designate financial liabilities as measured at FVTPL.

The Bank's financial liabilities at amortized cost include deposit liabilities, bills payable, outstanding acceptances, manager's checks, accrued interest and other expenses (except retirement liability, accrued taxes and other non-financial accruals) and other liabilities (except withholding taxes payable, provision liability, deposits for future stock subscription and miscellaneous liability).

Financial liabilities at FVTPL include derivative liabilities held-for-trading arising from cross-currency swap and forward contracts. Similar to derivative assets, any gains or losses arising from changes in fair values of derivative liabilities are taken directly to "Foreign exchange gain - net" in the statements of income. Derivatives are carried as liabilities when the fair value is negative.

*Reclassification of Financial Assets and Financial Liabilities*

Financial assets are reclassified when, and only when, the Bank changes its business model for managing financial assets in accordance with the provisions of PFRS 9. Reclassifications other than due to change in business model are not permitted.

A change in the Bank's business model is expected to be very infrequent and must be determined as a result of external and internal changes that are significant to the Bank's operations and demonstrable to external parties. Hence, such change in business model must be approved by the Bank's management and such fact properly documented.

A change in the objective of the Bank's business model must be effected before the reclassification date.

The Bank does not effect a reclassification within the period of change in the business model. Any reclassification of financial assets due to change in business model should take effect from the beginning of the next reporting period of the Bank's financial statements; provided, that the change in business model be disclosed in the financial statements in the period of change consistent with PFRS 7 which require among others the disclosure of objectives, policies and processes for managing the risk from financial instruments and any changes to those objectives, policies and procedures.

Financial liabilities are not reclassified.

*Impairment of Financial Assets*
At each reporting date, the Bank uses the expected credit loss (ECL) model in the assessment of the losses from financial assets such as due from BSP, due from other banks, interbank loans receivable, financial assets at FVOCI - debt securities, investment securities at amortized cost, loans and receivables (excluding sales contract receivables and accounts receivables) and off-balance sheet credit commitments and financial guarantees not measured at FVTPL.

ECL is a forward-looking approach in measuring the difference between the cash flows that are due to the Bank in accordance with the contractual terms of a financial instrument and the cash flows that the Bank expects to receive. The Bank considers the past events, the current situation and the forecast of future economic conditions to identify whether the credit risk of financial instruments have been significantly increased since the initial recognition. The ECL model considers losses from initial recognition and at each reporting date. Three stages of impairment are used for the entire financial asset that serves as an objective basis in determining significant increase in credit risk.

The definitions of the stages are as follows:

- Stage 1 - recognition of 12-month ECL when asset is originated or purchased, except for a purchased or originated credit-impaired financial asset;

- Stage 2 - recognition of collective and individual lifetime ECL when credit quality of financial asset deteriorates significantly; and

- Stage 3 - individual lifetime ECL when credit losses are incurred or asset is credit impaired.

Stage 3 classified assets are assessed using the specific impairment methodology for corporate loans.

The Bank uses three variables in computing the ECL:

- Probability of Default (PD) or the likelihood of a customer defaulting;

- Loss Given Default (LGD) which means how much exposure is expected to be lost if customer defaults; and

- Exposure at Default (EAD) or the outstanding amount of obligation at time of default which covers both the principal and the accrued interest.

For purchased or originated credit assets that are credit-impaired at initial recognition, the Bank calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

Detailed discussions on the recognition and measurement of ECL in relation to credit risk management practices are disclosed in Note 5.

*Modification of Financial Assets and Financial Liabilities*

Financial Assets
If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and

- other fees are included in the statements of income as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortized cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original EIR of the asset and recognizes the resulting adjustment as a modification gain or loss in the statements of income. For floating-rate financial assets, the original EIR used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as “interest income calculated using the effective interest method” in the statements of income.

Financial Liabilities
The Bank derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability derecognized and consideration paid is recognized in statements of income. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original EIR and the resulting gain or loss is recognized in statements of income. For floating-rate financial liabilities, the original EIR used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the EIR on the instrument.

*Derecognition of Financial Instruments*

Financial Assets
The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of the ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of: (a) the consideration received (including any new asset obtained less any new liability assumed) and (b) any cumulative gain or loss that had been recognized in the statements of income.

Any cumulative gain or loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in the statements of income on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability. The Bank enters into transactions whereby it transfers assets recognized on its statements of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial Liabilities
Financial liabilities are removed from the statements of financial position when, and only when, it is extinguished, that is, when the obligation specified in the contract is either discharged or cancelled or expires. Where there has been an exchange between an existing borrower and lender of debt instruments with substantially different terms, or there has been a substantial modification of the terms of an existing financial liability, this transaction is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. A gain or loss from extinguishment of the original financial liability is recognized in the statements of income.

*Policies on Financial Instruments Affecting the 2017 Financial Statements*

*Classification and Measurement*

Prior to its adoption of PFRS 9 in January 1, 2018, the Bank classified certain investment securities as available-for-sale (AFS) investments, which was the residual classification of financial assets under PAS 39, *Financial Instruments: Recognition and Measurement*, the previously applicable accounting standard. The Bank recognized the unrealized gains and losses arising from the fair valuation of AFS investments in OCI similar to the treatment of fair value changes of financial assets at FVOCI under PFRS 9. However, unlike financial assets at FVOCI, when the securities were disposed of, the Bank recognized the cumulative gain or loss of AFS investments previously recognized in OCI as ‘Trading and securities gains - net’ in the statement of income, regardless whether the AFS investment was a debt or an equity security.

Subsequent measurement of loans and receivables and held-to-maturity (HTM) investments under PAS 39 were similar to that of financial assets at amortized cost under PFRS 9 (i.e., using effective interest method of amortization and subject to impairment).

Further, there was no change in the subsequent measurement of financial assets at FVTPL from PAS 39 to PFRS 9, where all changes in fair values were recognized directly in the statement of income.

*Impairment of Financial Instruments*

The Bank assessed at each reporting date whether there was an objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was deemed to be impaired if, and only if, there was an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or the group of financial assets that could be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers was experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they would enter bankruptcy or other financial reorganization, and where observable data indicated that there was measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlated with defaults.

Determination of Fair Value

'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 in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in the statements of income on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

Offsetting

Financial assets and financial liabilities are offset and are reported at net amount in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is generally not the case with master netting agreements, where the related assets and liabilities are presented at gross amounts in the statements of financial position.

Debt Issue Cost

Issuance, underwriting and other related costs incurred in connection with the issuance of debt instruments are deferred and amortized over the terms of the instruments using the EIR method. Unamortized debt issuance cost is included in the related carrying value of the debt instruments in the statements of financial position.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP, due from other banks and interbank loans receivable - net that are convertible to known amounts of cash with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value.

Cash and cash equivalents are carried at amortized cost in the statements of financial position.

Repurchase and Reverse Repurchase Agreements
Securities purchased under resale agreement (SPURA) to resell at a specified future date ("reverse repos") are not recognized in the statements of financial position. The corresponding cash paid, including accrued interest, is recognized in the statements of financial position as securities purchased under resale agreement, and is considered as a loan to the counterparty. The Bank is not permitted to sell or re-pledge the collateral in the absence of default by the owner of the collateral. The difference between the purchase price and resale price is treated as interest income in the statements of income and is amortized over the life of the agreement using the effective interest method.

Conversely, securities sold under repurchase agreements (SSURA) at a specified future date ("repos") are not derecognized from the statements of financial position. The corresponding cash received, including accrued interest, is recognized in the statements of financial position as liability of the Bank, reflecting the economic substance of such transaction.

Property and Equipment
Depreciable properties which include bank premises, furniture, fixtures and equipment, leasehold rights and improvements, computer and transportation equipment are stated at cost less accumulated depreciation and amortization and accumulated impairment loss, if any. Except for right-of-use assets presented under bank premises, the initial costs of property and equipment consists of purchase price, including import duties, taxes, and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of the equipment when the cost is incurred and if the recognition criteria are met, but excludes repairs and maintenance cost. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Right-of-use assets are presented together with property and equipment in the statements of financial position. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, and an estimate of costs dismantle and remove any improvements made to branches or office premises, less any incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the underlying asset or to the end of lease term. The right-of-use assets are stated at cost less accumulated depreciation, less accumulated impairment loss, if any.

The Bank does not recognize right-of-use assets for leases with term of 12 months or less and leases of low-value assets. The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Depreciation and amortization of owned assets is calculated using the straight-line method over the estimated useful lives of the depreciable assets. Leasehold rights and improvements are amortized over the shorter of the term of the related lease or the estimated useful lives of the leasehold improvements.

The range of estimated useful lives of the owned depreciable assets follows:

| | Number of Years |
|---|---|
| Bank premises (except right-of-use assets) | 30 |
| Right-of-use assets | 3 - 5 |
| Transportation equipment | 5 |
| Furniture, fixtures and equipment | 5 |
| Computer equipment | 3 |
| Leasehold rights and improvements | 3 - 5 |

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the statements of income in the reporting 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 fair value of the asset acquired unless the fair value of the asset cannot be measured reliably, in which case the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified under "Investment properties - net" in the statements of financial position from foreclosure date. Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and impairment loss, if any.

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

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

Depreciation is calculated on a straight-line basis over the estimated remaining useful life from the time of acquisition of the investment properties. The estimated useful lives of the Bank's investment properties range from 10 to 40 years. The period and method of depreciation are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties.

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

Computer Software Costs

Computer software costs (included under "Other assets" in the statements of financial position) are costs incurred relative to the development of the Bank's software. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Costs are amortized on a straight-line basis over five to eight years and are included under "Amortization of computer software costs" in the statements of income.

Costs associated with maintaining the computer software programs are recognized as expense when incurred.

Impairment of Non-financial Assets

*Property and Equipment, Investment Properties, and Computer Software Costs*

At each reporting date, the Bank assesses whether there is any indication that its property and equipment, investment properties and computer software costs are impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of recoverable amount. Recoverable amount is the higher of a non-financial asset's fair value less costs to sell and its value in use and is determined for an individual non-financial asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs.

Where the carrying amount of a non-financial asset exceeds its recoverable amount, the non-financial asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is charged to "Impairment losses" in the statements of income in the year in which it arises. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statements of income. After such a reversal, any depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

On-balance Sheet Financial Guarantees

In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. Financial guarantees are initially recognized at fair value. Subsequent to initial recognition, the Bank's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization of the fee recognized over the term of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recognized as expense in statements of income. When a financial guarantee liability is discharged, cancelled, or expires, the balance is recognized as income in the statements of income.

<u>Prepayments</u>
Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to statements of income as they are consumed in operations or expire with the passage of time.

<u>Revenue Recognition</u>

*Interest Income*

*Policies Applicable*

Effective Interest Rate
Interest income and expense are recognized in the statements of income using the effective interest rate method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all the contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted EIR is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the EIR, transactions costs and all other premiums or discounts. Transaction costs include incremental costs that are directly attributable to the acquisition or issuance of a financial asset or financial liability.

Amortized Cost and Gross Carrying Account
The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of Interest Income
The effective interest rate of a financial asset is calculated on initial recognition. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation
Interest income presented under "Interest income calculated using the effective interest method" in the statements of income includes interest earned on financial assets at amortized cost and at FVOCI.

Interest income on financial assets at FVTPL is presented under "Interest income on financial assets at FVTPL" in the statements of income.

*Policy on Interest Income Affecting the 2017 Financial Statements*

Effective Interest Rate
Interest income was recognized in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

The transaction costs of acquisition of loans and receivables or additional service fee on generation or acquisition of the loans and receivables were served to adjust the book value of loans and receivables and thereby revise the effective interest rate. Interest revenue generated from discounts and loans were recognized based on accrual basis. When the loans became past due and were considered uncollectible, the principal and interest receivable were transferred to nonperforming loan accounts, and the accrual of interest revenue was ceased. Interest revenue would be recognized when the interest of the nonperforming loan was collected.

*Service Fees and Commission Income*
The Bank earns fee and commission income from the diverse range of services it provides to its customers. Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance, such as corporate finance fees, and loan syndication fees are recognized in the statements of income as the related services are performed. Service charges and penalties relating to loan receivable and deposit transactions are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectability.

The Bank disaggregates its service fees and commission income arising from contracts with customers into major service lines and into reportable segments (see Note 22).

The Bank assessed that there is no difference in accounting for the above service fees and commission income under PFRS 15, *Revenues from Contracts with Customers* and PAS 18, *Revenue*.

*Dividend Income*
Dividend income on equity investments is recognized when the Bank's right to receive payment is established.

*Trading and Securities Gain - net*
Trading and securities gain - net include all gains and losses from changes in fair value for financial assets at FVTPL and realized gains or losses on disposals of financial asset at FVTPL, debt financial assets at FVOCI and investment securities at amortized cost.

*Other Income*
Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized when the risks and rewards of ownership of the property are transferred, the amount of revenue can be estimated reliably and the collectability is reasonably assured.

Expense Recognition
Expenses are recognized in the statements 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 statements 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 with income can only be broadly or indirectly determined; or

- immediately when an 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 statements of financial position as an asset.

Expenses in the statements of income are presented using the nature of expense method.

Income and expenses are presented on a net basis only when permitted by the accounting standards.

Leases

*Policy Applicable from January 1, 2019*

The Bank has applied PFRS 16 using modified retrospective approach and therefore the comparative information has not been restated and continue to be reported under PAS 17 and IFRIC 4. The details of the accounting policies under PAS 17 and IFRIC 4 are disclosed separately.

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in PFRS 16.

*Bank as Lessee*
The Bank recognizes a right-of-use asset and a lease liability at the lease commencement date. The initial amount of the right-of-use asset comprises the initial amount of the lease liability, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, and an estimate of costs to restore the underlying asset, less any incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the underlying asset or the end of the lease term. The right-of-use assets are stated at cost less accumulated depreciation and amortization, and accumulated impairment loss, if any.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or the Bank's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

(a) Fixed payments, including payments that may in form contain variability but in substance are unavoidable;
(b) Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
(c) Amounts expected to be payable under a residual value guarantee; and
(d) Amounts expected for the exercise price under a purchased option, lease payments under an extension option and penalties for early termination, if the Bank is reasonably certain to exercise or early terminate.

The lease liability is measured by the effective interest method to recognize the interest expense and remeasured to reflect the changes as follows:

(a) The lease term changes;
(b) The future lease payment changes to reflect a change in an index or rate; or
(c) If there is a change in the estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured to reflect the above changes, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in statements of income if the carrying amount of the right-of-use has been reduced to zero.

The Bank has elected not to recognize right-of-use assets and lease liabilities for leases with a lease term of 12 months or less and leases of low-value assets. The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

*Policy Applicable before January 1, 2019*

Leases
The determination of whether an arrangement was, or contained a lease was based on the substance of the arrangement and required an assessment of whether the fulfillment of the arrangement was dependent on the use of a specific asset or assets and the arrangement conveyed a right to use the asset. A reassessment was made after inception of the lease only if one of the following applied:

(a) there was a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option was exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;

(c) there was a change in the determination of whether fulfillment was dependent on a specified asset; or

(d) there was a substantial change to the asset.

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

*Bank as Lessee*
Leases where the lessor retained substantially all the risks and benefits of ownership of the asset were classified as operating leases. Operating lease payments were recognized as an expense in the statement of income on a straight-line basis over the lease term.

Employee Benefits
*Short-term Employee Benefits*
Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Bank has a present or legal constructive obligation to pay this amount as a result of past service provided by the employees and the obligation can be estimated reliably.

*Retirement Benefits*
The Bank's personnel are covered by a funded noncontributory defined benefit retirement plan.

The Bank's net obligation in respect of the defined benefit plans is calculated by estimating the amount of the future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed on a periodic basis by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Bank, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in the statements of OCI. The Bank determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined liability (asset) during the period as a result of contributions and benefit payments. Current service cost and other income and expenses related to defined benefit plans are recognized in the statements of income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in the statements of income.

The Bank recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

<u>Provisions</u>

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

<u>Income Taxes</u>

Income tax comprises current, deferred and final taxes. Income tax is determined in accordance with Philippine tax law. Income tax is recognized in the statements of income, except to the extent that it relates to items recognized directly in equity. Tax on these items is recognized in the statements of OCI.

*Current Income Tax*

Current income tax is the expected tax payable on the taxable income for the period, using tax rates and laws that have been enacted or substantively enacted at the statements of financial position date, together with adjustments to tax payable in respect of prior years. The amount of current tax payable is the best estimate of the tax amount expected to be paid that reflects uncertainty related to income taxes, if any.

*Deferred Tax*

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

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

Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

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

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. These reflect uncertainty related to income taxes, if there is any.

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

*Final Tax*
Final tax is a kind of withholding tax which is prescribed on certain income payments and is not creditable against the income tax due of the payee on other income subject to regular rates of tax for the taxable year. Tax withheld constitutes the full and final payment of the tax due from the payee on the particular income subjected to final withholding tax.

Equity
Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to “Additional paid-in capital” account in the statements of financial position. Direct costs incurred related to equity issuance such as underwriting, accounting and legal fees, printing costs and taxes are charged to “Additional paid-in capital” account. If the additional paid-in capital is not sufficient, the excess is charged against the “Retained earnings” account.

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

Retained earnings represent accumulated earnings of the Bank less dividends declared, if any.

Treasury Stock
These are own equity instruments that are reacquired which are recognized at cost and deducted from equity. No gain or loss is recognized in the statements of income on the purchase, sale, issue or cancellation of the Bank’s own equity instruments. The excess of the carrying amount over the consideration, if reissued, is charged to additional paid-in-capital from treasury shares of the same class. If the additional paid-in-capital is not sufficient, the excess is charged against the “Retained earnings” account.

Voting rights related to treasury stocks are nullified for the Bank and no dividends are allocated to them.

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

Diluted earnings per share is computed dividing net income for the year by the weighted average number of common shares outstanding during the year adjusted for the effects of any dilutive securities.

Dividends on Capital Stocks
Dividends on capital stocks are recognized as a liability and deducted from retained earnings when declared and approved by the shareholders of the Bank. Dividends for the year that are approved after the statements of financial position date are dealt with as an event after the reporting date.

Deposits for Future Stock Subscription
In accordance with Financial Reporting Bulleting No. 6 (as revised) of the SEC, a contract to deliver the Bank's own equity instrument shall be classified under equity as a separate account (i.e., Deposits for future stock subscription) from outstanding capital stock if and only if, all of the following elements are present as at end of the reporting period:

- The unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract;

- There is BOD's approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation);

- There is stockholders' approval of said proposed increase; and

- The application for the approval of the proposed increase has been filed with the SEC.

Otherwise, deposits for future stock subscription are presented under "Other liabilities".

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

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

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 Bank acts in a fiduciary capacity such as nominee, trustee or agent.

*Standards Issued But Not Yet Adopted*

A number of amendments to standards are effective for annual periods beginning after January 1, 2020. However, the Bank has not early adopted the following new or amended standards in preparing these financial statements. Based on management's assessment, unless otherwise stated, none of these are expected to have a significant effect on the Bank's financial statements.

*To be Adopted on January 1, 2020*

- *Amendments to References to Conceptual Framework in PFRS Standards* sets out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes:

  - a new chapter on measurement;
  - guidance on reporting financial performance;
  - improved definitions of an asset and a liability, and guidance supporting these definitions; and
  - clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

  Some Standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee (IASC)'s Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (IASB) in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

  These amendments are effective for annual reporting periods beginning on or after January 1, 2020.

- *Definition of Material (Amendments to PAS 1 Presentation of Financial Statements and PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors).* The amendments refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by:

  (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence';
  (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition;
  (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;
  (d) clarifying the explanatory paragraphs accompanying the definition; and
  (e) aligning the wording of the definition of material across PFRS and other publications.

The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

The amendments apply prospectively for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

## 4. Significant Accounting Judgments and Estimates

The preparation of the financial statements requires the Bank 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 they become reasonably determinable.

The most significant areas where judgments and estimates have been made are set out below:

Judgments

*Judgment Applicable from January 1, 2019 only*

*Leases - Bank as Lessee*
The Bank leases properties, land and buildings for the premises it uses for its operations.

In determining whether the Bank is a party to a lease contract as a lessee, the Bank assesses whether all of the three elements below are present:

- The contract has an identified asset;
- The Bank has the right to obtain substantially all of the economic benefits from the use of the identified asset; and
- The Bank has the right to direct the use of the identified asset.

*Judgments Applicable in both 2019 and 2018*

*Business Model Assessment*
Debt securities held are classified based on the Bank's business models for managing the debt securities which are determined and assessed at the portfolio level that reflects how groups of debt securities are managed together to achieve the particular business objectives (e.g. to collect contractual cash flows or to trade to realize fair value changes) of the respective business model.

The Bank's business models for managing debt securities held determine the nature and source of the cash flows resulting from the investments. As such, the assessment of the business models for managing the debt securities is subject to judgment that is not determined by a single factor or activity. Instead, the Bank must consider all relevant evidence that is available at the date of the assessment.

*Assessment of Whether Contractual Cash Flows are Solely Payments of Principal and Interest*

The classification of a financial asset is based on whether, on specified dates, the contractual terms of the financial asset give rise to cash flows are SPPI on the principal amount outstanding. This involves assessment of whether the contractual cash flows that are SPPI are consistent with a basic lending arrangement. In a basic lending arrangement, consideration for the time value of money and credit risk are typically the most significant elements of interest.

As such, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, the period for which the interest rate is set and the contractual terms that change the timing or amount of the cash flows.

*Significant Increase in Credit Risk*

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and credit assessment, including forward-looking information.

The Bank's qualitative and quantitative factors modelling in the determination of whether credit risk of a particular exposure is deemed to have increased significantly since initial recognition is disclosed in Note 5.

*Going Concern*

In view of the COVID-19 pandemic, the Bank's management made an assessment of the Bank's ability to continue as a going concern. Based on the evaluation, the outbreak has not significantly affected the Bank's operations; however, management expects that the financial impact of the outbreak will manifest few months after the issuance of these financial statements.

As such, management believes that the consequences of the outbreak have not led to a deterioration in operating results and financial position after the reporting date but before the financial statements are authorized for issue, that is so severe that the going concern basis of preparation is no longer considered appropriate. Furthermore, management deems that the outbreak does not constitute a material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern. Therefore, the financial statements as at and for the year ended December 31, 2019 continue to be prepared on the going concern basis.

In 2018, the Bank's management made an assessment of the Bank's ability to continue as a going concern and was satisfied that the Bank had the resources to continue its business in the foreseeable future. Furthermore, management was not aware of any material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern. Therefore, the financial statements as at and for the year ended December 31, 2018 continued to be prepared on the going concern basis.

*Determining whether a Financial Instrument is Quoted in an Active Market*

The Bank classifies financial instruments by evaluating, among others, whether the financial instrument is quoted or not in an active market. Included in the evaluation on whether a financial instrument is quoted in an active market is the determination of whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions conducted on an arm's length basis.

*Determining Functional Currency*
PAS 21 *The Effects of Changes in Foreign Exchange Rates* requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Bank considers the following:

- the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);

- the currency in which funds from financing activities are generated; and

- the currency in which receipts from operating activities are usually retained.

*Judgment Applicable before January 1, 2019*

*Operating Leases - Bank as Lessee*
The Bank entered into operating lease agreements for the premises it used for its operations. The Bank determined that all significant risks and rewards of ownership of the properties it leases on operating lease arrangements were retained by the lessor.

In determining whether or not a lease should be treated as an operating lease, the retention of ownership title to the leased property, period of lease contract relative to the estimated economic useful life of the leased property and bearer of executory costs, among others, were considered.

<u>Estimates</u>

*Estimates Applicable from January 1, 2019 only*

*Incremental Borrowing Rate*
The Bank estimates its discount rate on leases based on incremental borrowing rate. Incremental borrowing rate is the interest rate the Bank would have to pay over a similar term, and with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment.

Determining the incremental borrowing rate is a challenge to the Bank considering its limited debt arrangements with other banks. As such, an estimate of appropriate incremental borrowing rate is derived by averaging long-term negotiable certificate of deposit rates issued by peer banks from 12 months prior to the lease commencement date. Such estimate is determined by the Bank on a lease-by-lease basis.

At the date of initial application, the Bank estimated its incremental borrowing rate at 4.88% for all its leases. During the year, new lease contracts were individually assessed for the determination of an appropriate incremental borrowing rate.

*Estimates Applicable in both 2019 and 2018*

*Impairment Losses on Financial Instruments*
The Bank reviews its financial instruments monthly for the assessment of the sufficiency of the loss allowances recorded in the statements of financial position.

In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of qualitative and quantitative factors where different results may result in future changes to the loss allowances.

In addition to specific allowance against individually significant loans and receivables, the Bank 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. This collective allowance is done by considering information that is indicative of significant increases in credit risk on a group or sub-group of financial instruments.

The loss allowance on financial instruments amounted to P869.3 million and P760.1 million as at December 31, 2019 and 2018, respectively (see Note 12). This includes loss allowance on loans and receivables, interbank loans receivable, debt financial assets at FVOCI, investment securities at amortized cost and off-balance sheet commitments and contingencies.

As at December 31, 2019 and 2018, the carrying value of loans and receivables and interbank loans receivable, net of loss allowance, amounted to P37.0 billion and P35.2 billion (see Notes 8 and 27); P1.5 billion and P6.1 billion, respectively (see Note 26).

As at December 31, 2019 and 2018, the loss allowance on off-balance sheet commitments and contingencies, debt financial assets at FVOCI and investment securities at amortized cost amounted to P3.8 million and P5.5 million; P1.2 million and P0.4 million; and P0.5 million and nil, respectively (see Note 12).

*Determining Inputs into ECL Measurement Model*
In computing the ECL, the Bank uses three variables: (a) PD; (b) LGD; and (c) EAD. The determination of the amounts of the variables involves identifying and documenting key drivers of credit risk and credit losses for each portfolio of financial instruments and using an analysis of historical data to estimate relationships between macro-economic variables and credit risk and credit losses. Identified drivers for credit risk include GDP growth, inflation and unemployment rate.

Detailed discussions on the Bank's inputs to the ECL model are disclosed in Note 5.

*Determining Fair Value of Financial Instruments*
Where the fair values of financial assets and financial liabilities recorded on the statements of financial position or disclosed in the notes cannot be derived from active markets, they are determined using a variety of valuation techniques acceptable to the market as alternative valuation approaches that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in estimating fair values.

The evaluation includes considerations of liquidity and model inputs such as correlation and volatility.

Moreover, the Bank measures its unquoted equity securities at their carrying amounts since there were no readily available information sufficient to determine their fair values at the measurement date considering that these are not significantly affected by the changes in market conditions and passage of time.

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

The Bank recognized deferred tax assets as at December 31, 2019 and 2018 amounting to P398.3 million and P236.7 million, respectively (see Note 21).

*Present Value of Defined Benefit Retirement Obligation*
The present value of the defined benefit retirement obligation depends on a number of factors and assumptions such as discount rate and salary increase rate. These assumptions are described in Note 19 to the financial statements.

The Bank determines the appropriate discount rate at the end of each reporting period. It is the interest rate that should be used to determine the present value of estimated future cash outflows to settle the retirement obligations. In determining the appropriate discount rate, the Bank considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement obligation.

Other key assumptions for the defined benefit retirement obligation are based in part on current market conditions. While it is believed that the Bank's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Bank's defined benefit retirement obligation.

The present value of the Bank's defined benefit retirement obligation amounted to P250.5 million and P177.8 million as at December 31, 2019 and 2018, respectively (see Note 19).

The net retirement liability and asset of the Bank amounted to P59.3 million and P15.0 million as at December 31, 2019 and 2018, respectively (see Notes 11, 15 and 19).

*Estimates Applicable before January 1, 2018*

*Impairment of AFS Unquoted Equity Investments*
The Bank treated AFS unquoted equity investments as impaired when there had been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment existed. The determination of what was 'significant' or 'prolonged' required judgment. The Bank treated 'significant' generally as 20.0% or more of the original cost of investment and 'prolonged' as greater than twelve (12) months. In addition, the Bank evaluated other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factor for unquoted equities.

*Credit Losses on Loans and Receivables*
The Bank reviewed its impaired loans and receivables at least semi-annually to assess whether additional provision for credit losses should be recorded in the statements of income. In particular, judgment by management was required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates were based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Bank also made a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, had a greater risk of default than when originally granted. This collective allowance was based on any deterioration in the internal credit rating of the loan since it was granted or acquired. These internal ratings took into consideration factors such as any deterioration in industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

## 5. Financial Risk and Capital Management Objectives and Policies

The Bank is in the business of creating value out of taking risks.

Financial risks arise primarily from the use of financial instruments which include:

- Credit Risk
- Market Risk
- Liquidity Risk

The following principles summarize the Bank's overall approach to risk management:

- The BOD provides the overall direction and supervision of the Bank's risk management;

- The key risks faced by the Bank - both financial and non-financial - are managed by appropriate functional levels within the Bank;

- The risk management functions are independent from the businesses and provide check-and-balance for risk taking units; and

- Risk management involves managing the balance between risk and reward, to enable the Bank to fulfill its commitment to protect shareholder interest, as well as deliver value to the banking public, and comply with relevant regulations.

*Risk Management Structure*
The BOD is ultimately responsible for oversight of the Bank's risk management process. It created the Risk Management Committee (RMC), a board-level independent committee with explicit authority and responsibility for managing and monitoring risks.

*Risk Management Committee - Powers, Duties and Functions*
The RMC shall be responsible for the development and oversight of the Bank's Risk Management Program. It shall provide general direction and define the risk philosophy of the Bank.

It shall oversee the system of limits to discretionary authority that the Board delegates to management, will ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached.

The RMC shall review and approve the Bank's Internal Capital Adequacy Assessment Process (ICAAP). This also includes the review of the Bank's Risk Capital Framework (e.g. credit, market, liquidity and operational risks), including significant inputs and assumptions.

The core responsibilities of the RMC are:

1. *Identify and Evaluate Risk Exposures*. The RMC assesses the probability of each reported risk becoming reality including the reported estimate of possible effect and cost. Priority areas of concern are those risks that are most likely to occur and with high adverse impact to the Bank when these happen.

2. *Develop Risk Management Strategies*. The RMC approves a written plan defining the strategies for managing and controlling the major risks. It approves recommended practical strategies to mitigate the risks, avoid and minimize losses if the risk becomes real.

3. *Oversee Adherence to Risk Appetite.* The RMC ensures that current and emerging risk exposures are consistent with the Bank's strategic direction and overall risk appetite. It assesses the overall status of adherence to the risk appetite based on the quality of compliance with the limit structure, policies, and procedures relating to risk management and control, and performance of management, among others.

4. *Establish an Appropriate Credit Risk Environment.* The RMC is responsible for the approval and regular review of credit risk strategy and credit policy, as well as the oversight of the implementation of a comprehensive and effective credit risk management system appropriate for the size, complexity and scope of operations of the Bank. The RMC ensures that the system provides for adequate policies, procedures and processes to identify, measure, monitor and control all credit risks inherent in the Bank's products and activities, both at the individual and portfolio levels on a consistent and continuing basis; and that an independent assessment of the system is periodically performed, the results of which will be reported to it for appropriate action.

5. *Oversee the Implementation of the Risk Management Plan*. The RMC directs the dissemination of the risk management plan and loss control procedures to all affected parties. The RMC conducts regular discussions on the institution's current risk exposure based on regular management reports and direct concerned units or offices on how to reduce these risks.

6. *Review and Revise the Plan as Needed.* The RMC evaluates the risk management plan to ensure its continued relevance, comprehensiveness, and effectiveness. It revisits strategies, look for emerging or changing exposures, and stay abreast of developments that affect the likelihood of harm or loss. The RMC reports regularly to the BOD the Bank's over-all risk exposure, actions taken to mitigate the risks, and recommend further action or plans as necessary.

7. *Review and Update the Risk Management Committee Charter Periodically or as Deemed Necessary*

8. *Review and Evaluate Chief Risk Officer (CRO)'s Performance Annually*

9. *Endorse for Confirmation of BOD the Performance Rating of the CRO*

10. *Perform Oversight Functions over the Information Technology (IT) Steering Committee (ITSC).* The RMC oversees the ITSC function and regularly provides adequate information to the Board regarding IT performance, status of major IT projects or other significant issues to enable the Board to make well-informed decisions about the Bank's IT Operations.

The CRO being directly reporting to the RMC has the following roles and responsibilities:

- To oversee the risk management function and to support the BOD in the development of risk appetite and risk appetite statement of the Bank and for translating the risk appetite into a risk limits structure.

    - Ongoing monitoring of the Bank's risk profile and risk exposures with respect to the following:
        - risk appetite
        - performance vs. risk tolerance
        - risk trends
        - risk concentrations
        - loss allowance
        - key performance indicators for risk
        - capital adequacy

    - To consider and recommend to the BOD for approval, through the RMC, the Bank's risk tolerance and in particular:
        - to recommend to the BOD on an annual basis the Bank's risk tolerance, including risk type limits for institutional credit risk, retail credit risk, liquidity risk and market risk for the following year.
        - to consider any breaches of the Bank's risk tolerance and each of the approved risk type limits and to recommend whether the BOD should approve the reduction plan and/or ratify the excess request.

- To propose enhancements to risk management policies, processes, and systems to ensure that the Bank's risk management capabilities are sufficiently robust and effective to fully support strategic objectives and risk-taking activities.

- To provide independent oversight function on credit risk management organization, including, but not limited to the following:

    - risk management and control functions that are independent from the credit originating and administration functions;
    - meaningful inputs in policy formulation and limits setting, design and implementation of the Bank's internal credit risk rating systems by way of endorsement of credit policies, guidelines and procedures;
    - periodic exposure and exception monitoring by way of the review of credit risk management reports;
    - review of the validation of Internal Rating System and Credit Scoring Models on a regularly basis;
    - problem loan management by way of attendance at Credit Committee meeting; and
    - unbiased assessment of the quality of individual credits and aggregate credit portfolio, including appropriateness of credit risk rating, classification and adequacy of loss allowance by way of independent credit review as part of the Credit Committee.

- To evaluate annually the Bank's internal risk control framework through the Internal Capital Adequacy Assessment Process (ICAAP) to satisfy itself on the design and completeness of the framework relative to the Bank's activities and risk profile.

- To review the Bank's liquidity profile and recommend the overall liquidity risk framework (including risk tolerance) to the Board, including the results of different stress tests and test assumptions.

- To evaluate the appropriateness of the Bank's risk measurement systems such as but not limited to the following:

  - daily value at risk (VAR) and any significant credit risk measurement system such as Internal Rating System
  - risk and control self-assessment of operational risk

- To undertake other duties/functions that may be assigned.

As the Enterprise-Wide Risk Management (EWRM) representative, the CRO facilitates the execution of EWRM processes and infrastructure as a key enabler to achieving the business objectives of the organization. The CRO manages and develops a comprehensive process for assessing, identifying, monitoring and reducing pertinent business risks that could interfere with the Bank's objectives and goals.

The following are the different risk groups governed by the CRO:

- Office of the CRO;

- Operational and Reputational Risk Management Department (ORRMD); and

- Market Risk Management Department (MRMD) - Market Risk, Liquidity Risk and Interest Rate Risk in the Banking Books (IRRBB).

<u>Credit Risk</u>
Credit risk is the risk that one party to a financial transaction will fail to honor an obligation and cause the Bank to incur a financial loss. Credit risk arises primarily from the Bank's corporate and retail loans (customer credit risk) and investment securities (counterparty credit risk).

With respect to corporate credit risk for Institutional Banking, the Institutional Credit Management Group (ICMG) is mainly responsible for the following:

(a) safeguard the quality of the Bank's institutional loan portfolio; and

(b) provide support services to the lending units of the Bank.

To safeguard the quality of the loan portfolio of the Bank, ICMG performs the following functions:

(a) conduct pre-approval review of credit proposals of lending units;

(b) assist in structuring appropriate credit facilities;

(c) provide policy guidelines to the lending units in order to standardize the credit process;

(d) coordinate with the lending units on the required post-approval requirements (i.e., Loan Review Report, Account Planning, etc.) in the management of existing accounts;

(e) conduct regular meetings to discuss problem accounts;

(f) review/endorse loan loss provisions for problematic accounts; and

(g) provide senior management with reports pertaining to the quality of the loan portfolio.

Each credit proposal undergoes an evaluation process in order to determine its acceptability. The evaluation process involves the identification of credit risks after having assessed key factors including, target market/industry, management, appropriateness of credit facilities, terms and conditions, financial performance and condition, collateral and others.

The credit risk identification framework also consists of an internal risk rating system for corporate accounts that has a blend of both quantitative and qualitative factors. The Obligor's Risk Rating (ORR) ranges from ORR 0 to 17, with ORR 0 being the lowest credit risk and 14 to 17 representing the classified accounts (Especially Mentioned to Loss).

One of the Bank's risk monitoring exercises is its semi-annual review of corporate accounts via the Loan Review Report (LRR). Exempted from this review are accounts fully-secured by cash or government securities, accounts whose sole credit facility with the Bank is fully secured by unconditional and irrevocable sovereign guarantee or under a specific credit/product program, watch-list (EW2/EW3) or classified accounts (Loans Especially Mentioned, Substandard, Doubtful, and Loss), and banks with uncommitted lines. The LRR, accomplished six (6) months after approval date, covers the borrower's relationship with the Bank, updated financial performance, repayment capability, identification of major risks, outlook, etc. It also assesses account classification and ORR.

If deterioration in credit is identified, either the Institutional Banking Group (IBG) or the ICMG has the discretion to include it in any of the Early Warning (EW) buckets. This calls for the submission of a Notification report, quarterly or more frequent LRR (for EW1 accounts), and Account Planning reports (APR) for EW2 and EW3 accounts. If deemed appropriate, EW2 and EW3 accounts may be transferred to the Asset Recovery Management Department (ARMD) for handling. Apart from these, the Relationship Manager (RM) who is responsible to improve business relationships with the Bank's clients is required to provide updates during Credit Committee meetings.

The IBG or ARMD RM (depending on the classified account owner) and Litigation Head of the Legal Department are also required to report to the Credit Committee the status of the classified accounts at least twice a month and once a month for an EW account. Depending on the outstanding exposure of an EW2/EW3 account, the RM regularly prepares the Account Planning reports for approval either of the Senior Credit Officer (SCO), the Credit Committee or the Executive Committee. The APR covers the loan details of the account including the outstanding principal, loan loss provision, the action plan and present status of the account which includes the progress diary enumerating the series of events that took place covering the account planning period and financial/operation analysis. The same APR is referenced for the corresponding BSP classification.

Monthly classified accounts are also being prepared by the Credit Administration Department (CAD) for senior management guidance covering the list of classified accounts and its corresponding loan loss provision.

The Head of the ICMG reports regularly to the Credit Committee to discuss the corporate credit risk profile including but not limited to the past due loan, non-performing loan, concentration risk, action plan for each non performing account and their corresponding timeline.

On the Retail Banking side, the RCMG is responsible in managing retail credit risk that mainly arises from granting of loans for the personal consumption of the individual borrowers such as public loans, salary loans for employees of accredited corporate entities and housing or mortgage loans. In addition, the RCMG is also responsible for managing credit risk of small and medium enterprise (SME) loans starting in October 2015 considering the similarity of SME loans and retail credits in terms of program lending-based credit risk underwriting and portfolio risk management process.

For retail loans, risk is firstly assessed and managed by the design of product or testing programs. For public personal loans, the risk assessment is accomplished through the use of Application and Behavioral credit scorecards. For corporate personal loans and mortgage/housing loans, the risk assessment is performed through the implementation of risk caps (program and deviation) and execution of a risk criteria review process (rule-based criterion or eligibility criteria). Aside from the above, risk assessment through due diligence and comprehensive underwriting review of financial statements is conducted for SME loans.

The Bank’s internal risk rating for its retail accounts, referred to as Credit Risk Rating (CRR), ranges from CRR 1 to 20, with CRR 1 being the lowest credit risk.

In line with this approach, risk identification is performed through the following process workflow stages:

| Process | Public Personal Loan | Corporate Personal Loan | Housing/ Mortgage Loan | SME Loan |
|---|---|---|---|---|
| Pre-screening | Y | Y | Y | Y |
| Duplicate check | Y | Y | Y | Y |
| Policy check | Y | Y | Y | Y |
| Credit Risk Scoring/Rating | Y | N | Y | Y |
| Credit verification | Y | Y | Y | Y |
| Appraisal | N | N | Y | Y |
| Deviation review | Y | Y | Y | Y |
| Approval/reject | Y | Y | Y | Y |

In the execution of the above processes, functional segregation of processor, evaluator and approver responsibilities are observed. Approving authorities are granted based on qualification, competence and capacity. The approving authority hierarchy follows retail core credit policy set by the Parent Bank such that credit delegation is defined by credit officer and senior credit officer levels, by amounts and by risk level in evaluation and approval of its loan applications by product.

Retail credit risk policies and processes are managed by the Bank by upholding the 3-level document framework set by the Parent Bank.

1. Policies (Governance, Retail Core Retail Credit Policy) are approved by the BOD.

2. Guidance/Principle (Product Guideline) provides an outline of the business strategy and defined management guidelines including product features, eligibility criteria, account management and approval guidelines as approved by the Bank's President.

3. Procedures and Working Manual:

    a. contains the business and credit policies and operating level procedures managed by each department (Product Procedure) that requires approval of the respective Group Heads;

    b. defines the routine operational procedures for each business execution (Working Manual) as approved by the respective Group Heads; and

    c. outlines the forms and documents utilized by users to perform business activities.

Amendments to the fundamental policies may only be instituted through a progression, completion and analysis of performance of a test program or changes to business initiatives or market behavior as evidenced by empirical data, but still subject to respective approval hierarchy.

In addition, the RCMG also handles retail loan portfolio performance reviews and reporting through preparation of monthly asset quality reports, loan portfolio analyses and scorecard performance monitoring reports. Included in these periodic reports are through-the-door analysis, delinquency performance review, industry performance review, risk classification review, scorecard measurement benchmarks review as well as tracking of risk caps.

These functions enable the RCMG in the crafting of new and enhanced credit policies and processes that mitigates possible losses due to retail credit risk.

*Counterparty Credit Risk*
Credit risk with respect to investment securities, including derivative financial instruments, is generally limited to the carrying values (positive fair values for derivatives) reported in the statements of financial position. Counterparty credit risk could arise as a result of counterparties defaulting on their obligations to pay the principal and coupon (positive fair value at maturity for derivatives).

*Maximum Exposure to Credit Risk after Collateral Held or Other Credit Enhancements*

An analysis of the maximum exposure to credit risk after taking into account any, collateral held or other credit enhancements is shown below (in thousands):

| | | 2019 | | | |
|---|---|---|---|---|---|
| | **Note** | **Gross Maximum Exposure** | **Fair Value of Collateral** | **Net Exposure to Credit Risk** | **Financial Effect of Collateral or Credit Enhancements** |
| **Credit Risk Exposure Relating to On-balance Sheet Assets are as Follows** | | | | | |
| Financial assets at amortized cost: | | | | | |
| Due from BSP | | **P4,277,491** | **P -** | **P4,277,491** | **P -** |
| Due from other banks | | **1,591,079** | **-** | **1,591,079** | **-** |
| Interbank loans receivable - gross | | **1,518,594** | **-** | **1,518,594** | **-** |
| Investment securities - gross | *7* | **2,852,929** | **-** | **2,852,929** | **-** |
| Loans and discounts - gross: | *8* | | | | |
| Institutional banking | | **28,527,006** | **2,922,123** | **25,604,883** | **2,922,123** |
| Retail banking | | **5,072,344** | **-** | **5,072,344** | **-** |
| Mortgage banking | | **2,326,210** | **1,960,118** | **366,092** | **1,960,118** |
| Small business loans | | **1,398,110** | **1,207,684** | **190,426** | **1,207,684** |
| Accrued interest receivable | | **264,217** | **-** | **264,217** | **-** |
| Other receivables | | **266,429** | **-** | **266,429** | **-** |
| Other assets* | | **37,355** | **-** | **37,355** | **-** |
| Subtotal | | **48,131,764** | **6,089,925** | **42,041,839** | **6,089,925** |
| Financial assets at FVTPL: | *7* | | | | |
| Quoted debt securities | | **4,125** | **-** | **4,125** | **-** |
| Derivative assets | | **77,016** | **-** | **77,016** | **-** |
| Subtotal | | **81,141** | **-** | **81,141** | **-** |
| Financial assets at FVOCI: | *7* | | | | |
| Quoted debt securities | | **6,420,539** | **-** | **6,420,539** | **-** |
| | | **54,633,444** | **6,089,925** | **48,543,519** | **6,089,925** |
| **Credit Risk Exposures Relating to Off-balance Sheet Items are as Follows** | | | | | |
| Credit commitments and other credit related liabilities | *29* | **3,790,415** | **-** | **3,790,415** | **-** |
| **Total** | | **P58,423,859** | **P6,089,925** | **P52,333,934** | **P6,089,925** |

**Includes returned checks and other cash items and rental deposit.*

| | Note | 2018 Gross Maximsssss ssssum Exposure | Fair Value of Collateral | Net Exposure to Credit Risk | Financial Effect of Collateral or Credit Enhancements |
|---|---|---|---|---|---|
| Credit Risk Exposure Relating to On-balance Sheet Assets are as Follows | | | | | |
| Financial assets at amortized cost: | | | | | |
| Due from BSP | | P5,001,860 | P - | P5,001,860 | P - |
| Due from other banks | | 1,266,760 | | 1,266,760 | - |
| Interbank loans receivable - gross | | 6,143,547 | - | 6,143,547 | - |
| Investment securities - gross | *7* | 2,790,519 | - | 2,790,519 | - |
| Loans and discounts - gross: | *8* | | | | |
| Institutional banking | | 27,159,345 | 2,373,656 | 24,785,689 | 2,373,656 |
| Retail banking | | 4,749,208 | - | 4,749,208 | - |
| Mortgage banking | | 1,970,959 | 1,969,139 | 1,820 | 1,969,139 |
| Small business loans | | 1,405,705 | 1,316,073 | 89,632 | 1,316,073 |
| Accrued interest receivable | | 251,763 | - | 251,763 | - |
| Other receivables | | 418,270 | - | 418,270 | - |
| Other assets* | | 38,570 | - | 38,570 | - |
| Subtotal | | 51,196,506 | 5,658,868 | 45,537,638 | 5,658,868 |
| Financial assets at FVTPL: | *7* | | | | |
| Quoted debt securities | | 59,418 | - | 59,418 | - |
| Derivative assets | | 67,945 | - | 67,945 | - |
| Subtotal | | 127,363 | - | 127,363 | - |
| Financial assets at FVOCI - gross: | *7* | | | | |
| Quoted debt securities | | 2,399,898 | - | 2,399,898 | - |
| | | 53,723,767 | 5,658,868 | 48,064,899 | 5,658,868 |
| Credit Risk Exposures Relating to Off-balance Sheet Items are as Follows | | | | | |
| Credit commitments and other credit related liabilities | *29* | 3,717,904 | - | 3,717,904 | - |
| Total | | P57,441,671 | P5,658,868 | P51,782,803 | P5,658,868 |

**Includes returned checks and other cash items and rental deposit.*

Other receivables include loans granted to employees, sales contract receivable and due from Integrated Credit and Corporate Services (ICCS) and Philippine Veterans Bank (PVB). Other assets in the table above exclude non-financial assets such as computer software costs - net, prepaid expenses and other charges, net retirement asset and miscellaneous.

Contingent liabilities consist primarily of standby letters of credit, while commitments pertain to undrawn loan commitments for which the Bank is contractually obliged to extend once the borrowers draw on such commitments.

For financial instruments that are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the credit risk that could arise in the future as a result of changes in values.

For financial instruments that are measured at amortized cost, the carrying amount represents the maximum exposure to credit risk as at December 31, 2019 and 2018.

The table below sets out the principal types of collateral held against loans and receivables (in thousands):

| | **2019** | 2018 |
|---|---|---|
| Property | **P5,334,610** | P4,573,675 |
| Cash | **719,540** | 1,024,028 |
| Others | **35,775** | 61,165 |
| | **P6,089,925** | P5,658,868 |

*Credit-Related Commitments Risks*
The Bank extends guarantees, commitment facilities, letters of credit and other off-balance sheet credit-related commitments that may require the Bank to make payments on the borrower's behalf. Such transactions expose the Bank to credit risks similar to loans and receivables and are monitored and managed by the Bank using the same credit risk control and management processes and policies.

Some consumer asset products under this nature are covered by documentations and drafts that are reviewed and prepared by Bank's lawyers and compliance officers to ensure that it is within acceptable risk and standards. Guarantees carry clauses that are all with reference to applicable laws, regulations, and approved guidelines and policies with some carrying expiry periods or validity to ensure that it is time bound and flexible enough to control losses from changes in external environment to include, among others, changing market conditions such as interest rates or pricing, and monetary policies.

Further details on these commitments are disclosed in Note 29.

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

Concentrations of risk are managed by counterparty and by industry sector.

An industry sector analysis of both the on- and off-balance sheet exposures, before taking into account collateral held or other credit enhancements, is as follows (in thousands):

| | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Loans and Receivables | | Other Financial Assets | | Off-Balance Sheet Exposures | | |
| | Amount | % | Amount | % | Amount | % | Total |
| Financial intermediaries | P7,900,856 | 21.4 | P16,664,757 | 99.3 | P3,790,415 | 100.1 | P28,356,028 |
| Manufacturing | 7,730,691 | 20.9 | - | - | - | - | 7,730,691 |
| Wholesale and retail | 4,798,302 | 13.0 | - | - | - | - | 4,798,302 |
| Real estate, renting and business activities | 2,720,659 | 7.4 | - | - | - | - | 2,720,659 |
| Transport, storage and communications | 1,358,277 | 3.6 | - | - | - | - | 1,358,277 |
| Construction | 1,131,363 | 3.0 | 37,355 | 0.2 | - | - | 1,168,718 |
| Agriculture, hunting and forestry | 131,313 | 0.3 | - | - | - | - | 131,313 |
| Public administration and defense | - | - | - | - | - | - | - |
| Electricity, gas and water | - | - | - | - | - | - | - |
| Others* | 12,082,855 | 32.6 | 77,016 | 0.5 | - | - | 12,159,871 |
| **Total** | 37,854,316 | 102.2 | 16,779,128 | 100.0 | 3,790,415 | 100.1 | 58,423,859 |
| Loss allowance | (863,611) | (2.2) | (1,907) | 0.0 | (3,828) | (0.1) | (869,346) |
| Unearned interest discount and capitalized interest | (3,223) | (0.0) | - | - | - | - | (3,223) |
| | P36,987,482 | 100.0 | P16,777,221 | 100.0 | P3,786,587 | 100.0 | P57,551,290 |

**Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*

| | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Loans and Receivables | | Other Financial Assets | | Off-Balance Sheet Exposures | | |
| | Amount | % | Amount | % | Amount | % | Total |
| Financial intermediaries* | P7,953,069 | 22.6 | P17,687,417 | 99.5 | P3,717,904 | 100.1 | P29,358,390 |
| Manufacturing | 7,235,688 | 20.6 | - | - | - | - | 7,235,688 |
| Wholesale and retail | 6,596,587 | 18.7 | - | - | - | - | 6,596,587 |
| Real estate, renting and business activities | 1,904,407 | 5.4 | - | - | - | - | 1,904,407 |
| Transport, storage and communications | 1,362,868 | 3.9 | - | - | - | - | 1,362,868 |
| Construction | 836,775 | 2.4 | 14,352 | 0.1 | - | - | 851,127 |
| Agriculture, hunting and forestry | 55,000 | 0.2 | - | - | - | - | 55,000 |
| Public administration and defense | - | - | - | - | - | - | - |
| Electricity, gas and water | - | - | - | - | - | - | - |
| Others** | 10,010,856 | 28.3 | 66,748 | 0.4 | - | - | 10,077,604 |
| Total | 35,955,250 | 102.1 | 17,768,517 | 100.0 | 3,717,904 | 100.1 | 57,441,671 |
| Loss allowance | (753,383) | (2.1) | (1,140) | 0.0 | (5,533) | (0.1) | (760,056) |
| Unearned interest discount and capitalized interest | (4,841) | (0.0) | - | - | - | - | (4,841) |
| | P35,197,026 | 100.0 | P17,767,377 | 100.0 | P3,712,371 | 100.0 | P56,676,774 |

**Financial intermediaries include investment in Landbank Bonds classified as 'Unquoted debt securities'.*
***Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*

Other financial assets include due from BSP, due from other banks, interbank loans receivable and non-equity investment securities.

The Bank generally considers concentration risk as excessive when the ratio of a particular segment's exposure (e.g., this may be an industry demographic attribute, or a program) to the total portfolio exceeds predetermined limits.

The BSP considers that credit concentration risk exists when the total loan exposure to a particular industry or economic sector exceeds 30.0% of the total loan portfolio or 10.0% of Tier 1 capital.

To manage the Bank's concentration of credit as to industry/economic sector, three (3) industry categories has been established with specific credit exposure limits. The inclusion of bankwide industry concentration limit enables the Bank to take a more proactive approach, as it prevents the Bank from unknowingly over-extending loans to identified industries.

The Bank has no credit concentration in any industry sector as at December 31, 2019 and 2018.

Monitored Risk category consists of industries (e.g. agriculture, mining and quarrying, construction, land/water/air transport, real estate activities, education, etc) that are deemed to be of high risk. The combined credit exposures of industries tagged under "Monitored Risk category" shall not exceed the 100.0% of the Bank's networth limit.

Restricted category consists of industries (e.g. manufacture of weapons & ammunition, night clubs, public administration and defense, gambling and betting activities, etc) that, given the nature and risk, are considered as higher risk than the Monitored Risk category, thus, extending credit facilities to this category is not allowed.

Standard category are those industries, not tagged under Monitored Risk and Restricted categories, are considered "low risk" and shall have no limit on credit exposures.

| CATEGORY | CREDIT EXPOSURE LIMIT |
|---|---|
| Standard | No limit per industry |
| Monitored Risk | Limited to 100.0% of the Bank's net worth |
| Restricted | No exposures allowed |

With the exception of the commercial real estate industry, the Bank will continue to observe the regulatory limit of 30.0% of Total Loan Portfolio (TLP) excluding interbank loans receivable or 10.0% of Tier 1 capital.

The Bank manages concentration risk by gearing policies towards regular monitoring and periodic review of the set limits per predetermined segments. Annual updates to the policy include a review of the industry concentration limits and other segmental concentrations within the portfolio. Business intelligence reports sourced from internal and external parties are used as guide in setting up the limits annually. Industries covered under the industry concentration limits are similarly reviewed to update classifications and coverage.

*Credit Quality Per Class of Financial Assets*
The credit quality of financial assets is monitored and managed using external and internal ratings. The credit quality of investment securities is generally monitored by reference to the internal ratings except otherwise when given tools do not apply to the issuing entity, external ratings provided by accredited external credit assessment rating institutions are used.

In cognizance of the requirements of the BSP, the ORR was implemented to all applicable corporate accounts of the IBG of the Bank. The objectives of the system are the following:

(a) to have a standard system of credit rating;

(b) to be able to objectively quantify the credit quality of an account;

(c) to have a “benchmark” for credit/loan review; and

(d) to train and instill discipline in assessing credit risk among account officers and credit officers.

The rating system is an amalgamation of quantitative and qualitative factors. The quantitative factors include, among others, financial indicators on liquidity, leverage and cash flows. The qualitative factors include among others the quality of management, market standing, reliability of financial statements, etc.

The ORR of each account is recorded together with other information such as the date the ORR is conducted, and the account officer who conducted the ORR. These data combined with other historical and future ORR data on the loan portfolio are used to estimate the loan default rates associated with each rating grade.

It is the Bank’s policy to maintain accurate and consistent risk ratings across the credit portfolio. These facilitates focused management of major potential risk and the comparison of credit exposures across all lines of business, demographic and products.

The table below shows the credit risk rating comprising each category of credit quality and the equivalent external grades for each internal credit risk rating applied for comparison purposes only.

| | ORR Internal Credit Risk Ratings (Institutional Banking) | Moody's Equivalent Grades** |
|---|---|---|
| Investment grade | 0 | Applicable to only the central government, central bank and their agencies of the Republic of China and sovereign states with S&P medium- and long-term ratings at AA- or higher, or multilateral development banks with risk weights at 0.0% approved by the Basel Committee on Banking Supervision. |
| | 1 | Aa3 or higher |
| | 2 | A1 to A3 |
| | 3 | Baa1 |
| | 4 | Baa2 |
| | 5 | Baa3 |
| Sub-investment grade | 6 | Ba1 |
| | 7 | Ba2 |
| | 8 | Ba2* |
| | 9 | Ba3 |
| High-risk | 10 | B1 |
| | 11 | B2 |
| | 12 | B3 |
| | 13 | Caa1 - Ca |
| Watch-list | 14 | C |
| Default | 15 | C |
| | 16 | C |
| | 17 | C |

**already equivalent to substandard status*
***equivalent Standard and Poor's ratings apply*

Financial assets with ORR categorized under investment grade includes:

- government, central bank, central government or their related bureaus and entities whose S&P ratings are higher than or equal to AA-;
- multilateral development banks risk weighted at 0.0% by Basel Committee;
- superior multinational banks;
- top multinational corporations;
- above average to exceptionally high quality jumbo firms; and
- exceptionally good middle market and small and medium enterprises.

Financial assets with ORR categorized under sub-investment grade includes:

- below to typically above average jumbo firms,
- below average to very high quality middle market firms, and
- average to very high quality small and medium enterprises.

High risk financial assets represent counterparties that include poor, weak, far below average jumbo firms, middle market, and small and medium enterprises. Obligors demonstrating initial warning signals and credit concerns also fall under this category. Watchlist to default grade financial assets are classified loans by the BSP.

For Retail Banking, credit quality is monitored using internal ratings. For public personal loans, risk differentiation or risk rating is established by scorecard models. Scorecard variables are assigned scores based on their discriminative power to differentiate good-bad factors. Higher scores assigned to a loan applicant denote better risk and therefore lower propensity to default. For corporate personal loans, the employer's repayment management and performance within its defined default ratio caps is salient to measuring risk.

For mortgage portfolio, risk differentiation is tied to income classification. Performance review of the mortgage portfolio identifies income as a good risk indicator, such that, higher income segments denotes better risk as manifested in the risk-ranking of customers by income bands.

For SME loans, the Bank's internal credit rating is composed of a numeric rating which provides an assessment of the creditworthiness and outlook of the account. According to different size of loan amount, either Credit Scoring Rating (CSR) or ORR is used to measure the risk level. CSR is designed for the evaluation of lower loan amount, and considers factors such as character and management assessment, business consideration and conditions, and financial performance and repayment indicators to differentiate the risk.

The table below shows the credit score rating comprising each category of credit quality.

| CSR | Credit Scoring Rating | Credit Quality Description |
|---|---|---|
| 57 - 62 | 1 | Excellent |
| 51 - 56 | 2 | Strong |
| 45 - 50 | 3 | Good |
| 39 - 44 | 4 | Satisfactory |
| 31 - 38 | 5 | Acceptable |
| Below 31 | 6 | Risky/Watchlist |
| | 7 | Special Mention |
| | 8 | Substandard |
| | 9 | Doubtful |
| | 10 | Loss |

For SME loans with higher loan amount, ORR, the model used by Institutional Banking is adopted to adequately measure the risk.

The credit quality of trading and financial investment securities is generally monitored through the internal and external ratings which are provided by eligible external credit rating agencies.

Impairment Assessment

With the implementation of PFRS 9 alongside BSP Circular 1011, the Bank adopted the ECL methodology to estimate provisions for loans and other credit accommodations.

The ECL model considers losses from initial recognition and at each reporting date. Three stages of impairment are used for the entire financial asset that serves as an objective basis in determining significant increase in credit risk (SIICR).

*Definition of Stages*

*Institutional Banking*

| DETERIORATION IN CREDIT QUALITY | | | |
|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** |
| **Impairment Stage** | No significant increase in credit risk | Significant increase in credit risk | Credit impaired |
| **Recognition of expected credit losses** | Collective<br>12-month ECL when credit risk is low or risk of default has not increased significantly | Collective or Individual<br>Lifetime ECL when credit quality deteriorates significantly but not credit impaired | Individual<br>Lifetime ECL when credit losses are incurred or asset is credit impaired |
| **Staging Criteria** | Early Warning (EW) tagging = EW1a<br>ORR 1 to 13 (normal) | Collective = ∆Annualized PD variance >=2%<br>Individual = EW tagging = EWb or EW2 (ORR 14) | EW tagging = EW3 (ORR 15 to 17) |

The qualitative and quantitative definitions of stages for ECL assessment above apply to institutional banking items which include loans and advances, accounts receivables, unused portion of committed and uncommitted facilities, off-balance sheet credit commitments and contingencies, and to treasury items which include interbank loans receivables, debt investment securities at FVOCI and investment securities at amortized cost.

Collective impairment is applied for assets classified into Stage 1. Assets classified under Stage 2 (with SIICR) are assessed either for collective or individual impairment.

Under the Stage 2 concept, lifetime expected credit losses shall be recognized when there are significant increases in credit risk since initial recognition. Expected credit losses are updated at each reporting date for new information and changes in expectations even if there has not been a significant increase in credit risk.

The three variables under the ECL structure: PD, LGD, and EAD assume the following for the ECL computation:

| | | **PD** | **X LGD** | **X EAD** | **= ECL** |
|---|---|---|---|---|---|
| **Collective** | Stage 1 | 1-Year PD | 1-Discounted Recovery | • Principal<br>• Accrued Interest<br>• Contingencies<br>• Unused FAC | 1-Year ECL |
| **Collective** | Stage 2.1 SIICR | Lifetime PD | 1-Discounted Recovery | • Principal<br>• Accrued Interest<br>• Contingencies<br>• Unused FAC | Lifetime ECL |
| **Individual** | Stage 2.2 SIICR | 100% | Individual Estimation | Individual Estimation | Lifetime ECL |
| **Individual** | Stage 3 Objective Impairment | 100% | Individual Estimation | Individual Estimation | Lifetime ECL |

Stage 3 classified assets will be individually assessed under the Individual Impairment methodology.

Similar to previous model definitions, individual impairment is recognized when (1) an objective evidence of a specific loss event has been observed and (2) the financial asset's carrying value exceeds the present value of the asset's estimated cash flow.

*Retail Banking*
For Retail, impairment losses are recognized depending on type of impairment applicable, as follows:

a. Specific Impairment
   Specific provision shall be applied to accounts with objective evidence that a specific impairment is applicable (e.g., behavior is different from the rest of the portfolio, etc.). Such accounts will no longer be assessed as part of collective impairment. Qualifications are defined on a per product basis, and are reflected accordingly in respective Product Guidelines.

   Depending on applicability, specifically impaired accounts shall be subject to either: (1) full provisioning (100% provision), or (2) discounting of cash flow methodology (with provision less than 100% of OB).

b. Collective Impairment
   All retail loans accounts not subject to specific impairment shall be subject to collective impairment.

   Collectively impaired accounts shall be subject to the ECL Model applicable to Retail Loans portfolio. ECL Model is a function of the PD, LGD, and EAD computed as follows:

   ECL = PD x LGD x EAD

   Similar to corporate loans, three stages of impairment are used for the entire financial asset of retail loans that serve as an objective basis in determining significant increase in credit risk as shown below. Further, one-year ECL is applied among exposures with no significant increase in credit risk (stage 1); otherwise, lifetime ECL shall be applied.

Definition of stages for retail loans are as follows:

| Retail Credit Stage Definition | | | |
|---|---|---|---|
| | **Impairment Stage** | **Staging Criteria** | **Loss Period** |
| **Stage 1** | No significant increase in credit risk | ▪ Low credit risk | 12- month ECL |
| **Stage 2** | Significant increase in credit risk | ▪ Minimum requirement: 31 to 90 days past due<br>▪ High risk indicator:<br>• Quantitative<br>- ∆PD>(product interest -funding cost)<br>- PD equivalent to overdue (CRR of 20)<br>• Qualitative<br>- OLTV>90.0% and ∆CLTV>20.0%<br>- OLTV<=90.0% and CLTV>100.0%<br>▪ Stage 2 standard<br>• hit minimum requirement; or<br>• hit 2 high risk indicators | Lifetime ECL |
| **Stage 3** | Credit impaired | ▪ NPL definition during model development pre-BSP Circular 941<br>• 91+ days past due<br>• items in litigation<br>• matured with balance<br>• 20.0% unpaid principal and interest<br>▪ Charge-off<br>▪ Restructured<br>▪ Rescheduled | Lifetime ECL |

*OLTV is the original loan-to-value.*
*CLTV is the current loan-to-value.*

To test the sensitivity of the ECL variables to macro-economic factors for both corporate and retail loans the forward-looking methodology is adopted where:

- probability of default uses the Bank's internal default data adjusted by macro-economic factors such as GDP growth, inflation and unemployment rate; and

- loss given default (LGD) applies the two-stage adjustment approach.

There is a rebuttable presumption that default does not occur even when the financial asset is 90 days past due as defined above provided that the Bank has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

For credit losses from other financial assets not assessed using the ECL model, the Bank uses a simplified approach where loss allowance always equals to lifetime ECL.

The tables below show the credit quality by class of the Bank's financial assets, including loans and receivables (gross of loss allowance and unearned interest discount, in thousands):

| | ECL | | | | Simplified | | |
|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Approach | 2019 | 2018 |
| **Financial Assets at Amortized Cost** | | | | | | | |
| *Due from BSP* | | | | | | | |
| High grade | **P4,277,491** | **P -** | **P -** | **P -** | **P -** | **P4,277,491** | P5,001,860 |
| | **4,277,491** | **-** | **-** | **-** | **-** | **4,277,491** | 5,001,860 |
| *Due from Other Banks* | | | | | | | |
| High grade | **1,591,079** | **-** | **-** | **-** | **-** | **1,591,079** | 1,266,760 |
| | **1,591,079** | **-** | **-** | **-** | **-** | **1,591,079** | 1,266,760 |
| *Interbank Loans Receivable* | | | | | | | |
| High grade | **1,518,594** | **-** | **-** | **-** | **-** | **1,518,594** | 6,143,547 |
| | **1,518,594** | **-** | **-** | **-** | **-** | **1,518,594** | 6,143,547 |
| **Investment Securities at Amortized Cost** | | | | | | | |
| *Quoted Debt* | | | | | | | |
| High grade | **2,852,384** | **-** | **-** | **-** | **-** | **2,852,384** | 2,790,519 |
| | **2,852,384** | **-** | **-** | **-** | **-** | **2,852,384** | 2,790,519 |
| **Loans and Discounts** | | | | | | | |
| *Institutional Banking* | | | | | | | |
| High grade | **4,756,602** | **-** | **-** | **-** | **-** | **4,756,602** | 4,217,234 |
| Standard grade | **14,291,947** | **-** | **-** | **-** | **-** | **14,291,947** | 13,389,020 |
| High risk | **7,872,336** | **906,738** | **9,631** | **-** | **-** | **8,788,705** | 9,204,312 |
| Watchlist | **-** | **167,078** | **-** | **-** | **-** | **167,078** | - |
| Default | **-** | **-** | **192,560** | **-** | **-** | **192,560** | 12,622 |
| Unrated | **-** | **-** | **-** | **-** | **-** | **-** | - |
| PD but not individually impaired | **-** | **-** | **-** | **-** | **-** | **-** | - |
| Specifically impaired | **-** | **-** | **330,114** | **-** | **-** | **330,114** | 336,157 |
| | **26,920,885** | **1,073,816** | **532,305** | **-** | **-** | **28,527,006** | 27,159,345 |
| *Retail Banking* | | | | | | | |
| High grade | **4,569,131** | **-** | **-** | **-** | **-** | **4,569,131** | 4,396,685 |
| Standard grade | **-** | **127,105** | **-** | **-** | **-** | **127,105** | 3,682 |
| High risk | **-** | **-** | **-** | **-** | **-** | **-** | - |
| Watchlist | **-** | **-** | **-** | **-** | **-** | **-** | - |
| Default | **-** | **-** | **-** | **-** | **-** | **-** | - |
| Unrated | **-** | **-** | **-** | **-** | **-** | **-** | - |
| PD but not individually impaired | **-** | **-** | **260,776** | **-** | **-** | **260,776** | 76,765 |
| Specifically impaired | **-** | **-** | **115,332** | **-** | **-** | **115,332** | 272,076 |
| | **4,569,131** | **127,105** | **376,108** | **-** | **-** | **5,072,344** | 4,749,208 |
| *Mortgage Banking* | | | | | | | |
| High grade | **1,851,199** | **610** | **171** | **-** | **-** | **1,851,980** | 1,928,702 |
| Standard grade | **420,190** | **414** | **139** | **-** | **-** | **420,743** | - |
| High risk | **35,252** | **-** | **14** | **-** | **-** | **35,266** | - |
| Watchlist | **-** | **-** | **-** | **-** | **-** | **-** | - |
| Default | **-** | **-** | **-** | **-** | **-** | **-** | - |
| Unrated | **-** | **-** | **-** | **-** | **-** | **-** | - |
| PD but not individually impaired | **-** | **8,376** | **6,896** | **-** | **-** | **15,272** | 27,077 |
| Specifically impaired | **-** | **-** | **2,949** | **-** | **-** | **2,949** | 15,180 |
| | **2,306,641** | **9,400** | **10,169** | **-** | **-** | **2,326,210** | 1,970,959 |
| *Small Business Loans* | | | | | | | |
| High grade | **1,305,660** | **-** | **-** | **-** | **-** | **1,305,660** | - |
| Standard grade | **57,000** | **-** | **-** | **-** | **-** | **57,000** | 1,405,705 |
| High risk | **-** | **-** | **-** | **-** | **-** | **-** | - |
| Watchlist | **-** | **-** | **-** | **-** | **-** | **-** | - |
| Default | **-** | **-** | **-** | **-** | **-** | **-** | - |
| PD but not individually impaired | **-** | **-** | **35,450** | **-** | **-** | **35,450** | - |
| Specifically impaired | **-** | **-** | **-** | **-** | **-** | **-** | - |
| Unrated | **-** | **-** | **-** | **-** | **-** | **-** | - |
| | **1,362,660** | **-** | **35,450** | **-** | **-** | **1,398,110** | 1,405,705 |

*Forward*

| | ECL | | | | Simplified | | |
|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Approach | 2019 | 2018 |
| **Accrued Interest Receivable** | | | | | | | |
| High grade | **P125,017** | **P55** | **P76** | **P -** | **P -** | **P125,148** | P141,659 |
| Standard grade | **35,008** | **209** | **15** | **-** | **-** | **35,232** | 35,345 |
| High risk | **24,414** | **2,343** | **11** | **-** | **-** | **26,768** | 5,219 |
| Watchlist | **-** | **-** | **-** | **-** | **-** | **-** | - |
| Default | **-** | **-** | **-** | **-** | **-** | **-** | - |
| Unrated | **77,069** | **-** | **-** | **-** | **-** | **77,069** | 69,540 |
| PD but not individually impaired | **-** | **-** | **-** | **-** | **-** | **-** | - |
| Specifically impaired | **-** | **-** | **-** | **-** | **-** | **-** | - |
| | **261,508** | **2,607** | **102** | **-** | **-** | **264,217** | 251,763 |
| **Other Receivables** | | | | | | | |
| Unrated | **-** | **-** | **-** | **-** | **266,429** | **266,429** | 418,113 |
| PD but not individually impaired | **-** | **-** | **-** | **-** | **-** | **-** | 157 |
| | **-** | **-** | **-** | **-** | **266,429** | **266,429** | 418,270 |
| **Other Assets*** | **-** | **-** | **-** | **-** | **37,355** | **37,355** | 38,570 |
| **Subtotal** | **45,660,373** | **1,212,928** | **954,134** | **-** | **303,783** | **48,131,219** | 51,196,508 |
| **Financial Assets at FVTPL** | | | | | | | |
| *Quoted Debt* | | | | | | | |
| High grade | **-** | **-** | **-** | **-** | **4,125** | **4,125** | 59,418 |
| *Derivative Assets* | | | | | | | |
| High grade | **-** | **-** | **-** | **-** | **77,016** | **77,016** | 39,768 |
| Unrated | **-** | **-** | **-** | **-** | **-** | | 28,176 |
| | **-** | **-** | **-** | **-** | **77,016** | **77,016** | 67,944 |
| **Subtotal** | **-** | **-** | **-** | **-** | **81,141** | **81,141** | 127,362 |
| **Financial Assets at FVOCI** | | | | | | | |
| *Quoted Debt* | | | | | | | |
| High grade | **-** | **-** | **-** | **-** | **6,420,539** | **6,420,539** | 2,399,898 |
| Standard grade | **-** | **-** | **-** | **-** | **12,441** | **12,441** | 12,441 |
| *Quoted Equity* | | | | | | | |
| High grade | **-** | **-** | **-** | **-** | **680** | **680** | 880 |
| Subtotal | **-** | **-** | **-** | **-** | **6,433,660** | **6,433,660** | 2,413,219 |
| **Total** | **P45,660,373** | **P1,212,928** | **P954,134** | **P -** | **P6,818,584** | **P54,646,020** | P53,737,089 |

**Includes returned checks and other cash items and rent deposit*

Corporate Loans

For corporate loans, obligors are considered non-performing even without any missed contractual payments once there are objective indicators of impairment (per MORB Section 304). However for revolving lines, all other loan accounts of an obligor are considered non-performing if any principal and/or interest remains unpaid for more than thirty (30) days from contractual due date while for term loans, all other loan accounts are considered non-performing if any principal and/or interest remains unpaid in accordance with the following schedule:

| Mode of Payment | Classification to NPL |
|---|---|
| Monthly | 91 days after $1^{st}$ installment in arrears |
| Quarterly | 31 days after $1^{st}$ installment in arrears |
| Semi-annual | 31 days after $1^{st}$ installment in arrears |

Retail Loans

In the case of retail loans, the total outstanding balance thereof shall be considered nonperforming if any principal/interest are unpaid for more than ninety (90) days from contractual due date for Personal Loans and Mortgage Loans, or if any principal/ interest are unpaid for more than thirty (30) days from contractual due date for retail SME.

For both corporate and retail loans, non-performing loans, investments, receivables, or any financial asset, shall remain classified as such until: (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least 6 months; or (b) written-off.

The table below shows the aging analysis of past due but not specifically impaired loans and discounts by class (in thousands).

| | **2019** | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Less than 30 Days** | **31 to 90 Days** | **Total** | Less than 30 Days | 31 to 90 Days | Total |
| **Loans and Discounts** | | | | | | |
| Institutional banking | **P -** | **P -** | **P -** | P - | P - | P - |
| Retail banking | **109,660** | **-** | **109,660** | 76,765 | - | 76,765 |
| Mortgage banking | **9,274** | **-** | **9,274** | 27,077 | - | 27,077 |
| Small business loans | **-** | **35,450** | **35,450** | - | - | - |
| Other receivables | **-** | **-** | **-** | 158 | - | 158 |
| Accrued interest receivable | **-** | **-** | **-** | - | - | - |
| **Total** | **P118,934** | **P35,450** | **P154,384** | P104,000 | P - | P104,000 |

The above aging analysis already excludes accounts that have been assessed to be specifically impaired. Further, the definition of past due follows that of PFRS 7, which states that a financial asset is past due when the counterparty has failed to make a principal or interest payments when due.

The detailed information with respect to the Bank's loss allowance on loans and receivables are disclosed in Note 12.

Included in specifically impaired financial assets are the Bank's restructured loan receivables. The table below shows the carrying amounts of restructured loan receivables by class (in thousands):

| | **2019** | 2018 |
|---|---|---|
| Institutional banking: | | |
| Performing | **P -** | P - |
| Non-performing | **78** | 2,599 |
| Personal loans: | | |
| Performing | **-** | - |
| Non-performing | **18,018** | 14,379 |
| Mortgage banking: | | |
| Performing | **-** | - |
| | **P18,096** | P16,978 |

Restructured performing and non-performing loans (NPLs) of the Bank, net of specific impairment allowances as at December 31, 2019 and 2018 amounted to P18.1 million and P17.0 million, respectively.

Non-performing Loans

The Bank monitors its NPLs ratio as part of its credit risk monitoring and reporting to the BSP. Shown below are the Bank's NPL:

| | **2019** | 2018 |
|---|---|---|
| Secured | **P98,151,320** | P296,832,051 |
| Unsecured | **710,965,464** | 336,156,582 |
| | **P809,116,784** | P632,988,633 |

*Collateral and Credit Risk Mitigation Techniques*
The amount and type of collateral required depends on the assessment of the credit risk of the borrower or counterparty. The Bank follows guidelines on the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained for loans and receivables are as follows:

- For Institutional Lending - cash, guarantees, securities, physical collaterals (e.g., real estate, chattels, inventory, etc.); and

- For Retail Lending - cash, securities, mortgages on residential and commercial properties.

Management regularly monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement. The existing market value of collateral is considered during the review of the adequacy of the loss allowance. For unsecured lending, the Bank performs comprehensive credit evaluation process before each loan is approved.

The following table shows information relating to loans and receivables (at gross amounts) broken down into secured and unsecured, with types of collateral being shown for the secured portion:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Amount** | **%** | Amount | % |
| Secured by: | | | | |
| Real estate | **P3,535,085,389** | **9.3** | P4,413,728,340 | 12.3 |
| Hold-out on deposits | **3,682,814,952** | **9.7** | 3,293,493,116 | 9.2 |
| Mortgage trust indenture | **236,865,705** | **0.6** | 410,688,802 | 1.1 |
| Government bonds | **65,324,650** | **0.2** | 68,772,200 | 0.2 |
| Chattel | **46,429,895** | **0.1** | 88,724,644 | 0.2 |
| Stand by letter of credit (LC) | **17,469,075** | **0.1** | 16,036,900 | 0.0 |
| Government guarantee | **-** | **0.0** | - | 0.0 |
| | **7,583,989,666** | **20.0** | 8,291,444,002 | 23.0 |
| Unsecured | **30,270,326,796** | **80.0** | 27,663,807,614 | 77.0 |
| | **P37,854,316,462** | **100.0** | P35,955,251,616 | 100.0 |

As at December 31, 2019 and 2018, the fair values of real estate collaterals held for past due and impaired loans and discounts, amounted to P62.7 million and P20.7 million, respectively. There were no other types of collaterals held during 2019 and 2018.

Fair values were determined by the Bank’s internal appraisers, or by accredited external appraisers. Normally, there are three approaches available to the Bank in arriving at the fair value of collateral (i.e., real estate and chattel). These are the cost approach, market data approach and income approach.

The cost approach takes into consideration the current cost of reproducing a property less depreciation from all sources (i.e., deterioration, functional and economic obsolescence). On the other hand, the market data approach takes into consideration the value indicated by recent sales of comparable properties in the market. Lastly, income approach takes into consideration the value which the property’s net earning power will support based upon a capitalization of net income.

The Bank utilizes all three approaches to determine the fair values of the collateral and chooses the appropriate valuation approach on a case-to-case basis.

As at December 31, 2019 and 2018, no collaterals were subjected to repurchase and reverse repurchase agreements with BSP.

Liquidity Risk

Liquidity risk is the risk of loss to earnings or capital due to the inability to meet funding requirements within a reasonable period of time at a reasonable price.

The Bank applies a liquidity risk management strategy of maintaining sufficient cash and marketable securities, ensuring the availability of funding through an adequate amount of committed credit facilities and having the ability to close out market positions.

The MRMD is responsible in managing liquidity risk. The MRMD is independent of the risk-taking unit and in charge of formulating Asset and Liability Management Policy and establishing implementation guidelines as needed; developing the methods of identification, measurement, monitoring and reporting of risk and pushing for the implementation; and studying asset and liability management related issues.

The table below shows the maturity profile of the Bank's financial liabilities, based on undiscounted contractual cash flows (in millions):

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | **On Demand** | **1 to 3 Months** | **3 to 6 Months** | **6 to12 Months** | **Greater than One Year** | **Total** |
| Deposit liabilities: | | | | | | |
| Demand | **P8,023** | **P -** | **P -** | **P -** | **P -** | **P8,023** |
| Savings | **7,306** | **-** | **-** | **-** | **-** | **7,306** |
| Time | **10,986** | **9,327** | **1,099** | **475** | **471** | **22,358** |
| Bills payable | **-** | **-** | **-** | **-** | **4,774** | **4,774** |
| Outstanding acceptances | **55** | **-** | **-** | **-** | **-** | **55** |
| Manager's checks | **74** | **-** | **-** | **-** | **-** | **74** |
| Accrued interest, taxes and other expenses* | **466** | **-** | **-** | **-** | **-** | **466** |
| Lease liabilities | **-** | **21** | **12** | **28** | **55** | **116** |
| Other liabilities** | **1,451** | **-** | **-** | **-** | **-** | **1,451** |
| | **28,361** | **9,348** | **1,111** | **503** | **5,300** | **44,623** |
| Financial liabilities at FVTPL: | | | | | | |
| Forward contract payable | **4,638** | **-** | **-** | **-** | **-** | **4,638** |
| Forward contract receivable | **(8,007)** | **-** | **-** | **-** | **-** | **(8,007)** |
| | **(3,369)** | **-** | **-** | **-** | **-** | **(3,369)** |
| | **P24,992** | **P9,348** | **P1,111** | **P503** | **P5,300** | **P41,254** |

**Excludes retirement liability, accrued taxes and other non-financial accruals.*
*** Excludes withholding taxes payable, provision liability, lease liabilities and deposits for future stock subscription.*

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | On Demand | 1 to 3 Months | 3 to 6 Months | 6 to12 Months | Greater than One Year | Total |
| Deposit liabilities: | | | | | | |
| Demand | P7,647 | P - | P - | P - | P - | P7,647 |
| Savings | 7,597 | - | - | - | - | 7,597 |
| Time | 10,288 | 6,849 | 1,614 | 1,621 | 745 | 21,117 |
| Bills payable | 2,945 | 1,052 | - | - | 3,913 | 7,910 |
| Outstanding acceptances | 194 | - | - | - | - | 194 |
| Manager's checks | 80 | - | - | - | - | 80 |
| Accrued interest, taxes and other expenses* | 385 | - | - | - | - | 385 |
| Other liabilities** | 1,929 | - | - | - | - | 1,929 |
| | 31,065 | 7,901 | 1,614 | 1,621 | 4,658 | 46,859 |
| Financial liabilities at FVTPL: | | | | | | |
| Forward contract payable | 10,071 | - | - | - | - | 10,071 |
| Forward contract receivable | (10,178) | - | - | - | - | (10,178) |
| | (107) | - | - | - | - | (107) |
| | P30,958 | P7,901 | P1,614 | P1,621 | P4,658 | P46,752 |

**Excludes retirement liability, accrued taxes and other non-financial accruals.*
***Excludes withholding taxes payable, provision liability and deposits for future stock subscription.*

The above maturity table shows the undiscounted cash flows whose expected maturities are not the same as the asset-liability gap. The Bank does not expect all time depositors to require repayment on the earliest date the Bank could be required to pay. Further, the maturity table does not reflect expected cash flows based on deposit behavior and historical retention rate.

Accrued interest and other expenses exclude taxes, payroll-related balances and other non-financial items. Other liabilities exclude non-financial liabilities such as withholding taxes payable.

Financial liabilities at FVTPL pertain to the notional amounts of the outstanding forward contract as at year end.

The table below shows the contractual expiry by maturity of the Bank's off-balance sheet commitments (in thousands).

| | **2019** | | | | | |
|---|---|---|---|---|---|---|
| | **Up to 1 Month** | **1 to 3 Months** | **3 to 6 Months** | **6 to 12 Months** | **Beyond 1 Year** | **Total** |
| Commitments | **P -** | **P -** | **P -** | **P -** | **P1,246,887** | **P1,246,887** |
| Contingent liabilities | **92,144** | **1,942,869** | **500,519** | **7,996** | **-** | **2,543,498** |
| **Total** | **P92,144** | **P1,942,869** | **P500,519** | **P7,996** | **P1,246,887** | **P3,790,415** |

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Up to 1 Month | 1 to 3 Months | 3 to 6 Months | 6 to 12 Months | Beyond 1 Year | Total |
| Commitments | P - | P - | P - | P421,538 | P - | P421,538 |
| Contingent liabilities | 115,110 | 2,448,194 | 648,847 | 84,215 | - | 3,296,366 |
| Total | P115,110 | P2,448,194 | P648,847 | P505,753 | P - | P3,717,904 |

As required by the BSP, the Bank sets aside funds in due from BSP as liquidity reserves. These funds are withdrawable on demand and are used as financial assets held for managing liquidity risk (see Note 13).

To ensure that adequate liquidity is maintained at all times, the Bank's Liquidity and Balance Sheet Management Unit diversifies funding sources and evaluates cash flows and future funding needs on a daily basis. This involves projecting the Bank's liquidity position under current market conditions. MRMD, in close coordination with Treasury, also conduct liquidity stress testing to evaluate the potential effects of a set of specified changes in liquidity risk factors on the Bank's financial position under a severe but plausible scenario to assist the Board and senior management in decision making.

In addition to its core deposit base, the Bank maintains a portfolio of marketable assets that can be readily liquidated in the event of an unforeseen interruption of cash flows. Additional funding may be secured from the interbank market by tapping the Bank's credit facilities. Further, the Bank maintains with the BSP statutory reserves on its non-FCDU deposits.

Liquidity risk control entails primarily the setting of risk limits, which define management's tolerance for liquidity risk. Specifically, limits are set on the maximum cumulative outflow and level of interbank borrowings. Liquidity risk is also monitored through the use of liquidity ratios. One of the more important liquidity ratios is the ratio of net liquid assets to total deposits. Net liquid assets consist of the sum of cash, due from BSP, due from other banks, interbank loans receivable, financial assets at FVTPL, financial assets at FVOCI, and investment securities at amortized cost with remaining maturities of less than one month, less derivative liabilities and interbank borrowings. The ratios for the year 2019 and 2018 were as follows:

| | **2019** | 2018 |
|---|---|---|
| December 31 | **28.5%** | 20.7% |
| Average during the year | **22.9%** | 23.6% |
| Highest | **29.0%** | 32.0% |
| Lowest | **14.3%** | 12.1% |

The analysis on net liquidity using undiscounted contractual cash flows (in thousands) are as follows:

| | 2019 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Carrying Value** | **Up to 1 Month** | **1 to 3 Months** | **3 to 6 Months** | **6 to 12 Months** | **2 Years** | **3 Years** | **4 Years** | **Greater than 5 Years** | **Total** |
| **Assets** | | | | | | | | | | |
| Financial assets at amortized cost: | | | | | | | | | | |
| Cash and other cash items | P725,063 | P725,063 | P - | P - | P - | P - | P - | P - | P - | P725,063 |
| Due from BSP | 4,277,491 | 4,277,491 | - | - | - | - | - | - | - | 4,277,491 |
| Due from other banks | 1,591,079 | 1,591,079 | - | - | - | - | - | - | - | 1,591,079 |
| Interbank loans receivable - gross | 1,518,431 | 1,518,594 | - | - | - | - | - | - | - | 1,518,594 |
| Investment securities - gross | 2,852,384 | - | - | 100,000 | 19,505 | 257,571 | - | - | 2,475,853 | 2,852,929 |
| Loans and discounts - gross | 36,987,482 | 7,458,759 | 6,552,036 | 4,158,244 | 2,831,358 | 10,714,673 | 3,224,673 | 679,598 | 2,234,975 | 37,854,316 |
| Other assets* | 37,355 | 1,442 | 622 | 18,860 | 1,514 | 8,142 | 4,077 | 2,084 | 614 | 37,355 |
| **Subtotal** | 47,989,286 | 15,572,428 | 6,552,658 | 4,277,104 | 2,852,377 | 10,980,386 | 3,228,750 | 681,682 | 4,711,442 | 48,856,827 |
| Financial assets at FVTPL | 81,141 | 81,141 | - | - | - | - | - | - | - | 81,141 |
| Financial assets at FVOCI | 6,433,660 | 6,420,539 | - | - | - | - | - | - | 13,121 | 6,433,660 |
| **Total Financial Assets** | 54,504,087 | 22,074,108 | 6,552,658 | 4,277,104 | 2,852,377 | 10,980,386 | 3,228,750 | 681,682 | 4,724,563 | 55,371,628 |
| **Liabilities** | | | | | | | | | | |
| Financial liabilities at FVTPL | 99,175 | 99,175 | - | - | - | - | - | - | - | 99,175 |
| Other financial liabilities at amortized cost: | | | | | | | | | | |
| Deposit liabilities | 37,685,525 | 26,314,675 | 9,326,513 | 1,098,619 | 474,844 | 250,077 | 220,797 | - | - | 37,685,525 |
| Bills payable | 4,774,481 | - | - | - | - | 3,779,087 | 995,394 | - | - | 4,774,481 |
| Outstanding acceptances | 54,618 | 54,618 | - | - | - | - | - | - | - | 54,618 |
| Manager's checks | 73,938 | 73,938 | - | - | - | - | - | - | - | 73,938 |
| Accrued interest, taxes and other expenses** | 466,121 | 466,121 | - | - | - | - | - | - | - | 466,121 |
| Other liabilities*** | 1,567,041 | 1,567,041 | - | - | - | - | - | - | - | 1,567,041 |
| **Total Financial Liabilities** | 44,720,899 | 28,575,568 | 9,326,513 | 1,098,619 | 474,844 | 4,029,164 | 1,216,191 | - | - | 44,720,899 |
| **Net Liquidity Gap** | P9,783,188 | (P6,501,460) | (P2,773,855) | P3,178,485 | P2,377,533 | P6,951,222 | P2,012,559 | P681,682 | P4,724,563 | P10,650,729 |

**Includes returned checks and other cash items and rent deposit.*
***Excludes retirement liability, accrued taxes and other non-financial accruals.*
**** Excludes withholding taxes payable, provision liability and deposits for future stock subscription.*

| | 2018 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying Value | Up to 1 Month | 1 to 3 Months | 3 to 6 Months | 6 to 12 Months | 2 Years | 3 Years | 4 Years | Greater than 5 Years | Total |
| Assets | | | | | | | | | | |
| Financial assets at amortized cost: | | | | | | | | | | |
| Cash and other cash items | P505,000 | P505,000 | P - | P - | P - | P - | P - | P - | P - | P505,000 |
| Due from BSP | 5,001,860 | 5,001,860 | - | - | - | - | - | - | - | 5,001,860 |
| Due from other banks | 1,266,760 | 1,266,760 | - | - | - | - | - | - | - | 1,266,760 |
| Interbank loans receivable - gross | 6,142,779 | 6,143,547 | - | - | - | - | - | - | - | 6,143,547 |
| Investment securities - gross | 2,790,519 | - | - | - | 19,459 | 99,999 | 271,712 | - | 2,399,349 | 2,790,519 |
| Loans and discounts - gross | 35,197,027 | 7,637,155 | 5,158,767 | 3,410,507 | 2,473,653 | 9,820,673 | 2,438,877 | 3,334,466 | 1,681,154 | 35,955,252 |
| Other assets* | 38,570 | 2,655 | 668 | 1,325 | 1,360 | 2,900 | 17,859 | 8,256 | 3,547 | 38,570 |
| Subtotal | 50,942,515 | 20,556,977 | 5,159,435 | 3,411,832 | 2,494,472 | 9,923,572 | 2,728,448 | 3,342,722 | 4,084,050 | 51,701,508 |
| Financial assets at FVTPL | 127,362 | 127,362 | - | - | - | - | - | - | - | 127,362 |
| Financial assets at FVOCI | 2,413,219 | 2,399,898 | - | - | - | - | - | - | 13,321 | 2,413,219 |
| Total Financial Assets | 53,483,096 | 23,084,237 | 5,159,435 | 3,411,832 | 2,494,472 | 9,923,572 | 2,728,448 | 3,342,722 | 4,097,371 | 54,242,089 |
| Liabilities | | | | | | | | | | |
| Financial liabilities at FVTPL | 25,453 | 25,453 | - | - | - | - | - | - | - | 25,453 |
| Other financial liabilities at amortized cost: | | | | | | | | | | |
| Deposit liabilities | 36,361,393 | 25,532,025 | 6,848,733 | 1,613,928 | 1,621,512 | 396,952 | 348,241 | - | - | 36,361,391 |
| Bills payable | 7,910,301 | 2,944,480 | 1,051,600 | - | - | - | 3,914,221 | - | - | 7,910,301 |
| Outstanding acceptances | 194,467 | 194,467 | - | - | - | - | - | - | - | 194,467 |
| Manager's checks | 80,275 | 80,275 | - | - | - | - | - | - | - | 80,275 |
| Accrued interest, taxes and other expenses** | 384,830 | 384,830 | - | - | - | - | - | - | - | 384,830 |
| Other liabilities*** | 1,928,685 | 1,928,685 | - | - | - | - | - | - | - | 1,928,685 |
| Total Financial Liabilities | 46,885,404 | 31,090,215 | 7,900,333 | 1,613,928 | 1,621,512 | 396,952 | 4,262,462 | - | - | 46,885,402 |
| Net Liquidity Gap | P6,597,692 | (P8,005,978) | (P2,740,898) | P1,797,904 | P872,960 | P9,526,620 | (P1,534,014) | P3,342,722 | P4,097,371 | P7,356,687 |

**Includes returned checks and other cash items and rent deposit.*
***Excludes retirement liability, accrued taxes and other non-financial accruals.*
****Excludes withholding taxes payable, provision liability and deposits for future stock subscription.*

*Liquidity Coverage Ratio (LCR)*
The ratios for 2019 and 2018 are as follows:

| | **2019** | 2018 |
|---|---|---|
| High-quality liquid assets | **P13,998,528,792** | P12,175,418,967 |
| Net cash outflows | **10,935,650,479** | 8,731,355,977 |
| Liquidity coverage ratio | **128.01%** | 139.44% |

High-quality liquid assets consist of cash or assets that can be converted into cash at little or no loss of value in private markets. LCR is being measured in accordance with BSP Circular 905 and 996.

*Net Stable Funding Ratio (NSFR)*
The ratios for the years 2019 and 2018 are as follows:

| | **2019** | 2018 |
|---|---|---|
| Available stable funding (ASF) | **P36,364,117,362** | P33,539,073,440 |
| Required stable funding (RSF) | **30,438,191,060** | 26,920,753,958 |
| Ratio of ASF to RSF | **119.47%** | 124.58% |

NSFR is being measured in accordance with BSP Circular 1007.

Market Risk
Market risk is the risk that the Bank's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level, volatility or correlation of market risk factors, such as interest rates (including credit spread), foreign exchange, equities and commodities. The Bank's market risk originates from its holdings in its foreign exchange instruments, debt securities, and derivatives.

MRMD is responsible in managing market risk. MRMD performs the second line of defense. It is responsible for designing and executing appropriate identification, measurement, monitoring, control and reporting of market risk; and developing the market risk management policy and relevant procedures; and monitoring and reporting overall market risk profile and limit utilization.

The Bank classifies exposures to market risk into either trading or non-trading portfolios.

It is exposed to the potential loss in its trading portfolio because the values of its trading positions are sensitive to changes in the market prices and rates. Similarly, it is also exposed to market risk in its non-trading portfolio.

The Bank sets its market risk limits by considering market predictions, capital and annual budgets. It takes into account the correlation among different market risk factors to estimate potential loss using Value-at-Risk (VaR) approach and also determines if this potential loss is appropriate in light of the size of its annual budget. The Bank also determines its market risk limits by considering the experience of its risk-taking units and its risk appetite.

The Bank utilizes market risk factor sensitivities as a tool to manage market risk. Market risk factor sensitivities of a position are defined as a change in the value of a position caused by a unit shift in a given market factor. Market risk factor sensitivities include interest rate and foreign exchange factor sensitivities. The calculation of the factor sensitivities is obtained by measuring the effect of a one (1) unit increase in current interest rates or current foreign exchange rates upon various product types.

The Bank uses the VaR methodology in managing probable losses arising from potential changes in the market price of underlying assets. In deriving the VaR, the Bank employs the historical simulation approach, which estimates potential losses by assuming that future price movements will mimic historical trends.

The VaR methodology is a statistical estimate based on a historical simulation approach and generated from a historical database. It is important to note that VaR is only an estimate of maximum potential loss given a level of confidence. It can be based on historical data, which may not necessarily replicate itself in the future, or be computed from randomly generated numbers. As such, VaR cannot predict losses with 100.0% confidence.

The VaR will be based on a 1-day holding period, a level of confidence of 99.0% and a time series equivalent to 500 days (or two years). The level of confidence can be adjusted in response to heightened volatility in the market.

The following are the VaR statistics (in millions):

| | **2019** | | |
|---|---|---|---|
| | **Foreign Exchange** | **Fixed Income** | **Total VaR** |
| December 31 | **P1.7** | **P0.0** | **P1.7** |
| Average daily | **4.2** | **P8.7** | **10.1** |
| Highest | **10.0** | **31.1** | **31.6** |
| Lowest | **0.8** | **0.0** | **1.0** |

| | 2018 | | |
|---|---|---|---|
| | Foreign Exchange | Fixed Income | Total VaR |
| December 31 | P1.0 | P0.9 | P1.2 |
| Average daily | 4.1 | 3.3 | 5.8 |
| Highest | 9.1 | 32.1 | 32.5 |
| Lowest | 0.5 | 0.0 | 0.5 |

The fixed income column comprises both Peso and Dollar bonds.

The highs and lows of the total portfolio may not equal the sum of the individual components as the highs and lows of the individual portfolios may have occurred on different trading days. The VaR for foreign exchange is the foreign exchange risk throughout the Bank. The Bank, when aggregating the foreign exchange VaR and interest VaR, considers the correlation effects between the two risks. Annually, the BOD sets the VaR limit for the trading books to which compliance is reviewed daily by Risk Management.

The model's validity is assessed daily via back-testing. The back testing is an ex-post comparison of the VaR generated by the model against actual daily changes in portfolio value over longer periods of time. Based on 99.0% coverage with 250 observations, the number of times that the daily losses exceed the VaR estimates is the number of "exceptions." The higher the exception number suggests a more significant problem with the quality or accuracy of the model, and hence more regulatory capital is required.

Market risk positions are also subjected to daily stress tests to ensure that the Bank could withstand an extreme event. Historical events considered for stress testing represent crises - political or economic - which impacted greatly and adversely the financial markets.

*Equity Price Risk*
Equity price risk is the risk that the fair values of equity investments decrease as a result of changes in the levels of equity indices and the value of individual stocks (whether traded or not). The Bank has no significant exposure to equity price risk.

*Interest Rate Risk*
The table below summarizes the Bank's exposure to interest rate risk as at December 31, 2019 and 2018.

| HFT Summary | **2019** | 2018 |
|---|---|---|
| USD (PVBP) PHP | **(P45,473)** | P16,213 |
| PHP (PVBP) PHP | **45,978** | (23,148) |

*Foreign Exchange Risk*
The table below summarizes the Bank's exposure to foreign exchange risk as of December 31, 2019 and 2018. Included in the tables are the Bank's assets and liabilities at carrying amounts, categorized by currency (in thousands):

| | **2019** | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **USD** | **Others** | **Total** | USD | Others | Total |
| **Assets** | | | | | | |
| Financial assets at amortized cost: | | | | | | |
| Cash and other cash items | **P317,562** | **P14,040** | **P331,602** | P69,087 | P17,008 | P86,095 |
| Due from BSP and other banks | **1,117,514** | **298,392** | **1,415,906** | 1,040,233 | 188,030 | 1,228,263 |
| Interbank loans receivable - net | **1,518,431** | **-** | **1,518,431** | 3,493,135 | - | 3,493,135 |
| Investment securities - net | **2,316,924** | **-** | **2,316,924** | 2,671,061 | - | 2,671,061 |
| Loans and receivables - net | **10,981,406** | **30,494** | **11,011,900** | 14,281,991 | 20,130 | 14,302,121 |
| Financial assets at FVTPL | **77,016** | **-** | **77,016** | 67,944 | - | 67,944 |
| Financial assets at FVOCI | **4,410,908** | **-** | **4,410,908** | 2,399,898 | - | 2,399,898 |
| | **20,739,761** | **342,926** | **21,082,687** | 24,023,349 | 225,168 | 24,248,517 |
| **Liabilities** | | | | | | |
| Financial liabilities at amortized cost: | | | | | | |
| Deposit liabilities | **15,316,358** | **273,682** | **15,590,040** | 13,916,766 | 183,734 | 14,100,500 |
| Bills payable | **3,779,087** | **-** | **3,779,087** | 7,910,301 | - | 7,910,301 |
| Outstanding acceptances | **54,618** | **-** | **54,618** | 190,991 | 3,476 | 194,467 |
| Accrued interest and other expenses | **23,855** | **-** | **23,855** | 45,606 | - | 45,606 |
| Other liabilities | **259,013** | **17** | **259,030** | 998,575 | 5 | 998,580 |
| Financial liabilities at FVTPL | **99,175** | **-** | **99,175** | 25,453 | - | 25,453 |
| | **19,532,106** | **273,699** | **19,805,805** | 23,087,692 | 187,215 | 23,274,907 |
| **Net Exposure** | **P1,207,655** | **P69,227** | **P1,276,882** | P935,657 | P37,953 | P973,610 |

Information relating to the Bank's currency derivatives is contained in Note 25. The Bank has outstanding foreign currency spot transactions (in equivalent peso amounts) of P1.8 billion (sold) and P0.8 billion (bought) as at December 31, 2019 and P0.5 billion (sold) and P1.1 billion (bought) as at December 31, 2018.

Foreign exchange factor sensitivities ("FX Delta") represent the change in the net present value of the foreign exchange portfolios caused by a unit shift of 100.0% of the underlying currency's exchange rate. The FX Delta risk comes from the FX exposure of derivatives, the hedging of foreign exchange positions and foreign currency cash positions.

The Bank's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

Foreign currency liabilities generally consist of foreign currency deposits in the Bank's FCDU. Foreign currency deposits are generally used to fund the Bank's foreign currency-denominated loan and investment portfolio in the FCDU. Effective January 1, 2018, the BSP, through Circular 946, no longer required FCDU liabilities to be covered by liquid assets.

Outside the FCDU, the Bank has additional foreign currency assets and liabilities in the RBU representing trade assets and corresponding foreign currency borrowings.

*Interest Rate Risk in Banking Book*
Interest rate risk is the risk to future earnings or equity arising from the movement of interest rates. Changes in interest rates affect: (1) the Bank's earnings by changing its net interest income (NII) and the level of other interest rate-sensitive income; and (2) the underlying economic value of the Bank's assets, liabilities and off-balance sheet instruments by means of reducing the present value of future cash flows (and in some cases, the cash flows themselves).

As the primary interest rate risk management unit, the Liquidity and Balance Sheet Management Unit adjusts the repricing structure of assets and liabilities to ensure that interest rate risk exposure stays within a controllable range. Limits on the change in one-year earnings (delta NII) and economic value of equity (EVE) given a one basis point change in interest rates are also established.

The Bank is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. Accordingly, limits on interest rate gaps for stipulated periods have been established by management.

Risk Monitoring and Control
The interest rate risk limits are monitored on monthly or daily basis. The MRMD is responsible for independent monitoring of the business units' compliance with the established limit framework as well as distributing monthly re-pricing gap report and advisory summary to the Asset and Liability Committee (ALCO), RMC and BOD for their review periodically. These reports are appropriately tailored to include, according to the requirements of the intended recipient, the limit utilizations, trend and limit excess information.

The Liquidity and Balance Sheet Management Unit is allowed to apply for hedge supported by duly approved hedge plan for the purpose of reducing risks. Financial instruments may be used to hedge for the purpose of reducing exposure or stabilizing profits. This can be achieved through conducting financial markets transactions with external counterparties to mitigate interest rate risk for non-trading purpose position.

As part of the internal control, the IRRBB reports are subjected to a regular and independent audit - internal or external - to ensure accuracy and validity of data and practice. Likewise, risk model development and regular review of assumptions and methodologies are conducted by the MRMD in close coordination with Parent Bank and Treasury Group. Risk model validation relating to methodology and quantification is conducted by a banking unit independent to the MRMD and Treasury Group. Risk model validation except for methodology and quantification is conducted by the internal audit as part of their regular audit program.

Risk Measurement
The Bank's exposure to IRRBB is being measured by the following tools:

a. Re-pricing Gap Report measures the re-pricing gap between asset and liability by various time buckets in order to understand interest rate mismatch; and

b. Risk Sensitivity measures the impact of 1 basis point change in interest rate on NII and that on EVE. The analysis of such impact on NII (1bp△NII) focuses on changes in interest income and expense within a year, hence, a short-term perspective. The analysis of such impact on EVE (1bp△EVE) is of a long-term perspective as it focuses on changes of economic value which will become net interest income received every year later on.

Measurement of 1bp△NII and 1bp△EVE stems from the Repricing Gap Report. The Repricing Gap Report considers rate-sensitive assets and liabilities such as due from other banks, interbank loans receivable, debt investment securities, loans and receivables, deposit liabilities and bills payable, and equity. For those rate-sensitive assets and liabilities with no available repricing dates, the repricing assumption is based on the two years historical repricing behavior.

Likewise, regular stress-testing is performed to approximate the effect of extreme interest rate fluctuation on the economic value of equity. Stress-testing can be done in the form of pre-defined parallel shifts in interest rate curve or on the basis of ad hoc projected interest rate scenario. MRMD monthly monitored the stress test result of IRRBB and report to ALCO possible economic value decline of Tier 1 and Tier 2 capital.

IRRBB stress testing is performed to evaluate the appropriateness of exposure to comprehend the Bank's interest rate risk profile and its impact to the capital through NII or EVE and its corresponding impact to Capital Adequacy Ratio (CAR). Stress testing starts with the collective evaluation of the degree of interest rate movement under stress condition being determined during the Internal Capital Adequacy Assessment Process (ICAAP) with primary consideration of the key economic variables in the future to establish IRRBB stress shocks.

In 2019 and 2018, the Bank uses a +300 basis point movement for Peso Book and +250 basis point movement for FCY book as a stress scenario.

The tables below show the sensitivity of the Bank's economic value of equity to possible changes in interest rates as at December 31, 2019 and 2018. The sensitivity of equity to interest rate movements is the present value of future cash flows discounted at the market rate.

| | | 2019 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Sensitivity of Equity | | | | | | | | |
| **Currency** | **Increase in bps** | **1 Month** | **3 Months** | **6 Months** | **1 Year** | **2 Years** | **5 Years** | **7 Years** | **10 Years Up** | **Total** |
| | | *(In Thousand Pesos)* | | | | | | | | |
| **PHP** | **15** | **(P809)** | **P205** | **P6,317** | **(P2,347)** | **(P7,502)** | **(P13,566)** | **(P896)** | **P -** | **(P18,598)** |
| **(in 000s)** | **20** | **(1,078)** | **273** | **8,420** | **(3,128)** | **(9,996)** | **(18,067)** | **(1,192)** | **-** | **(24,768)** |
| | **25** | **(1,348)** | **341** | **10,521** | **(3,908)** | **(12,486)** | **(22,557)** | **(1,487)** | **-** | **(30,924)** |
| **USD** | **15** | **(576)** | **1,220** | **3,004** | **(43)** | **-** | **(1,107)** | **(458)** | **(42,059)** | **(40,019)** |
| **(in 000s)** | **20** | **(768)** | **1,626** | **4,004** | **(57)** | **-** | **(1,474)** | **(610)** | **(55,891)** | **(53,170)** |
| | **25** | **(960)** | **2,031** | **5,003** | **(72)** | **-** | **(1,840)** | **(761)** | **(69,631)** | **(66,230)** |

| | | 2019 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Sensitivity of Equity | | | | | | | | |
| **Currency** | **Decrease in bps** | **1 Month** | **3 Months** | **6 Months** | **1 Year** | **2 Years** | **5 Years** | **7 Years** | **10 Years Up** | **Total** |
| | | *(In Thousand Pesos)* | | | | | | | | |
| **PHP** | **-15** | **P810** | **(P205)** | **(P6,331)** | **P2,353** | **P7,535** | **P13,665** | **P906** | **P -** | **P18,733** |
| **(in 000s)** | **-20** | **1,081** | **(273)** | **(8,444)** | **3,139** | **10,054** | **18,241** | **1,210** | **-** | **25,008** |
| | **-25** | **1,351** | **(342)** | **(10,559)** | **3,925** | **12,576** | **22,829** | **1,516** | **-** | **31,296** |
| **USD** | **-15** | **577** | **(1,222)** | **(3,011)** | **43** | **-** | **1,115** | **464** | **42,918** | **40,884** |
| **(in 000s)** | **-20** | **770** | **(1,630)** | **(4,016)** | **58** | **-** | **1,489** | **620** | **57,418** | **54,709** |
| | **-25** | **962** | **(2,038)** | **(5,022)** | **72** | **-** | **1,864** | **776** | **72,016** | **68,630** |

| | | 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Sensitivity of Equity | | | | | | | | |
| Currency | Increase in bps | 1 Month | 3 Months | 6 Months | 1 Year | 2 Years | 5 Years | 7 Years | 10 Years Up | Total |
| | | *(In Thousand Pesos)* | | | | | | | | |
| PHP | 15 | (P865) | (P49) | P7,198 | (P1,593) | (P7,154) | (P1,792) | P - | P - | (P4,255) |
| (in 000s) | 20 | (1,154) | (66) | 9,594 | (2,123) | (9,532) | (2,384) | - | - | (5,665) |
| | 25 | (1,442) | (82) | 11,988 | (2,652) | (11,907) | (2,977) | - | - | (7,072) |
| USD | 15 | (386) | (462) | 2,621 | 1,309 | (725) | 17,822 | (892) | (34,328) | (15,041) |
| (in 000s) | 20 | (515) | (616) | 3,493 | 1,744 | (966) | 23,737 | (1,187) | (45,627) | (19,937) |
| | 25 | (643) | (769) | 4,365 | 2,179 | (1,207) | 29,634 | (1,481) | (56,854) | (24,776) |

| | | 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Sensitivity of Equity | | | | | | | | |
| Currency | Decrease in bps | 1 Month | 3 Months | 6 Months | 1 Year | 2 Years | 5 Years | 7 Years | 10 Years Up | Total |
| | | *(In Thousand Pesos)* | | | | | | | | |
| PHP | -15 | P867 | P49 | (P7,213) | P1,597 | P7,184 | P1,805 | P - | P - | P4,289 |
| (in 000s) | -20 | 1,156 | 66 | (9,621) | 2,130 | 9,586 | 2,409 | - | - | 5,726 |
| | -25 | 1,445 | 82 | (12,030) | 2,664 | 11,990 | 3,016 | - | - | 7,167 |
| USD | -15 | 387 | 462 | (2,627) | (1,312) | 728 | (17,950) | 903 | 34,986 | 15,577 |
| (in 000s) | -20 | 516 | 617 | (3,503) | (1,751) | 972 | (23,963) | 1,206 | 46,796 | 20,890 |
| | -25 | 645 | 771 | (4,381) | (2,189) | 1,216 | (29,989) | 1,511 | 58,682 | 26,266 |

The following table sets forth the repricing gap position of the Bank (in thousands):

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | **Up to 1 Month** | **1 to 3 Months** | **3 to 6 Months** | **6 to 12 Months** | **Beyond 1 Year** | **Total** |
| **Financial Assets** | | | | | | |
| Financial assets at amortized cost: | | | | | | |
| Cash and other cash items | **P725,063** | **P -** | **P -** | **P -** | **P -** | **P725,063** |
| Due from BSP | **4,277,491** | **-** | **-** | **-** | **-** | **4,277,491** |
| Due from other banks | **1,591,079** | **-** | **-** | **-** | **-** | **1,591,079** |
| Interbank loans receivable - gross | **1,518,594** | **-** | **-** | **-** | **-** | **1,518,594** |
| Investment securities - gross | **-** | **-** | **100,000** | **19,505** | **2,733,424** | **2,852,929** |
| Loans and discounts - gross | **22,239,181** | **6,775,820** | **2,222,725** | **1,180,124** | **5,436,466** | **37,854,316** |
| Other assets* | **1,442** | **622** | **18,860** | **1,514** | **14,917** | **37,355** |
| Financial assets at FVTPL: | | | | | | |
| Quoted debt | **4,125** | **-** | **-** | **-** | **-** | **4,125** |
| Derivative assets | **77,016** | **-** | **-** | **-** | **-** | **77,016** |
| Financial assets at FVOCI | **6,420,539** | **-** | **-** | **-** | **13,121** | **6,433,660** |
| **Total Financial Assets** | **36,854,530** | **6,776,442** | **2,341,585** | **1,201,143** | **8,197,928** | **55,371,628** |
| **Financial Liabilities** | | | | | | |
| Financial liabilities at FVTPL | **99,175** | **-** | **-** | **-** | **-** | **99,175** |
| Other financial liabilities at amortized cost: | | | | | | |
| Deposit liabilities: | | | | | | |
| Demand | **8,022,741** | **-** | **-** | **-** | **-** | **8,022,741** |
| Savings | **7,306,284** | **-** | **-** | **-** | **-** | **7,306,284** |
| Time | **10,985,650** | **9,326,513** | **1,098,619** | **474,844** | **470,874** | **22,356,500** |
| Bills payable | **-** | **-** | **-** | **-** | **4,774,481** | **4,774,481** |
| Outstanding acceptances | **54,618** | **-** | **-** | **-** | **-** | **54,618** |
| Manager's checks | **73,938** | **-** | **-** | **-** | **-** | **73,938** |
| Accrued interest and other expenses** | **466,121** | **-** | **-** | **-** | **-** | **466,121** |
| Other liabilities*** | **1,567,041** | **-** | **-** | **-** | **-** | **1,567,041** |
| **Total Financial Liabilities** | **28,575,568** | **9,326,513** | **1,098,619** | **474,844** | **5,245,355** | **44,720,899** |
| **Repricing Gap** | **P8,278,962** | **(P2,550,071)** | **P1,242,966** | **P726,299** | **P2,952,573** | **P10,650,729** |
| **Cumulative Repricing Gap** | **P8,278,962** | **P5,728,891** | **P6,971,857** | **P7,698,156** | **P10,650,729** | **P -** |

**Includes returned checks and other cash items and rent deposit.*
***Excludes retirement liability, accrued taxes and other non-financial accruals.*
****Excludes withholding taxes payable, provision liability and deposits for future stock subscription.*

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Up to 1 Month | 1 to 3 Months | 3 to 6 Months | 6 to 12 Months | Beyond 1 Year | Total |
| Financial Assets | | | | | | |
| Financial assets at amortized cost: | | | | | | |
| Cash and other cash items | P505,000 | P - | P - | P - | P - | P505,000 |
| Due from BSP | 5,001,860 | - | - | - | - | 5,001,860 |
| Due from other banks | 1,266,760 | - | - | - | - | 1,266,760 |
| Interbank loans receivable - gross | 6,143,547 | - | - | - | - | 6,143,547 |
| Investment securities - gross | - | - | - | 19,459 | 2,771,060 | 2,790,519 |
| Loans and discounts - gross | 21,294,028 | 7,311,342 | 1,108,577 | 1,439,170 | 4,802,135 | 35,955,252 |
| Other assets* | 2,655 | 668 | 1,324 | 1,360 | 32,563 | 38,570 |
| Financial assets at FVTPL: | | | | | | |
| Quoted debt | 59,418 | - | - | - | - | 59,418 |
| Derivative assets | 67,944 | - | - | - | - | 67,944 |
| Financial assets at FVOCI | 2,399,898 | - | - | - | 13,321 | 2,413,219 |
| Total Financial Assets | 36,741,110 | 7,312,010 | 1,109,901 | 1,459,989 | 7,619,079 | 54,242,089 |
| Financial Liabilities | | | | | | |
| Financial liabilities at FVTPL | 25,453 | - | - | - | - | 25,453 |
| Other financial liabilities at amortized cost: | | | | | | |
| Deposit liabilities: | | | | | | |
| Demand | 7,646,600 | - | - | - | - | 7,646,600 |
| Savings | 7,597,339 | - | - | - | - | 7,597,339 |
| Time | 10,288,086 | 6,848,733 | 1,613,928 | 1,621,512 | 745,193 | 21,117,452 |
| Bills payable | 2,944,480 | 1,051,600 | - | - | 3,914,221 | 7,910,301 |
| Outstanding acceptances | 194,467 | - | - | - | - | 194,467 |
| Manager's checks | 80,275 | - | - | - | - | 80,275 |
| Accrued interest and other expenses** | 384,830 | - | - | - | - | 384,830 |
| Other liabilities*** | 1,928,685 | - | - | - | - | 1,928,685 |
| Total Financial Liabilities | 31,090,215 | 7,900,333 | 1,613,928 | 1,621,512 | 4,659,414 | 46,885,402 |
| Repricing Gap | P5,650,895 | (P588,323) | (P504,027) | (P161,523) | P2,959,665 | P7,356,687 |
| Cumulative Repricing Gap | P5,650,895 | P5,062,572 | P4,558,545 | P4,397,022 | P7,356,687 | P- |

**Includes returned checks and other cash items and rent deposit*
***Excludes retirement liability, accrued taxes and other non-financial accruals.*
****Excludes withholding taxes payable, provision liability and deposits for future stock subscription.*

The following table sets forth, for the period indicated, the impact of the range of reasonably possible changes in the interest rates (accounting perspective) on the profit or loss and equity:

| | Impact to Statements of Income | | Impact to Equity | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| **PHP Interest Rates** | | | | |
| Increase by 15 bps | **P69,000,522** | P41,308,608 | **(P367,309,741)** | (P80,915,960) |
| Increase by 20 bps | **92,000,696** | 55,078,144 | **(489,160,674)** | (107,743,984) |
| Increase by 25 bps | **115,000,871** | 68,847,680 | **(610,720,184)** | (134,500,334) |
| Decrease by 15 bps | **(69,000,522)** | (41,308,608) | **369,962,940** | 81,567,669 |
| Decrease by 20 bps | **(92,000,696)** | (55,078,144) | **493,877,500** | 108,902,583 |
| Decrease by 25 bps | **(115,000,871)** | (68,847,680) | **618,090,280** | 136,310,656 |
| **USD Interest Rates** | | | | |
| Increase by 15 bps | **12,286,666** | 101,884,616 | **(790,359,888)** | (286,051,936) |
| Increase by 20 bps | **16,382,221** | 135,846,155 | **(1,050,084,180)** | (379,178,932) |
| Increase by 25 bps | **20,477,776** | 169,807,694 | **(1,307,967,459)** | (471,208,940) |
| Decrease by 15 bps | **(12,286,666)** | (101,884,616) | **807,441,421** | 296,248,358 |
| Decrease by 20 bps | **(16,382,221)** | (135,846,155) | **1,080,452,493** | 397,306,599 |
| Decrease by 25 bps | **(20,477,776)** | (169,807,694) | **1,355,420,244** | 499,534,811 |

The Bank has exposures to other currencies that are not material.

The following table provides for the average effective interest rates by period of maturity or repricing of the Bank:

| | 2019 | | |
|---|---|---|---|
| | **Less than 3 Months** | **3 Months to 1 Year** | **Greater than 1 Year** |
| **Peso-denominated** | | | |
| *Financial Assets* | | | |
| Due from BSP | **0.6%** | **-** | **-** |
| Due from other banks | **0.1%** | **-** | **-** |
| Interbank loans receivable | **4.7%** | **-** | **-** |
| Financial assets at FVOCI | **-** | **-** | **4.9%** |
| Investment securities at amortized cost | **6.6%** | **2.9%** | **6.1%** |
| Loans and receivables | **5.6%** | **7.0%** | **12.9%** |
| Financial assets at FVTPL | **10.9%** | **1.2%** | **6.5%** |
| *Financial Liabilities* | | | |
| Deposit liabilities | **1.4%** | **4.6%** | **2.6%** |
| Bills payable | **6.3%** | **-** | **-** |
| **Foreign Currency-denominated** | | | |
| *Financial Assets* | | | |
| Due from other banks | **0.9%** | **-** | **-** |
| Interbank loans receivable | **2.0%** | **-** | **-** |
| Financial assets at FVOCI | **-** | **-** | **5.17%** |
| Investment securities at amortized cost | **-** | **-** | **3.0%** |
| Loans and receivables | **3.6%** | **4.1%** | **1.7%** |
| Financial assets at FVTPL | **-** | **-** | **2.3%** |
| *Financial Liabilities* | | | |
| Deposit liabilities | **1.1%** | **2.5%** | **2.0%** |
| Bills payable | **3.5%** | **-** | **-** |

| | 2018 | | |
|---|---|---|---|
| | Less than 3 Months | 3 Months to 1 Year | Greater than 1 Year |
| Peso-denominated | | | |
| *Financial Assets* | | | |
| Due from BSP | 0.3% | - | - |
| Due from other banks | 0.2% | - | - |
| Interbank loans receivable | 4.5% | - | - |
| Financial assets at FVOCI | - | - | - |
| Investment securities at amortized cost | 4.9% | - | 4.3% |
| Loans and receivables | 5.1% | 6.7% | 11.2% |
| Financial assets at FVTPL | 0.4% | 0.1% | 6.6% |
| *Financial Liabilities* | | | |
| Deposit liabilities | 1.1% | 2.9% | 1.3% |
| Bills payable | 3.5% | - | - |
| Foreign Currency-denominated | | | |
| *Financial Assets* | | | |
| Due from other banks | 0.9% | - | - |
| Interbank loans receivable | 1.7% | - | - |
| Financial assets at FVOCI | - | - | 5.3% |
| Investment securities at amortized cost | - | - | 2.8% |
| Loans and receivables | 3.3% | 3.4% | 1.6% |
| Financial assets at FVTPL | - | - | 3.4% |
| *Financial Liabilities* | | | |
| Deposit liabilities | 1.3% | 2.2% | 1.6% |
| Bills payable | 2.5% | - | - |

| | 2017 | | |
|---|---|---|---|
| | Less than 3 Months | 3 Months to 1 Year | Greater than 1 Year |
| Peso-denominated | | | |
| *Financial Assets* | | | |
| Due from BSP | 0.6% | - | - |
| Due from other banks | 0.2% | - | - |
| Interbank loans receivable | 2.8% | - | - |
| Loans and receivables | 5.0% | 6.4% | 10.6% |
| Financial assets at FVTPL | 0.2% | 0.2% | 4.3% |
| AFS investments | - | - | 4.0% |
| HTM investments | 1.3% | 3.4% | 3.6% |
| *Financial Liabilities* | | | |
| Deposit liabilities | 0.6% | 1.1% | 1.2% |
| Bills payable | 1.6% | - | - |
| Foreign Currency-denominated | | | |
| *Financial Assets* | | | |
| Due from other banks | 0.5% | - | - |
| Interbank loans receivable | 1.1% | - | - |
| Loans and receivables | 2.7% | 3.7% | 1.0% |
| Financial assets at FVTPL | - | - | 2.9% |
| AFS investments | 5.6% | 5.6% | 3.2% |
| HTM investments | - | - | 3.9% |
| *Financial Liabilities* | | | |
| Deposit liabilities | 0.4% | 1.7% | 1.4% |
| Bills payable | 1.8% | - | - |

*Prepayment Risk*
Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall. The Bank has exposures in consumer, e.g., salary loans, mortgage loans. These activities generate market risk since these loan products are inherently sensitive to changes in the level of market interest rates.

The impact on the Bank's profitability of mortgage loan prepayment risk is deemed negligible as actual prepayments were small relative to the loan portfolio.

<u>Operational Risk</u>
Operational risk is defined as the risk of loss arising from direct or indirect loss from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

Direct Loss is a result primarily from an operational failure while an Indirect Loss relates to the impact of operational risk on other risks such as Market, Credit or Liquidity Risk.

The Operational and Reputational Risk Management Department (ORRMD) is responsible for establishing, overseeing and supporting CTBC's Operational Risk Management ("ORM") framework. Specific responsibilities include:

- Recommend to the BOD and Senior Management appropriate policies and procedures relating to ORM.
- Design and implement Bank's operational risk assessment methodology, tools, and risk reporting system.
- Coordinate risk management activities across the organization.
- Consolidated all relevant operational risk information and reports to be elevated and reported to the BOD and Senior Management.
- Provide ORM training and advice to BU's on ORM issues.
- Coordinate with Compliance function, Internal Audit, and External Audit on ORM matters.
- Monitoring and reporting of Operational Risk incidents.
- Manage the stress testing activities for the Bank's operational risk.

*Operational Risk Process*
The Bank implements the Risk and Control Assessment Framework to ensure that all operational risks of the different Business and Functional Units are reported and properly managed.

The Risk and Control Assessment (RCA) Framework is composed of 3 main activities namely:

- Annual Risk Assessment (ARA) - refers to the process of assessing key risks to be faced by the Bank in the upcoming year and mapping key controls and/or indicators for each identified key risk.

- Management Control Assessment (MCA) - refers to the year-long process of assessing the effectiveness of key control through self-inspection, monitoring trend/s of risk indicators, and taking action on any identified vulnerability or gap.

- Business Risk, Compliance, and Control (BRCC) Forum - refers to the integrated review on internal controls across first, second, and third lines of defense. Its main objective is to enable Senior Management to supervise the overall status of key risk trend, weakness in controls, and correction on major events and audit issues.

The Bank's Operational Risk Process is as follows:

*Key Risk and Control Identification Process*
This involves the review of existing business processes, products and services with the aim of identifying vulnerabilities and assessing the extent of damage that can happen should breaches occur. The RCA Framework is followed.

*Review and Document Policies and Procedures*
In reviewing and documenting policies and procedures, each business and operating unit ensures clear and complete documentation of the following:

- Processes - Include all functions that are being done to ensure complete delivery of the transaction. This covers both client interface processes and internal control.

- People - Identify everyone involved in the process, their duties and responsibilities and required competencies.

- Reports - Identify those that would be needed to assess risk management effectiveness.

- Methodologies - Detail the tools and activities that would support decision making for critical areas of the process.

- Systems and Data - Cite the system and data requirement for the business unit to efficiently manage reports and methodologies employed.

All Business and Operating Units shall ensure that actual practices are consistent with documented policies and procedures.

*Monitor and Formulate Action Plan*
Monitoring and formulating action plans against established standards, via the KRIs is an important component in ensuring that these standards are met. There are three units involved in the over-all formulation and monitoring of action plans for all Business and Functional Units.

- Business and Functional Units - They are expected to report the operational exceptions, deviations on the policies and procedures and deficiencies on the documentations and process.

- ORRMD - Collates and consolidates the reports from different business and functional units. They are also responsible for monitoring, analyzing and reporting operational risk losses and exposures to Management.

- Internal Audit Department (IAD) - Primarily responsible for ensuring that all Operations Units are in compliance with the set of policies and procedures. They should be able to provide an independent opinion on the effectiveness of established internal controls.

*Management Oversight*
On a monthly basis, the Operations Committee convenes to discuss operational risk issues. This is presided by the President/CEO with the following members: Deputy CEO, CRO, CFO, Information Security Officer, and Heads of ORRMD, ICMG, RCMG, IBG, RBG, Trust Department, Treasury Group, ITG, BOG, HRAG, Marketing Communications Services Department, Internal Audit and Compliance.

Strategic Risk
Strategic risk is the risk that the current and prospective earnings or capital will be adversely impacted because of business decisions, improper implementation of decisions or lack of responsiveness to industry changes. This definition gives importance to business planning, where business decisions and its implementation are derived from.

The strategic risk of the Bank is a function of the compatibility of its strategic goals, the quality of carrying out its implementation, and building the infrastructure to meet such goals.

Strategic risk is managed throughout the Bank and is primarily monitored by Finance and Corporate Affairs Group through budget analysis and variances.

Legal Risk
Legal risks belong to non-quantifiable risks that are not subject to specific numerical measurements but likewise require similar management attention. While unpredictable, non-quantifiable risks may cause severe impact of the Bank's statements of income. These risks are mitigated by developing a strong control culture, an organizational structure that is risk-aware, and an effective internal control system that continually monitors and updates processes and procedures. Legal risks include the potential for the Bank to suffer a financial loss due to non- existent, incomplete, incorrect and/or unenforceable documentation used by the Bank to protect and enforce its rights under contracts and obligations. This risk is closely related to credit risk as it most often involves legal problems with counterparties to the Bank's transactions. It is also closely related to other non-quantifiable risks that have to be assessed: fiduciary, reputational risk and regulatory risk.

A legal review process is the primary control mechanism for legal risks and shall be part of every product program or process of the Bank. The review aims to validate the existence, propriety and enforceability of documents, and verify the capacity and authority of counterparties and customers to enter into transactions.

The Bank's Legal Department is the primary unit assigned to identify, assess, manage and monitor the Bank's legal risk.

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

The Bank considers its paid-in capital and retained earnings as its core economic capital.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

*Regulatory Qualifying Capital*

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regulatory net worth) as reported to the BSP, which is determined on the basis of Regulatory Accounting Principles (RAP) which differ from PFRSs in some respects.

The BSP sets and monitors compliance with minimum capital requirements for the Bank. In implementing current capital requirements, BSP issued Circular 781 which implemented the Revised Risk-Based Capital Adequacy Framework under Basel III effective January 1, 2014. It requires the Bank to maintain a prescribed risk-based capital adequacy ratio (expressed as a percentage of qualifying capital to risk-weighted assets) of not less than 10.0% for both solo and consolidated basis. The Bank is also required to maintain a minimum Common Equity Tier 1 and Tier 1 capital ratio of 6.0% and 7.5%, respectively. A capital conservation buffer of 2.5% comprised of CET1 capital was likewise imposed through BSP Circular 1024.

Shown below are the Bank's minimum capital-to-risk assets ratios as reported to the BSP as of December 31, 2019 and 2018 (in millions except for percentages).

| | **2019** | 2018 |
|---|---|---|
| CET 1 capital | **P8,768** | P6,926 |
| Tier 1 capital | **8,768** | 6,926 |
| Tier 2 capital | **414** | 405 |
| Gross qualifying capital | **9,182** | 7,331 |
| Less: Required deductions | **-** | - |
| **Total Qualifying Capital** | **P9,182** | P7,331 |
| **Risk-weighted Assets** | **P45,969** | P44,878 |
| CET 1 ratio | **19.1%** | 15.4% |
| Tier 1 capital ratio | **19.1%** | 15.4% |
| Tier 2 capital ratio | **0.9%** | 0.9% |
| Risk-based capital adequacy ratio | **20.0%** | 16.3% |

The regulatory qualifying capital of the Bank consists of Tier 1 (core) and Tier 2 (supplementary) capital. Tier 1 capital comprise of common stock, additional paid-in capital and surplus. Tier 2 comprises upper Tier 2 and lower Tier 2. Upper Tier 2 consists of preferred stock, revaluation increment reserve, general loan loss provision, and deposit for common stock subscription. Lower Tier 2 consists of unsecured subordinated debt.

BSP Circular 560 dated January 31, 2007, which took effect on February 22, 2007, requires the deduction of unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates from capital accounts for purposes of computing CAR.

Moreover, BSP Circular 1027 dated December 14, 2018, provides the guidelines on the computation of the required capital for banks to ensure that capital is only composed of instruments that are of highest quality to absorb losses.

BASEL III
On December 13, 2013, the BSP issued Circular 822 on amendments to the capital framework of foreign bank. It provides that the minimum capital required for locally incorporated subsidiaries of foreign banks shall be the same as that prescribed by the Monetary Board for domestic banks of the same category under Circular 781 issued last January 15, 2013.

The following are the revised minimum capital requirements:

- 6.0% Common Equity Tier 1 (CET1)/Risk-Weighted Assets (RWAs);
- 7.5% Tier 1 Capital/RWAs; and
- 100% Total Qualifying Capital (Tier 1 plus Tier 2)/RWAs.

The Qualifying Capital must consist of the sum of the following elements, net of required deductions: Tier 1-'going concern' [CET1 plus Additional Tier 1] and Tier 2 - 'gone concern.' A bank/quasi-bank must ensure that any component of capital included in qualifying capital complies with all the eligibility criteria for the particular category of capital in which it is included. The Circular further describes the elements/criteria that a bank should meet for each capital category. Regulatory adjustments and calculation guidelines for each capital category are also discussed.

In conformity with the Basel III standards, a Capital Conservation Buffer of 2.5% of RWAs, comprised of CET1 capital, has been required. This buffer is meant to promote the conservation of capital and build-up of adequate cushion that can be drawn down by banks to absorb losses during financial and economic stress. The restrictions on distribution that a bank must meet at various levels of CET1 capital ratios are established, as shown in below table. Restrictions will be imposed if a bank has no positive earnings, has CET1 of not more than 8.5% (CET Ratio of 6.0% plus conservation buffer of 2.5%) and has not complied with the minimum 10.0% CAR.

| **Level of CET 1 Capital** | **Restriction on Distributions** |
|---|---|
| <6.0% | No distribution |
| 6.0% - 7.2% | No distribution until more than 7.2% CET1 capital is met |
| >7.2% - 8.5% | 50.0% of earnings may be distributed |
| >8.5% | No restriction on the distribution |

Under Section 129 of the MORB Basel III, leverage ratio is designed to act as supplementary measure to the risk-based capital requirements. It is defined as the capital measure (numerator) divided by the exposure measure (denominator). The leverage ratio shall not be less than 5.0% computed on both solo (head office plus branches) and consolidated bases (parent bank plus subsidiary financial allied undertakings but excluding insurance companies).

The Bank exceeded the minimum leverage ratio 5.0% in 2019 and 2018 as presented below (amounts in thousands):

| | **2019** | 2018 |
|---|---|---|
| Capital measure | **P8,768,339** | P6,925,984 |
| Exposure measure | **59,536,060** | 57,118,518 |
| Leverage ratio | **14.73%** | 12.13% |

## 6. Fair Value Measurement

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

*Cash and Other Cash Items, Due from BSP and Other Banks, and Interbank Loans Receivable*
Carrying amounts approximate fair values due to their short-term nature.

*Quoted Debt and Equity Securities*
Fair values are based on quoted prices published in markets.

*Unquoted Equity Securities*
The unquoted equity securities of the Bank are measured at fair value. However, due to the lack of suitable methods of arriving at a reliable fair value, the cost is determined to be an appropriate estimate of fair value. The unquoted equity securities are instead measured at their carrying amounts. These are interests in BancNet, Philippine Clearing House Corporation and Bankers Association of the Philippines held as per membership requirement.

*Derivative Instruments*
Derivative products are valued using valuation techniques with market observable inputs including foreign exchange rates and interest rate curves prevailing at the statements of financial position date. For cross-currency swaps and foreign exchange contracts, discounted cash flow model is applied. This valuation method discounts each cash flow of the derivatives at a rate that is dependent on the tenor of the cash flow.

*Loans and Receivables*
Fair values of loans subject to periodic interest repricing of more than one year are estimated based on the discounted cash flow methodology using the loan's latest interest rate. Carrying values of loans subject to periodic interest repricing of one year or less approximate fair value because of recent and regular repricing based on market conditions.

*Investment Properties*
The fair value of the Bank's investment properties are based on recent sales of similar properties in the same areas, taking into account the economic conditions prevailing at the time the valuations were made.

*Deposit Liabilities*
Carrying amounts of demand and savings deposit approximate fair values considering that these are currently due and demandable. Fair values of time deposits are estimated based on discounted cash flow methodology using the Bank's latest interest rates due to lack of suitable methods of arriving at reliable fair value.

*Other Financial Liabilities*
Carrying values of liabilities, other than deposit liabilities approximates fair values due to their short-term nature.

The following table provides the fair value hierarchy of the Bank's assets and liabilities measured at fair value and those for which fair values should be disclosed:

| | 2019 | | | | |
|---|---|---|---|---|---|
| | Carrying Value | Level 1 | Level 2 | Level 3 | Fair Value |
| **Assets Measured at Fair Value** | | | | | |
| *Financial Assets* | | | | | |
| Financial assets at FVTPL: | | | | | |
| Held-for-trading: | | | | | |
| Quoted debt | P4,124,916 | P4,124,916 | P - | P - | P4,124,916 |
| Derivative assets | 77,015,758 | - | 77,015,758 | - | 77,015,758 |
| | 81,140,674 | 4,124,916 | 77,015,758 | - | 81,140,674 |
| Financial assets at FVOCI: | | | | | |
| Quoted debt | 6,420,539,349 | 6,420,539,349 | - | - | 6,420,539,349 |
| Unquoted equity | 12,440,817 | - | - | 12,440,817 | 12,440,817 |
| Quoted equity | 680,000 | - | 680,000 | - | 680,000 |
| | 6,433,660,166 | 6,420,539,349 | 680,000 | 12,440,817 | 6,433,660,166 |
| | P6,514,800,840 | P6,424,664,265 | P77,695,758 | P12,440,817 | P6,514,800,840 |
| **Assets for which Fair Values are Disclosed** | | | | | |
| Financial assets at amortized cost: | | | | | |
| Cash and other cash items | P725,063,226 | P725,063,226 | P - | P - | P725,063,226 |
| Due from BSP | 4,277,491,280 | 4,277,491,280 | - | - | 4,277,491,280 |
| Due from other banks | 1,591,079,273 | 1,591,079,273 | - | - | 1,591,079,273 |
| Interbank loans receivable - net | 1,518,431,320 | 1,518,431,320 | - | - | 1,518,431,320 |
| Investment securities - net | 2,852,383,715 | 3,020,181,137 | - | - | 3,020,181,137 |
| Loans and discounts - net: | | | | | |
| Institutional banking | 28,229,061,241 | 28,229,061,241 | - | - | 28,229,061,241 |
| Retail banking | 4,569,318,075 | 6,553,555,461 | - | - | 6,553,555,461 |
| Mortgage banking | 2,304,368,049 | 2,501,656,779 | - | - | 2,501,656,779 |
| Small business loans | 1,391,664,017 | 1,390,577,249 | - | - | 1,390,577,249 |
| Accrued interest receivable | 252,716,014 | 252,716,014 | - | - | 252,716,014 |
| Other receivables | 243,577,887 | 243,577,887 | - | - | 243,577,887 |
| Other assets* | 37,354,963 | 37,354,963 | - | - | 37,354,963 |
| | 47,992,509,060 | 50,340,745,830 | - | - | 50,340,745,830 |
| *Non-financial Assets* | | | | | |
| Investment properties | 178,880,010 | - | 187,215,413 | - | 187,215,413 |
| | P48,171,389,070 | P50,340,745,830 | P187,215,413 | P - | P50,527,961,243 |
| **Liabilities Measured at Fair Value** | | | | | |
| Financial liabilities at FVTPL | P99,175,116 | P - | P99,175,116 | P - | P99,175,116 |
| **Liabilities for which Fair Values are Disclosed** | | | | | |
| Financial liabilities at amortized cost: | | | | | |
| Deposit liabilities: | | | | | |
| Demand | 8,022,741,163 | 8,022,741,163 | - | - | 8,022,741,163 |
| Savings | 7,306,283,512 | 7,306,283,512 | - | - | 7,306,283,512 |
| Time | 22,356,499,970 | 22,356,499,970 | - | - | 22,356,499,970 |
| Subtotal | 37,685,524,645 | 37,685,524,645 | - | - | 37,685,524,645 |
| Bills payable | 4,774,481,380 | 4,774,481,380 | - | - | 4,774,481,380 |
| Outstanding acceptances | 54,618,030 | 54,618,030 | - | - | 54,618,030 |
| Manager's checks | 73,938,307 | 73,938,307 | - | - | 73,938,307 |
| Accrued interest, taxes and other expenses** | 466,121,317 | 466,121,317 | - | - | 466,121,317 |
| Other liabilities*** | 1,567,040,709 | 1,567,040,709 | - | - | 1,567,040,709 |
| | 44,621,724,388 | 44,621,724,388 | - | - | 44,621,724,388 |
| | P44,720,899,504 | P44,621,724,388 | P99,175,116 | P - | P44,720,899,504 |

**Includes returned checks and other cash items and rent deposit.*
***Excludes retirement liability, accrued taxes and other non-financial accruals.*
****Excludes withholding taxes payable, provision liability and deposits for future stock subscription.*

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Carrying Value | Level 1 | Level 2 | Level 3 | Fair Value |
| Assets Measured at Fair Value | | | | | |
| *Financial Assets* | | | | | |
| Financial assets at FVTPL: | | | | | |
| Held-for-trading: | | | | | |
| Quoted debt | P59,417,929 | P59,417,929 | P - | P - | P59,417,929 |
| Derivative assets | 67,944,513 | - | 67,944,513 | - | 67,944,513 |
| | 127,362,442 | 59,417,929 | 67,944,513 | - | 127,362,442 |
| Financial assets at FVOCI: | | | | | |
| Quoted debt | 2,399,898,231 | 2,399,898,231 | - | - | 2,399,898,231 |
| Unquoted equity | 12,440,817 | - | - | 12,440,817 | 12,440,817 |
| Quoted equity | 880,000 | - | 880,000 | - | 680,000 |
| | 2,413,219,048 | 2,399,898,231 | 880,000 | 12,440,817 | 2,413,219,048 |
| | P2,540,581,490 | P2,459,316,160 | P68,824,513 | P12,440,817 | P2,540,581,490 |
| Assets for which Fair Values are Disclosed | | | | | |
| Financial assets at amortized cost: | | | | | |
| Cash and other cash items | P504,999,873 | P504,999,873 | P - | P - | P504,999,873 |
| Due from BSP | 5,001,859,955 | 5,001,859,955 | - | - | 5,001,859,955 |
| Due from other banks | 1,266,759,792 | 1,266,759,792 | - | - | 1,266,759,792 |
| Interbank loans receivable - net | 6,142,778,572 | 6,142,778,572 | - | - | 6,142,778,572 |
| Investment securities | 2,790,519,408 | 2,772,729,200 | - | - | 2,772,729,200 |
| Loans and discounts - net: | | | | | |
| Institutional banking | 26,884,048,863 | 26,884,048,863 | - | - | 26,884,048,863 |
| Retail banking | 4,353,162,630 | 4,120,606,747 | - | - | 4,120,606,747 |
| Mortgage banking | 1,954,071,367 | 1,970,958,906 | - | - | 1,970,958,906 |
| Small business loans | 1,402,744,022 | 1,402,744,022 | - | - | 1,402,744,022 |
| Accrued interest receivable | 242,467,735 | 242,467,735 | - | - | 242,467,735 |
| Other receivables | 365,373,768 | 365,373,768 | - | - | 365,373,768 |
| Other assets* | 38,569,682 | 38,569,682 | - | - | 38,569,682 |
| | 50,947,355,667 | 50,713,897,115 | - | - | 50,713,897,115 |
| *Non-financial Assets* | | | | | |
| Investment properties | 172,218,735 | - | 176,440,000 | - | 176,440,000 |
| | P51,119,574,402 | P50,713,897,115 | P176,440,000 | P - | P50,890,337,115 |
| Liabilities Measured at Fair Value | | | | | |
| Financial liabilities at FVTPL | P25,452,851 | P - | P25,452,851 | P - | P25,452,851 |
| Liabilities for which Fair Values are Disclosed | | | | | |
| Financial liabilities at amortized cost: | | | | | |
| Deposit liabilities: | | | | | |
| Demand | 7,646,599,849 | 7,646,599,849 | - | - | 7,646,599,849 |
| Savings | 7,597,339,059 | 7,597,339,059 | - | - | 7,597,339,059 |
| Time | 21,117,452,342 | 21,117,452,342 | - | - | 21,117,452,342 |
| Subtotal | 36,361,391,250 | 36,361,391,250 | - | - | 36,361,391,250 |
| Bills payable | 7,910,300,863 | 7,910,300,863 | - | - | 7,910,300,863 |
| Outstanding acceptances | 194,467,418 | 194,467,418 | - | - | 194,467,418 |
| Manager's checks | 80,275,446 | 80,275,446 | - | - | 80,275,446 |
| Accrued interest, taxes and other expenses** | 384,830,185 | 384,830,185 | - | - | 384,830,185 |
| Other liabilities*** | 1,928,685,203 | 1,928,685,203 | - | - | 1,928,685,203 |
| | 46,859,950,365 | 46,859,950,365 | - | - | 46,859,950,365 |
| | P46,855,403,216 | P46,859,950,365 | P25,452,851 | P - | P46,855,403,216 |

*Includes returned checks and other cash items and rent deposit.
**Excludes retirement liability, accrued taxes and other non-financial accruals.
***Excludes withholding taxes payable, provision liability and deposits for future stock subscription.*

The following ranges of discount rates were used in estimating the fair values unquoted fixed-rate and floating-rate debt instruments:

| | **PHP** | | | |
|---|---|---|---|---|
| | **2019** | | 2018 | |
| | **High** | **Low** | High | Low |
| Loans and discounts: | | | | |
| Retail banking | **14.0%** | **2.0%** | 12.1% | 2.1% |
| Mortgage banking | **11.5%** | **5.3%** | 9.0% | 5.3% |

The following table shows financial instruments recognized at fair value, analyzed by bases of fair value (in thousands):

- Level 1 - quoted market prices in active markets for identical assets or liabilities; when fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

- Level 2 - those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); for all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models; and

- Level 3 - those with inputs for the asset or liability that are not based on observable market data (unobservable inputs). Instruments included in Level 3 are those for which there are currently no active market.

The fair values of Level 1 instruments are based on the Bloomberg Valuation Service (BVAL) reference rates as used as the benchmark of PHP government securities in the active market of which comprise the quoted debt securities at FVTPL at reporting date. These BVAL reference rates are based on accumulated market data and real-time market observations on actively traded identical fixed income securities.

The fair values of Level 2 instruments are based on broker quotes from similar contracts that are traded in an active market. These quotes reflect the actual transactions in similar instruments.

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

## 7. Investment Securities

The effective interest rates of the Bank’s debt securities range from 1.4% to 7.4%, 1.1% to 8.3% and 1.0% to 6.7% in 2019, 2018 and 2017, respectively.

*Financial Assets at FVTPL*
Financial assets at FVTPL consist of the following:

| | ***Note*** | **2019** | 2018 |
|---|---|---|---|
| Government debt securities | | **P4,124,916** | P59,417,929 |
| Derivative assets | *26* | **77,015,758** | 67,944,513 |
| | | **P81,140,674** | P127,362,442 |

The Bank’s debt securities and derivative assets are mandatorily classified as at FVTPL on initial recognition.

Net unrealized gain and loss in 2019, 2018 and 2017 on revaluation to market of financial assets at FVTPL amounting to P0.4 million, P2.7 million and (P2.3 million) respectively, are included under “Trading and securities gain - net” in the statements of income.

*Financial Assets at FVOCI and AFS Investments*
Financial assets at FVOCI consist of the following:

| | **2019** | 2018 |
|---|---|---|
| Government debt securities | **P6,420,539,349** | P2,399,898,231 |
| Unquoted equity securities | **12,440,817** | 12,440,817 |
| Quoted equity securities | **680,000** | 880,000 |
| | **P6,433,660,166** | P2,413,219,048 |

Quoted equity securities pertain to club shares from Orchard Golf and Country Club and Subic Bay Yacht Club Corporation which were irrevocably designated at FVOCI as at January 1, 2018.

Unquoted equity securities are held as local requirement (PCHC), consortium for ATM networks and on-line banking (Bancnet) and membership with the BAP.

The movements of net unrealized gain (loss) on financial assets at FVOCI are as follows:

| | **2019** | 2018 |
|---|---|---|
| Balance at beginning of the year | **(P94,093,041)** | P13,207,397 |
| Net change in fair value recognized in OCI: | | |
| Unrealized gain (loss) on debt financial assets at FVOCI recognized in OCI | **240,737,212** | (76,293,126) |
| Amount realized in the statements of income | **(38,210,299)** | (31,389,312) |
| | **202,526,913** | (107,682,438) |
| Unrealized (loss) gain on equity financial assets at FVOCI recognized in OCI | **(200,000)** | 382,000 |
| | **202,326,913** | (107,300,438) |
| Balance at end of year | **P108,233,872** | (P94,093,041) |

In 2019, effective interest rates of FVOCI debt securities range from 3.6% to 6.3% for peso-denominated FVOCI debt securities and 1.5% to 3.9% for foreign currency-denominated. In 2018, effective interest rates range from 1.1% to 4.5% for foreign currency-denominated FVOCI debt securities and nil for peso-denominated securities. In 2017, effective interest rates ranged from 2.5% to 3.9% for foreign currency-denominated AFS investments. As at December 31, 2017, there were no outstanding peso-denominated AFS investments.

*Investment Securities at Amortized Cost and HTM Investments*
Investment securities at amortized cost consist of Philippine government treasury notes that bear nominal annual interest rates ranging from 3.7% to 9.5% and 2.3% to 6.9% in 2019 and 2018, respectively. HTM investments consisted of Philippine government treasury notes that carried nominal annual interest rates ranging from 2.1% to 10.6% for 2017

As at December 31, 2019 and 2018, the carrying value of investment securities at amortized cost amounted to P2.9 billion and P2.8 billion, respectively. Loss allowance on investment securities at amortized cost amounted to P0.5 million and nil as at December 31, 2019 and 2018, respectively (see Note 12).

Interest income on investment securities consists of:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Investment securities at amortized cost | **P119,923,663** | P65,430,862 | P - |
| Financial assets at FVOCI | **116,528,627** | 80,611,774 | - |
| Financial assets at FVTPL | **49,805,270** | 14,598,029 | 29,834,951 |
| HTM investments | **-** | - | 32,091,577 |
| AFS investments | **-** | - | 31,155,453 |
| | **P286,257,560** | P160,640,665 | P93,081,981 |

Trading and securities gain - net consists of:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Financial assets at FVTPL | **P103,038,010** | (P18,132,836) | (P9,657,180) |
| Investment securities at amortized cost | **38,146,181** | 808,161 | - |
| Financial assets at FVOCI - debt securities | **38,210,299** | 31,389,312 | - |
| AFS investments - debt securities | **-** | - | 21,075,563 |
| | **P179,394,490** | P14,064,637 | P11,418,383 |

Net gain on derivative transactions amounting to P125.0 million, P32.3 million and P83.0 million in 2019, 2018 and 2017, respectively, is included under "Foreign exchange gain - net" in the statements of income.

## 8. Loans and Receivables - net

This account consists of:

| | ***Note*** | **2019** | 2018 |
|---|---|---|---|
| Loans and discounts: | | | |
| Institutional banking | | **P28,527,006,110** | P27,159,345,372 |
| Retail banking | | **5,072,343,853** | 4,749,208,390 |
| Mortgage banking | | **2,326,209,927** | 1,970,958,907 |
| Small business loans | | **1,398,110,443** | 1,405,705,244 |
| Accrued interest receivable | | **264,217,229** | 251,763,381 |
| Other receivables | | **266,428,900** | 418,270,322 |
| | | **37,854,316,462** | 35,955,251,616 |
| Unearned interest discount and capitalized interest | | **(3,222,812)** | (4,841,127) |
| | | **37,851,093,650** | 35,950,410,489 |
| Loss allowance | *12* | **(863,611,179)** | (753,383,231) |
| | | **P36,987,482,471** | P35,197,027,258 |

Institutional banking loans and Small Business loans include domestic bills purchased amounting to P113.5 million and P71.0 million as at December 31, 2019 and 2018, respectively (see Note 16).

Other receivables include due from ICCS and PVB representing impaired loans amounting to P122.6 million and P176.4 million as at December 31, 2019 and 2018, respectively, which are secured by real properties transferred to ICCS and PVB.

Other receivables also include sales contract receivables amounting to P15.5 million and P19.1 million as at December 31, 2019 and 2018, respectively. Sales contract receivables bear fixed interest rates per annum ranging from 9.0% to 11.4% in 2019 and 8.0% to 8.5% in 2018 and 2017.

Interest income on loans and receivables consists of:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Retail banking | **P1,240,649,185** | P1,092,261,226 | P967,821,210 |
| Institutional banking | **1,376,844,813** | 1,030,537,484 | 737,300,700 |
| Mortgage banking | **147,190,631** | 162,331,393 | 159,793,467 |
| Small business loans | **58,644,875** | 5,722,269 | 4,738,353 |
| Unquoted debt securities | **-** | 118,127 | 699,484 |
| Other receivables | **2,986,432** | 2,959,837 | 2,876,633 |
| | **P2,826,315,936** | P2,293,930,336 | P1,873,229,847 |

Interest income on unquoted debt securities represent income earned on government bonds not quoted in an active market. As at December 31, 2019 and 2018, there were no unquoted debt securities.

The effective interest rates of loans and discounts, unquoted debt securities and sales contract receivables range from 2.0% to 3.8%, 3.0% to 3.7% and 2.7% to 2.9% for foreign currency-denominated receivables in 2019, 2018 and 2017, respectively. The effective interest rates range from 10.0% to 11.2%, 8.9% to 10.5% and 8.1% to 9.6% for peso-denominated receivables in 2019, 2018 and 2017, respectively.

As at December 31, 2019 and 2018, the Bank's loan portfolio includes non-risk loans, as defined under BSP regulations, totaling P3.7 billion and P3.0 billion, respectively.

As of December 31, 2019, 28.1% of the total loans of the Bank are subject to periodic interest repricing (2018: 28.3%; 2017: 15.8%). Remaining loans earn annual fixed interest rates ranging from 4.13% to 21.48% in 2019, from 7.3% to 21.07% in 2018 and from 1.0%% to 37.5% in 2017, for peso-denominated.

There is no interest income accrued on loans and receivables which includes unwinding of the loss allowance as of December 31, 2019 and 2018.

## 9. Property and Equipment - net

The composition and movements of this account are as follows:

| | **2019** | | | | | |
|---|---|---|---|---|---|---|
| | **Bank Premises** | **Computer Equipment** | **Transportation Equipment** | **Furniture, Fixtures and Equipment** | **Leasehold Rights and Improvements** | **Total** |
| **Cost** | | | | | | |
| Balance at January 1 | **P80,229,255** | **P197,514,653** | **P96,488,521** | **P78,499,724** | **P353,104,021** | **P805,836,174** |
| Recognition of right-of-use asset on initial application of PFRS 16 | **148,239,127** | **-** | **-** | **-** | **-** | **148,239,127** |
| Adjusted balance at January 1 | **228,468,382** | **197,514,653** | **96,488,521** | **78,499,724** | **353,104,021** | **954,075,301** |
| Additions | **38,639,172** | **19,893,265** | **24,137,361** | **1,948,067** | **5,630,937** | **90,248,802** |
| Disposals | **-** | **(798,017)** | **(23,304,459)** | **(119,133)** | **-** | **(24,221,609)** |
| **Balance at end of year** | **267,107,554** | **216,609,901** | **97,321,423** | **80,328,658** | **358,734,958** | **1,020,102,494** |
| **Accumulated Depreciation and Amortization** | | | | | | |
| Balance at beginning of year | **49,288,098** | **171,658,409** | **56,208,863** | **72,216,581** | **342,492,028** | **691,863,979** |
| Depreciation and amortization | **85,679,412** | **20,242,225** | **16,289,969** | **2,412,972** | **7,124,671** | **131,749,249** |
| Disposals | **-** | **(768,093)** | **(17,732,559)** | **(75,631)** | **-** | **(18,576,283)** |
| **Balance at end of year** | **134,967,510** | **191,132,541** | **54,766,273** | **74,553,922** | **349,616,699** | **805,036,945** |
| **Net Book Value at End of Year** | **P132,140,044** | **P25,477,360** | **P42,555,150** | **P5,774,736** | **P9,118,259** | **P215,065,549** |

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Bank Premises | Computer Equipment | Transportation Equipment | Furniture, Fixtures and Equipment | Leasehold Rights and Improvements | Total |
| Cost | | | | | | |
| Balance at beginning of year | P80,229,255 | P204,789,446 | P102,325,301 | P80,348,631 | P361,813,011 | P829,505,644 |
| Additions | - | 3,277,931 | 15,253,363 | 481,451 | 1,031,672 | 20,044,417 |
| Disposals | - | (10,552,724) | (21,090,143) | (2,330,358) | (9,740,662) | (43,713,887) |
| Balance at end of year | 80,229,255 | 197,514,653 | 96,488,521 | 78,499,724 | 353,104,021 | 805,836,174 |
| Accumulated Depreciation and Amortization | | | | | | |
| Balance at beginning of year | 45,578,230 | 159,883,411 | 53,178,817 | 72,229,065 | 343,661,101 | 674,530,624 |
| Depreciation and amortization | 3,709,868 | 22,327,560 | 17,108,812 | 2,317,805 | 8,316,408 | 53,780,453 |
| Disposals | - | (10,552,562) | (14,078,766) | (2,330,289) | (9,485,481) | (36,447,098) |
| Balance at end of year | 49,288,098 | 171,658,409 | 56,208,863 | 72,216,581 | 342,492,028 | 691,863,979 |
| Net Book Value at End of Year | P30,941,157 | P25,856,244 | P40,279,658 | P6,283,143 | P10,611,993 | P113,972,195 |

As at December 31, 2019, bank premises account includes right-of-use assets with carrying value amounting to P104.91 million pertaining to leased branches and office premises (see Note 20).

As at December 31, 2019 and 2018, there were no property and equipment pledged as collateral for liabilities.

## 10. Investment Properties - net

The Bank's investment properties consist of house and lot and condominium units. Movements in this account are as follows:

| | **2019** | 2018 |
|---|---|---|
| **Cost** | | |
| Balance at beginning of year | **P182,918,594** | P116,432,696 |
| Additions | **20,709,458** | 71,245,611 |
| Disposals | **(8,419,343)** | (4,759,713) |
| **Balance at end of year** | **195,208,709** | 182,918,594 |
| **Accumulated Depreciation** | | |
| Balance at beginning of year | **8,587,488** | 4,914,447 |
| Depreciation | **5,235,261** | 3,986,204 |
| Disposals | **(590,885)** | (313,163) |
| **Balance at end of year** | **13,231,864** | 8,587,488 |
| **Allowance for Impairment Losses** | | |
| Balance at beginning of year | **2,112,371** | 1,742,011 |
| Impairment losses | **1,963,736** | 370,360 |
| Disposals | **(979,272)** | - |
| **Balance at end of year** | **3,096,835** | 2,112,371 |
| **Net Book Value at End of Year** | **P178,880,010** | P172,218,735 |

The Bank does not occupy repossessed properties for business use.

## 11. Other Assets

This account consists of:

| | Note | 2019 | 2018 |
|---|---|---|---|
| Computer software costs - net | | **P249,778,491** | P222,672,953 |
| Rental deposits | | **36,492,843** | 36,259,628 |
| Prepaid expenses and other charges | | **19,240,942** | 39,288,749 |
| Returned checks and other cash items | | **862,120** | 2,310,055 |
| Net retirement asset | *19* | **-** | 15,040,544 |
| Miscellaneous | | **125,797,332** | 127,654,184 |
| | | **P432,171,728** | P443,226,113 |

Prepaid expenses and other charges include prepayments for medical insurance, rent, and software maintenance, and deferred charges.

Miscellaneous assets include hardware and software items under installation process, documentary stamps on hand, and stationery and office supplies. As at December 31, 2019 and 2018, hardware and software items under installation process amounted to P97.6 million and P67.2 million, respectively.

The movements in computer software costs are as follows:

| | 2019 | 2018 |
|---|---|---|
| **Cost** | | |
| Balance at beginning of year | **P556,629,304** | P381,352,354 |
| Additions | **68,995,251** | 209,278,025 |
| Disposals | **-** | (34,001,075) |
| **Balance at end of year** | **625,624,555** | 556,629,304 |
| **Accumulated Amortization** | | |
| Balance at beginning of year | **333,956,351** | 334,545,455 |
| Amortization | **41,889,713** | 33,411,885 |
| Disposals | **-** | (34,000,989) |
| **Balance at end of year** | **375,846,064** | 333,956,351 |
| | **P249,778,491** | P222,672,953 |

As at December 31, 2019 and 2018, there were no other assets pledged as collateral for liabilities.

## 12. Loss Allowance on Financial Instruments

Composition and movements in loss allowance on financial instruments are as follows:

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | **Loans and Receivables** | **Interbank Loans Receivable** | **Debt Financial Assets at FVOCI** | **Investment Securities at Amortized Cost** | **Off-balance Sheet Commitments and Contingencies** | **Total** |
| Balance at January 1, 2019 | **P753,383,231** | **P768,268** | **P372,112** | **P -** | **P5,533,355** | **P760,056,966** |
| Impairment losses (reversals) | **507,731,685** | **(585,895)** | **830,878** | **544,624** | **(1,571,893)** | **506,949,399** |
| Accounts charged off and others | **(364,950,548)** | **-** | **-** | **-** | **-** | **(364,950,548)** |
| Foreign exchange and other movements | **(32,553,189)** | **(19,762)** | **(3,616)** | **-** | **(132,974)** | **(32,709,541)** |
| Balance at end of year | **P863,611,179** | **P162,611** | **P1,199,374** | **P544,624** | **P3,828,488** | **P869,346,276** |

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Loans and Receivables | Interbank Loans Receivable | Debt Financial Assets at FVOCI | Off-balance Sheet Commitments and Contingencies | Total |
| Balance at January 1, 2018 | P696,785,454 | P3,806,689 | P - | P3,169,665 | P703,761,808 |
| Impairment losses (reversals) | 214,622,848 | (3,208,848) | 372,054 | 2,235,531 | 214,021,585 |
| Accounts charged off and others | (160,512,537) | - | - | - | (160,512,537) |
| Foreign exchange and other movements | 2,487,466 | 170,427 | 58 | 128,159 | 2,786,110 |
| Balance at end of year | P753,383,231 | P768,268 | P372,112 | P5,533,355 | P760,056,966 |

The loss allowance on loans and receivables includes the loss allowances for sales contract receivables and accounts receivables amounting to P2.26 million and P1.48 million in 2019 and 2018, respectively.

The loss allowance on debt financial assets at FVOCI is not recognized in the statements of financial position because the carrying amounts of these assets are their fair values. The loss allowance is recognized as part of the “Net unrealized gain (loss) on financial assets at FVOCI” in the statements of OCI.

The loss allowance on off-balance sheet commitments and contingencies is recognized by the Bank as an additional provision under “Other liabilities” in the statements of financial position (see Note 16).

Movements in the loss allowance on loans and receivables are as follows:

| | **2019** | | | | | |
|---|---|---|---|---|---|---|
| | **Institutional Banking** | **Mortgage Banking** | **Small Business Loans** | **Retail Banking** | **Other Receivables** | **Total** |
| Balance at beginning of year | **P275,296,509** | **P16,887,540** | **P2,961,222** | **P396,045,760** | **P62,192,200** | **P753,383,231** |
| Impairment losses | **216,976,772** | **4,954,338** | **3,490,965** | **279,328,843** | **2,980,767** | **507,731,685** |
| Accounts charged off and others | **(192,582,955)** | **-** | **-** | **(172,348,825)** | **(18,768)** | **(364,950,548)** |
| Foreign exchange and other movements | **(1,745,457)** | **-** | **(5,761)** | **-** | **(30,801,971)** | **(32,553,189)** |
| Balance at end of year | **P297,944,869** | **P21,841,878** | **P6,446,426** | **P503,025,778** | **P34,352,228** | **P863,611,179** |

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Institutional Banking | Mortgage Banking | Small Business Loans | Retail Banking | Other Receivables | Total |
| Balance at beginning of year | P254,036,753 | P30,127,506 | P4,496,811 | P345,812,247 | P62,312,137 | P696,785,454 |
| Impairment losses | 45,218,376 | (9,423,868) | (1,552,177) | 180,500,454 | (119,937) | 214,622,848 |
| Accounts charged off and others | (26,429,498) | (3,816,098) | - | (130,266,941) | - | (160,512,537) |
| Foreign exchange and other movements | 2,470,878 | - | 16,588 | - | - | 2,487,466 |
| Balance at end of year | P275,296,509 | P16,887,540 | P2,961,222 | P396,045,760 | P62,192,200 | P753,383,231 |

The following tables show the reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument:

| | **2019** | | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Simplified Approach** | **Total** |
| **Loans and Receivables** | | | | | |
| Balance at beginning of the year | **P315,780,330** | **P35,774,686** | **P356,777,875** | **P45,050,340** | **P753,383,231** |
| Movement of beginning balance: | | | | | |
| Transfer to Stage 1 | **8,765,865** | **(6,912,300)** | **(1,853,565)** | **-** | **-** |
| Transfer to Stage 2 | **(11,177,406)** | **11,303,368** | **(125,962)** | **-** | **-** |
| Transfer to Stage 3 | **(20,664,004)** | **(14,790,749)** | **35,454,753** | **-** | **-** |
| Net remeasurement of loss allowance | **(193,681,078)** | **3,767,711** | **337,955,723** | **9,752,617** | **157,794,973** |
| New financial assets originated or purchased | **261,817,911** | **35,625,615** | **52,493,186** | **-** | **349,936,712** |
| Write-offs | **-** | **-** | **(364,931,779)** | **(18,769)** | **(364,950,548)** |
| Subtotal | **360,841,618** | **64,768,331** | **415,770,231** | **54,784,188** | **896,164,368** |
| Foreign exchange and other movements | **(1,711,507)** | **-** | **(31,212)** | **(30,810,470)** | **(32,553,189)** |
| Balance at end of the year | **P359,130,111** | **P64,768,331** | **P415,739,019** | **P23,973,718** | **P863,611,179** |

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Simplified Approach | Total |
| Loans and Receivables | | | | | |
| Balance at beginning of the year | P226,607,537 | P35,478,880 | P381,828,353 | P52,870,684 | P696,785,454 |
| Movement of beginning balance: | | | | | |
| Transfer to Stage 1 | 7,165,430 | (6,232,393) | (933,037) | - | - |
| Transfer to Stage 2 | (2,957,295) | 3,078,583 | (121,288) | - | - |
| Transfer to Stage 3 | (9,236,986) | (13,164,682) | 22,401,668 | - | - |
| Net remeasurement of loss allowance | (157,734,961) | 5,591,464 | 42,406,933 | (1,516,967) | (111,253,531) |
| New financial assets originated or purchased | 246,236,009 | 19,806,196 | 59,834,174 | - | 325,876,379 |
| Write-offs | - | - | (160,512,537) | - | (160,512,537) |
| Subtotal | 310,079,734 | 44,558,048 | 344,904,266 | 51,353,717 | 750,895,765 |
| Foreign exchange and other movements | 5,700,596 | (8,783,363) | 11,873,609 | (6,303,376) | 2,487,466 |
| Balance at end of the year | P315,780,330 | P35,774,686 | P356,777,875 | P45,050,341 | P753,383,231 |

| | **2019** | 2018 |
|---|---|---|
| | **Stage 1** | Stage 1 |
| **Interbank Loans Receivable** | | |
| Balance at beginning of the year | **P768,268** | P3,806,689 |
| Net remeasurement of loss allowance | **(768,268)** | (3,806,689) |
| New financial assets originated or purchased | **182,373** | 597,841 |
| Write-offs | **-** | - |
| Foreign exchange and other movements | **(19,762)** | 170,427 |
| Balance at end of year | **P162,611** | P768,268 |

| | **2019** | 2018 |
|---|---|---|
| | **Stage 1** | Stage 1 |
| **Debt Financial Assets at FVOCI** | | |
| Balance at beginning of the year | **P372,112** | P - |
| Net remeasurement of loss allowance | **405,456** | - |
| New financial assets originated or purchased | **425,421** | 372,054 |
| Write-offs | **-** | - |
| Foreign exchange and other movements | **(3,616)** | 58 |
| Balance at end of year | **P1,199,373** | P372,112 |

| | **2019** | 2018 |
|---|---|---|
| | **Stage 1** | Stage 1 |
| **Investment Securities at Amortized Cost** | | |
| Balance at beginning of the year | **P -** | P - |
| Net remeasurement of loss allowance | **-** | - |
| New financial assets originated or purchased | **544,624** | - |
| Write-offs | **-** | - |
| Foreign exchange and other movements | **-** | - |
| Balance at end of year | **P544,624** | P - |

| | **2019** | 2018 |
|---|---|---|
| | **Stage 1** | Stage 1 |
| **Off-balance Sheet Commitments and Contingencies** | | |
| Balance at beginning of the year | **P5,533,355** | P3,169,665 |
| Net remeasurement of loss allowance | **(2,519,153)** | 2,235,531 |
| New financial assets originated or purchased | **947,260** | - |
| Write-offs | **-** | - |
| Foreign exchange and other movements | **(132,974)** | 128,159 |
| Balance at end of year | **P3,828,488** | P5,533,355 |

The breakdown of impairment losses is as follows:

| | 2019 | | |
|---|---|---|---|
| | **Individual Impairment** | **Collective Impairment** | **Total** |
| Loans and receivables: | | | |
| Loans and discounts | **P37,434,175** | **P467,316,743** | **P504,750,918** |
| Other receivables | **-** | **2,980,767** | **2,980,767** |
| Interbank loans receivable | **-** | **(585,895)** | **(585,895)** |
| Financial assets at FVOCI | **-** | **830,878** | **830,878** |
| Investment securities at amortized cost | **-** | **544,624** | **544,624** |
| Off-balance sheet commitments and contingencies | **-** | **(1,571,893)** | **(1,571,893)** |
| **Total** | **P37,434,175** | **P469,515,224** | **506,949,399** |

| | 2018 | | |
|---|---|---|---|
| | Individual Impairment | Collective Impairment | Total |
| Loans and receivables: | | | |
| Loans and discounts | P43,330,405 | P171,412,380 | P214,742,785 |
| Other receivables | 1,795,118 | (1,915,055) | (119,937) |
| Interbank loans receivable | - | (3,208,848) | (3,208,848) |
| Financial assets at FVOCI | - | 372,054 | 372,054 |
| Off-balance sheet commitments and contingencies | - | 2,235,531 | 2,235,531 |
| Total | P45,125,523 | P168,896,062 | P214,021,585 |

| | 2017 | | |
|---|---|---|---|
| | Individual Impairment | Collective Impairment | Total |
| Loans and receivables: | | | |
| Loans and discounts | P51,349,989 | P133,578,158 | P184,928,147 |
| Other receivables | 11,498,375 | 2,271,403 | 13,769,778 |
| Total | P62,848,364 | P135,849,561 | P198,697,925 |

*BSP Reporting*
Loan provisioning under BSP regulations hinges on the qualitative appraisal and classification of the loan. Aside from classifying loans to past due and current, these are also grouped as unclassified or classified.

These classified loans are further grouped depending on the likelihood of losses the Bank will incur. Definitions of each classification are as follows:

I. Pass - These are loans or other credit accommodations that do not have a greater-than-normal credit risk. The borrower has the apparent ability and willingness to satisfy his obligations in full and therefore no loss in ultimate collection is anticipated.

II. Especially Mentioned (EM) - These are loans or other credit accommodations that have potential weaknesses that deserve management's close attention. If left uncorrected, these make affect the repayment of the loan.

III. Substandard - These are loans or other credit accommodations that have well-defined weakness/(es), that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.

IV. Doubtful - These are loans and other credit accommodations that exhibit more severe weaknesses than those classified as “Substandard”, whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however the exact amount remains undeterminable.

Under Regulatory reporting, effective August 29, 2018, BSP Circular 1011 requires a general loan loss provision equivalent to one percent (1.0%) of the outstanding balance of collectively and individually assessed loans when estimated/computed provisions are less than one percent (<1.0%) and/or no specific provisions are made, excluding loans which are considered non-risk under existing laws, rules, and regulations.

| | **2019** | 2018 |
|---|---|---|
| NPLs | **P891,103,834** | P632,988,633 |
| Less NPLs fully provided with loss allowance | **115,719,265** | 69,946,505 |
| | **P775,384,569** | P563,042,128 |

## 13. Deposit Liabilities

As of December 31, 2019 and 2018, non-interest bearing deposits are 0.3% and 1.6% of the total deposits, respectively.

The remaining deposit liabilities earn annual fixed interest rates ranging from 0.1% to 3.3%, 0.1% to 2.8% and 0.1% to 1.3% in 2019, 2018 and 2017, respectively.

On May 29, 2019, the BSP issued Circular No. 1041 which reduced the reserve requirement to 17.0% effective on the reserve week starting on May 31, 2019. This was further reduced effective June 28, 2019 and July 26, 2019 to 16.5% and 16.0%, respectively.

On October 22, 2019, the BSP issued Circular No. 1056 which reduced again the reserve requirement to 15.0% effective on the reserve week starting on November 1, 2019.

On December 31, 2019, the BSP issued Circular No. 1063 which further reduced the reserve requirement to 14.0% effective on the reserve week starting on December 6, 2019.

In 2019 and 2018, the Bank is in compliance with such reserve requirements regulations.

The total liquidity and statutory reserves, as reported to the BSP, are as follows:

| | **2019** | 2018 |
|---|---|---|
| Due from BSP | **P3,372,764,377** | P4,500,428,728 |

Interest expense on deposit liabilities consists of:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Time | **P665,289,875** | P486,930,223 | P181,108,053 |
| Demand | **14,217,235** | 14,121,792 | 17,636,757 |
| Savings | **22,411,515** | 17,026,483 | 16,135,656 |
| | **P701,918,625** | P518,078,498 | P214,880,466 |

Accrued interest payable on deposit liabilities amounted to P52.3 million and P63.6 million as at December 31, 2019 and December 31, 2018, respectively (see Note 15).

## 14. Bills Payable

This account consists of short-term and long-term borrowings from banks and other financial institutions.

The Bank is an accredited Participating Financial Institution, as a conduit bank for Official Development Assistance Wholesale Lending Facilities managed by various government or sovereign lending institutions.

As at December 31, 2019 and 2018, the Bank's bills payable amounted to P4.8 billion and P7.9 billion, respectively.

Foreign currency denominated interbank borrowings are subject to interest rates ranging from 1.6% to 3.5%, 1.0% to 4.1% and 1.2% to 3.5% in 2019, 2018 and 2017, respectively.

Interest expense on bills payable amounted to P255.0 million, P97.2 million and P23.4 million in 2019, 2018 and 2017, respectively.

Accrued interest payable on bills payable amounted to P7.4 million and P16.0 million as at December 31, 2019 and December 31, 2018, respectively (see Note 15).

## 15. Accrued Interest, Taxes and Other Expenses

This account consists of:

| | *Note* | 2019 | 2018 |
|---|---|---|---|
| Accrued taxes and other expenses | | **P421,540,789** | P366,520,690 |
| Accrued interest payable | *13, 14* | **59,721,907** | 79,615,956 |
| Net retirement liability | *19* | **59,312,317** | - |
| | | **P540,575,013** | P446,136,646 |

Accrued taxes and other expenses refer to various payables for taxes and licenses, payroll, utilities and other expenses.

## 16. Other Liabilities

This account consists of:

| | *Note* | **2019** | 2018 |
|---|---|---|---|
| Deposits for future stock subscription | *18* | **P1,437,380,796** | P - |
| Accounts payable | | **1,282,616,275** | 1,828,149,326 |
| Lease liabilities | *20* | **115,279,980** | - |
| Bills purchased - contra | *8* | **113,543,495** | 70,969,246 |
| Withholding taxes payable | | **27,975,986** | 33,670,156 |
| Provision liability | *12* | **3,828,488** | 5,533,355 |
| Payment order payable | | **19,113,575** | 4,399,910 |
| Miscellaneous | | **36,487,383** | 25,166,721 |
| | | **P3,036,225,978** | P1,967,888,714 |

Deposits for future stock subscription pertain to Parent Bank's additional capital investment in the Bank. The deposit was accounted as a liability instrument since the Bank has not yet complied with regulatory requirements to treat it as an equity instrument (see Note 18).

The majority of the accounts payable as at year-end represent monies to be credited to customer deposit accounts for payroll and inward remittances and amounts owed to government agencies for statutory deductions and taxes and other creditors for normal expenditures. These are non-interest bearing and are payable on demand.

Bills purchased account is a contra-account to domestic bills purchase transactions recorded as part of Loans and receivables account. This represents accommodations given to Bank customers with approved bills purchase line of credit which enables the customer to encash checks with one day clearing instead of the usual three days clearing time.

Provision liability pertains to loss allowance on the Bank's off-balance sheet commitments and contingencies.

Miscellaneous includes unclaimed manager's check for more than one year and unclaimed balances of credit or deposits with the Bank as defined by the Revised Unclaimed Balances Act of 2013.

## 17. Maturity Analysis of Assets and Liabilities

The following table presents the maturity profile of the assets and liabilities of the Bank based on the amounts to be recovered or settled with and/or after more than one year after the reporting period (in thousands):

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Within One Year** | **Beyond One Year** | **Total** | Within One Year | Beyond One Year | Total |
| **Financial Assets** | | | | | | |
| Financial assets at amortized cost: | | | | | | |
| Cash and other cash items | **P725,063** | **P -** | **P725,063** | P505,000 | P - | P505,000 |
| Due from BSP | **4,277,491** | **-** | **4,277,491** | 5,001,860 | - | 5,001,860 |
| Due from other banks | **1,591,079** | **-** | **1,591,079** | 1,266,760 | - | 1,266,760 |
| Investment securities - gross | **119,505** | **2,733,424** | **2,852,929** | 19,459 | 2,771,060 | 2,790,519 |
| Interbank loans receivable - gross | **1,518,594** | **-** | **1,518,594** | 6,143,547 | - | 6,143,547 |
| Loans and receivables - gross | **21,000,397** | **16,853,919** | **37,854,316** | 18,680,083 | 17,275,169 | 35,955,252 |
| Other assets* | **22,439** | **14,916** | **37,355** | 6,008 | 32,562 | 38,570 |
| | **29,254,568** | **19,602,259** | **48,856,827** | 31,622,717 | 20,078,791 | 51,701,508 |
| Financial assets at FVTPL | **77,766** | **3,375** | **81,141** | 68,947 | 58,415 | 127,362 |
| Financial assets at FVOCI | **2,361,887** | **4,071,773** | **6,433,660** | 525,704 | 1,887,515 | 2,413,219 |
| | **31,694,221** | **23,677,407** | **55,371,628** | 32,217,368 | 22,024,721 | 54,242,089 |
| **Non-financial Assets** | | | | | | |
| Property and equipment - net | **-** | **215,066** | **215,066** | - | 113,972 | 113,972 |
| Investment properties - net | **-** | **178,880** | **178,880** | - | 172,219 | 172,219 |
| Deferred tax assets - net | **-** | **373,932** | **373,932** | - | 200,954 | 200,954 |
| Other assets | **30,331** | **364,486** | **394,817** | 88,466 | 316,190 | 404,656 |
| | **30,331** | **1,132,364** | **1,162,695** | 88,466 | 803,335 | 891,801 |
| | **31,724,552** | **24,809,771** | **56,534,323** | 32,305,834 | 22,828,056 | 55,133,890 |
| Less: Loss allowance | **(863,796)** | **(523)** | **(864,319)** | (351,867) | (402,285) | (754,152) |
| Unearned discount and capitalized interest | **(3,223)** | **-** | **(3,223)** | (3,178) | (1,663) | (4,841) |
| | **P30,857,533** | **P24,809,248** | **P55,666,781** | P31,950,789 | P22,424,108 | P54,374,897 |

**Includes returned checks and other cash items and rent deposit.*

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Within One Year** | **Beyond One Year** | **Total** | Within One Year | Beyond One Year | Total |
| **Financial Liabilities** | | | | | | |
| Financial liabilities at FVTPL | **P99,175** | **P -** | **P99,175** | P25,453 | P - | P25,453 |
| Financial liabilities at amortized cost: | | | | | | |
| Deposit liabilities | **37,214,651** | **470,874** | **37,685,525** | 35,616,198 | 745,193 | 36,361,391 |
| Bills payable | **-** | **4,774,481** | **4,774,481** | 3,996,080 | 3,914,221 | 7,910,301 |
| Outstanding acceptances | **54,618** | **-** | **54,618** | 194,467 | - | 194,467 |
| Manager's checks | **73,938** | **-** | **73,938** | 80,275 | - | 80,275 |
| Accrued interest, taxes and other expenses** | **466,121** | **-** | **466,121** | 384,830 | - | 384,830 |
| Other liabilities*** | **1,567,041** | **-** | **1,567,041** | 1,928,685 | - | 1,928,685 |
| | **39,475,544** | **5,245,355** | **44,720,899** | 42,225,988 | 4,659,414 | 46,885,402 |
| **Non-financial Liabilities** | | | | | | |
| Accrued taxes and other expenses | **74,454** | **-** | **74,454** | 61,306 | - | 61,306 |
| Income tax payable | **19,805** | **-** | **19,805** | 24,999 | - | 24,999 |
| Other liabilities | **1,469,185** | **-** | **1,469,185** | 39,204 | - | 39,204 |
| | **1,563,444** | **-** | **1,563,444** | 125,509 | - | 125,509 |
| | **P41,038,988** | **P5,245,355** | **P46,284,343** | P42,351,497 | P4,659,414 | P47,010,911 |

***Excludes retirement liability, accrued taxes and other non-financial accruals.*
****Excludes withholding taxes payable. provision liability and deposits for future stock subscription.*

## 18. Equity

Capital stock and related additional paid-in capital consists of the following (in thousands):

| | December 31, 2019 | |
|---|---|---|
| | **Shares** | **Amount** |
| Common stock - P10 par value: | | |
| Authorized | **300,000** | **P3,000,000** |
| Issued and fully paid | **300,000** | **3,000,000** |
| Treasury shares | **-** | **-** |
| Additional paid-in capital | **-** | **1,073,284** |

| | December 31, 2018 | |
|---|---|---|
| | Shares | Amount |
| Common stock - P10 par value: | | |
| Authorized | 300,000 | P3,000,000 |
| Issued and fully paid | 247,969 | 2,479,687 |
| Treasury shares | 485 | 15,952 |
| Additional paid-in capital | - | 53,514 |

The number of holders of the Bank's outstanding common shares is 110 as at December 31, 2019 and 2018.

The shares of the Bank were listed in the PSE since June 1999. In December 2000, the Parent Bank substantially increased its equity in the Bank through the acquisition of shares held by a minority group. As a result of this acquisition, the Parent Bank controlled approximately 91.0% of the Bank's capital stock compared to 57.0% prior to the acquisition. The General Banking Law of 2000 allows foreign banks to own up to 100.0% of Philippine incorporated banks, compared to 60.0% under the previous law. A further acquisition of shares held by the public representing approximately 4.0% of the Bank's equity was made by the Parent Bank in January 2001 through a tender offer at a price of P19.0 per share, the same price at which the shares from the minority group was acquired. In May 2001, the Parent Bank purchased another 4.0% of the outstanding shares at a price of P18.3 per share.

*Revised Minimum Capitalization of Banks*

On October 29, 2014, the BSP issued Circular No. 854, which became effective on November 19, 2014, prescribing the revised minimum capitalization of banks operating in the Philippines. Existing banks not meeting the requirement shall be given a period of five years from effectivity of the circular within which to meet the minimum capital. In addition, these banks must submit an acceptable capital build-up program within one year from date of effectivity of the circular. The Bank, falling under the category of commercial banks with total number of branches ranging from ten to one hundred, must have a minimum capital of P10.0 billion by November 2019.

On April 28, 2016, the Bank submitted its capital build up program (CBUP) to the BSP detailing the Bank's strategic plans in order to meet the required capital level. On June 16, 2016, the Monetary Board approved the Bank's CBUP. As at December 31, 2018, the Bank's unimpaired capital amount to P6.9 billion. Thus, the Bank needed additional P3.0 billion capital in order to comply with BSP Circular 854 by November 2019.

In accordance with the Bank's CBUP, the Bank's stockholders, during their annual meeting held on July 25, 2019, approved the increase of authorized shares from 300 million to 400 million shares in order to have sufficient unissued shares to be purchased by Parent Bank.

On September 27, 2019, in compliance with BSP Circular No. 854, Parent Bank purchased the remaining 52,031,269 unissued shares of the Bank and the 484,920 treasury shares at a price of P29.755 per share. The issuance resulted to the following movements:

| *in thousands* | **Increase (Decrease)** |
|---|---|
| Additional paid-in capital | **P1,019,770,021** |
| Capital stock | **520,312,690** |
| Treasury stock | **(15,951,674)** |
| Retained earnings | **(1,571,372)** |

The decrease in Retained earnings pertains to (a) the excess of the carrying amount of the treasury stock over the consideration; and (b) stock issuance costs amounting to P0.05 million.

In addition, Parent Bank subscribed to 48,307,202 new shares at the same price of P29.755 per share and paid the entire subscribed amount in cash.

The Bank filed its application for the amendment of its articles of incorporation with the BSP for the increase in authorized capital on October 11, 2019.

The Bank's application for the increase in authorized capital stock was approved by the Monetary Board of the BSP on February 10, 2020 and was later approved by SEC on March 6, 2020.

Based on Section 123 of the MORB, deposits for stock subscription shall be recognized as part of equity for prudential reporting purposes when all of the following conditions are met:

a. The deposit for stock subscription meets the definition of an equity instrument under PAS 32 *Financial Instruments: Presentation* such that the deposit for stock subscription shall not be interest-bearing nor withdrawable by the subscriber;

b. The bank's existing authorized capital is already fully subscribed;

c. The bank's stockholders and board of directors have approved the proposed increase in authorized capital;

d. The bank has filed an application for the amendment of its articles of incorporation for the increase in authorized capital with the appropriate supervising department of the BSP, duly supported by complete documents as prescribed by the BSP: Provided, That the approval of the SEC on the same application shall be obtained within the period prescribed under the SEC Financial Reporting Bulletin (FRB) on Deposits for future Subscription.

   In case the applications for the amendment of articles of incorporation for the increase in authorized capital have been returned due to insufficiency of supporting documents, the deposit for stock subscription shall not qualify for recognition as an equity instrument; and

e. The bank must have obtained approval of the Monetary Board on transactions involving significant ownership of voting shares of stock by any person, natural or juridical, or by one group of persons as provided in Sec. 122 (Transactions involving voting shares of stocks, Item "b"), if applicable.

Considering the status of the Bank's application for the increase in capital stock as at December 31, 2019, the deposits for stock subscription, did not meet conditions (d) and (e).

As at December 31, 2019, the said subscription amounting to P1.4 billion is lodged under the "Deposits for future stock subscription" account in "Other liabilities" in the statements of financial position (see Note 16). The said deposit was reclassified by the Bank as capital on February 10, 2020 for prudential reporting purposes and on March 6, 2020 for financial reporting purposes.

As at December 31, 2019 and 2018, Parent Bank owns 99.67% and 99.60% of the Bank's capital stock, respectively.

*Voluntary Share Delisting*
As discussed in Note 1, the Bank has filed voluntary delisting of its shares in PSE on October 7, 2011 and has officially delisted from the trading Board effective on February 24, 2012.

On November 28, 2012, the BSP issued Circular No. 775 requiring banks, which are majority-owned by foreign banks and are established in the Philippines, to list on the local stock exchange within three years from the effectivity of the circular (which was 15 days after it was published in a newspaper of general circulation).

Circular No. 775 cited as basis the provisions of Republic Act (RA) No. 7721 or "An Act Liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines and for other purposes".

Section 2 of RA No. 7721 cited the listing requirement for foreign banks that entered the country by buying as much as 60.0% of an existing bank or investing in up to 60.0% of the voting stock of a new subsidiary incorporated in the country.

On July 15, 2014, Republic Act No. 10641 entitled "An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose Republic Act 7721" was signed into a law by the President of the Philippines. Under the new law, foreign banks may now own up to 100.0% of domestic subsidiary banks. On November 21, 2014, the BSP issued Circular No. 858 implementing R.A. 10641. The said circular effectively removed the listing requirement for foreign banks.

*Restricted Retained Earnings*
At the regular meeting of the BOD held on June 23, 2015, the BOD approved the restriction of the full amount of retained earnings for the following purposes:

i.) to comply with minimum capital requirement set forth under BSP Circular No. 854;

ii.) to comply with the requirements of the ICAAP pursuant to BSP Circular No. 639;

iii.) to cover the resulting treasury shares acquired in relation to the Bank's delisting and share buyback exercise; and

iv.) to provide for buffer in preparation for BASEL III requirements.

The restriction on retained earnings relating to ICAAP and BASEL III ensure that the Bank has adequate, available qualified capital at all times to reasonably manage the significant risks identified and assessed in the ICAAP and BASEL III.

The guidelines on bank's ICAAP under Section 130 and Appendices 94, 95 and 96 of the MORB supplements the BSP's risk-based capital adequacy framework.

*Appropriation for the Deficiency on General Loan Loss Provision (GLLP)*
BSP Circular 1011 requires the Bank to set up GLLP equivalent to 1.0% of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. In cases when the computed loss allowance on such Stage 1 accounts is less than the 1.0% percent general provision required, the deficiency shall be recognized by appropriating the Retained Earnings account.

As at December 31, 2019, the loss allowance computed in accordance with PFRS 9 is more than the required GLLP by P38.3 million. As such, appropriation is not necessary.

As at December 31, 2018, the computed loss allowance on Stage 1 on-balance sheet loans is less than the required general provision by P10.2 million. However, the Bank does not have unrestricted retained earnings to cover said deficiency. The retained earnings amounting to P4.9 billion have already been fully restricted for specified purposes (see discussion on Restricted Retained Earnings).

*Statutory Reserve*
As at December 31, 2019 and 2018, statutory reserves amounting to P4.98 million pertains to reserves for trust business.

In compliance with BSP regulations, 10.0% of the Bank's profit from trust business is appropriated to surplus reserve. This yearly appropriation is required until the retained earnings amount to 20.0% of the Bank's authorized capital stock.

During 2019 and 2018, the Bank did not appropriate additional reserves since the Bank's retained earnings already amounted to at least 20.0% of the authorized capital stock.

## 19. Compensation and Fringe Benefits

The account consists of:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Employee benefits: | | | |
| Salaries and wages | **P589,324,565** | P647,566,860 | P638,517,940 |
| Fringe benefits | **322,697,886** | 184,269,857 | 178,495,070 |
| Medical allowances | **36,761,142** | 35,648,703 | 34,970,144 |
| Retirement benefit expense | **19,062,925** | 14,881,981 | 20,857,694 |
| Employer contributions | **16,125,187** | 12,733,995 | 12,053,555 |
| | **983,971,705** | 895,101,396 | 884,894,403 |
| Directors' fees | **9,903,591** | 6,149,453 | 6,142,245 |
| | **P993,875,296** | P901,250,849 | P891,036,648 |

The Bank has a funded, noncontributory, defined benefit retirement plan covering all of its permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method and valuations are obtained on a periodic basis. The Bank's latest actuarial valuation date is December 31, 2019.

The plan is registered with the Bureau of Internal Revenue (BIR) as tax-qualified plan under Republic Act No. 4917, as amended. The control and administration of the retirement plan is vested in the Board of Trustees (BOT). The BOT of the retirement plan exercises voting rights over the shares and approve material transactions. The retirement plan's accounting and administrative functions are undertaken by the Bank's Retirement Funds Office.

The following table shows reconciliation from the opening balances to the closing balances for net retirement benefit liability and its components:

| | Defined Benefits Obligation | | Fair Value of Plan Assets | | Net Retirement Benefit Liability (Asset) | |
|---|---|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| Balance at January 1 | **P177,767,437** | P214,390,229 | **P192,807,981** | P182,156,005 | **(P15,040,544)** | P32,234,224 |
| **Included in Profit or Loss** | | | | | | |
| Current service cost | **20,221,047** | 14,060,008 | **-** | - | **20,221,047** | 14,060,008 |
| Interest expense (income) | **13,688,093** | 5,466,951 | **14,846,215** | 4,644,978 | **(1,158,122)** | 821,973 |
| | **33,909,140** | 19,526,959 | **14,846,215** | 4,644,978 | **19,062,925** | 14,881,981 |
| **Included in OCI** | | | | | | |
| Remeasurement loss (gain): | | | | | | |
| Actuarial loss (gain) arising from: | | | | | | |
| Financial assumptions | **60,300,738** | (51,144,552) | **-** | - | **60,300,738** | (51,144,552) |
| Experience adjustment | **6,288,247** | 13,142,602 | **-** | - | **6,288,247** | 13,142,602 |
| Return on plan assets excluding interest income | **-** | - | **(7,784,298)** | (3,128,832) | **7,784,298** | 3,128,832 |
| | **66,588.985** | (38,001,950) | **(7,784,298)** | (3,128,832) | **74,373,283** | (34,873,118) |
| **Others** | | | | | | |
| Contributions paid by the employer | **-** | - | **19,083,347** | 27,283,631 | **(19,083,347)** | (27,283,631) |
| Benefits paid | **(27,733,792)** | (18,147,801) | **(27,733,792)** | (18,147,801) | **-** | - |
| | **(27,733,792)** | (18,147,801) | **(8,650,445)** | 9,135,830 | **(19,083,347)** | (27,283,631) |
| **Balance at December 31** | **P250,531,769** | P177,767,437 | **P191,219,453** | P192,807,981 | **P59,312,317** | (P15,040,544) |

Retirement benefit expense is recognized under “Compensation and fringe benefits” in the statements of income. Net remeasurement loss (gain) on retirement liability, net of tax, is recognized in other comprehensive income.

The actual return on plan assets amounted to P7.1 million and P1.5 million in 2019 and 2018, respectively.

The net retirement asset (liability) is included under “Other Assets (Accrued Interest, Taxes and Other Expenses)” account in the statements of financial position.

The movements in net remeasurement loss on retirement liability are as follows:

| | **2019** | 2018 |
|---|---|---|
| Net remeasurement loss on retirement liability at beginning of year | **(P14,374,412)** | (P55,407,993) |
| Net remeasurement gain (loss) recognized in OCI: | | |
| Change in remeasurement (loss) gain on retirement liability during the year | **(74,373,283)** | 34,873,118 |
| Change in deferred tax on remeasurement losses on retirement liability during the year | **22,311,985** | (10,461,935) |
| Change in deferred tax on remeasurement losses on retirement liability in prior years | **-** | 16,622,398 |
| | **(52,061,298)** | 41,033,581 |
| | **(P66,435,710)** | (P14,374,412) |

The Bank's plan assets consist of the following (in thousands):

| | **2019** | 2018 |
|---|---|---|
| Debt securities | **61.8%** | 68.8% |
| Equity investments | **15.3%** | 14.3% |
| Loans | **10.8%** | 9.2% |
| Due from banks | **11.3%** | 6.9% |
| Accrued interest receivables | **0.7%** | 0.7% |
| Dividends receivable | **0.1%** | 0.1% |
| | **100.0%** | 100.0% |

The Bank expects to contribute P19.1 million to its defined benefits retirement plan in 2020 (2019: P27.3 million).

The principal actuarial assumptions used to determine retirement benefits are as follows:

| | **In Percentages** | |
|---|---|---|
| | **2019** | 2018 |
| Discount rate | **5.1%** | 7.7% |
| Salary increase rate | **4.0%** | 4.0% |

Assumptions for mortality and disability rate are based on the adjusted 1985 Unisex Annuity Table and the Adjusted 1952 Disability Table reflecting experience improvement and Philippine experience.

As at December 31, 2019 and 2018, the weighted average duration of defined benefit obligation is 14 years.

Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

| | **2019** | | | |
|---|---|---|---|---|
| | **Discount Rate** | | **Salary Increase Rate** | |
| | **+0.5%** | **-0.5%** | **+0.5%** | **-0.5%** |
| Defined benefit obligation | **(P13,615,430)** | **P14,784,347** | **P14,099,761** | **(P13,120,451)** |
| Retirement liability | **(13,615,430)** | **14,784,347** | **14,099,761** | **(13,120,451)** |

| | 2018 | | | |
|---|---|---|---|---|
| | Discount Rate | | Salary Increase Rate | |
| | +0.5% | -0.5% | +0.5% | -0.5% |
| Defined benefit obligation | (P7,546,172) | P8,185,591 | P8,042,875 | (P7,480,100) |
| Retirement liability | (7,546,172) | 8,185,591 | 8,042,875 | (7,480,100) |

Although the analysis does not take into account of the full distribution of cashflows expected under the plan, it does provide an appropriation of the sensitivity of the assumptions shown.

Transactions with the retirement plan are made at normal market prices and terms. Outstanding balances as at December 31, 2019 and 2018 are unsecured and settlements are made in cash. There have been no guarantees provided for any retirement plan receivables. The Bank has no impairment losses relating to the receivables from retirement plan in 2019 and 2018.

The plan exposes the Bank to interest rate risk and market (investment) risk.

The BOT reviews the level of funding required for the retirement fund. This includes the asset-liability matching (ALM) strategy and investment risk management policy. The Bank's ALM objective is to match maturities of the plan assets to the retirement benefit obligation as they fall due. The Bank monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation.

The BOT approves the percentage of asset to be allocated for fixed income instruments and equities. The retirement plan has set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The BOT may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

## 20. Leases

Rent, utilities and equipment maintenance expenses recognized under "Occupancy and other equipment-related costs" in the statements of income are presented below:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Repairs and maintenance | **P100,496,720** | P71,056,222 | P68,837,062 |
| Rent | **34,428,918** | 132,274,316 | 128,621,052 |
| Power, light and water | **20,522,790** | 21,540,991 | 19,829,844 |
| | **P155,448,428** | P224,871,529 | P217,287,958 |

Right-of-use assets relate to leased branches and office premises that are presented within property and equipment (see Note 9).

| | **2019** |
|---|---|
| Balance at January 1 | **P148,239,127** |
| Depreciation charge for the year | **(81,969,544)** |
| Additions | **38,639,173** |
| Balance at December 31 | **P104,908,756** |

Lease liabilities relate to the present value of the remaining lease payments on the Bank's lease contracts presented within Other liabilities (see Note 16).

| | **2019** |
|---|---|
| Balance at January 1 | **P160,783,353** |
| Additions | **38,639,173** |
| Payments on lease liabilities | **(84,142,546)** |
| Balance at December 31 | **P115,279,980** |

As at December 31, 2018, the future minimum lease payments under non-cancellable operating leases were payable as follows.

| | 2018 |
|---|---|
| Within one year | P104,550,205 |
| After one year but not more than five years | 106,574,711 |
| | P211,124,916 |

Amounts recognized in the statements of income:

| | **2019** |
|---|---|
| **2019 - Leases under PFRS 16** | |
| Interest on lease liabilities | **P8,609,871** |
| Expenses relating to short-term leases | **19,048,588** |
| Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets | **13,820,687** |
| | **P41,479,146** |

Expenses relating to short-term leases and low-value assets are recognized as rent expense under “Occupancy and other equipment-related costs” in the statements of income.

Amounts recognized in statement of cash flows:

| | **2019** |
|---|---|
| Total cash outflow for leases | **P125,621,692** |

## 21. Income and Other Taxes

Under Philippine tax laws, the RBU of the Bank is subject to percentage and other taxes (presented as “Taxes and licenses” account in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes (DST). Income taxes include the corporate income tax, as discussed below, and final taxes paid at the rate of 20.0%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes. Taxes and licenses incurred by the Bank amounted to P254.7 million, P203.5 million and P176.3 million in 2019, 2018 and 2017, respectively.

Republic Act (RA) No. 9337, An Act Amending National Internal Revenue Code, provides that the RCIT rate shall be 30.0%. Interest expense allowed as a deductible expense is reduced by 33.0% of interest income subjected to final tax.

In addition, current tax regulations provide for the ceiling on the amount of entertainment and representation (EAR) that can be claimed as a deduction against taxable income. Under the regulation, EAR allowed as deductible expense for a service bank like the Bank is limited to the actual EAR paid or incurred but not to exceed 1.0% of net revenue. EAR of the Bank amounted to P1.2 million in 2019 and P1.3 million in 2018 and 2017 (included under “Miscellaneous expenses” account in the statements of income) (see Note 22).

The regulations also provide for MCIT of 2.0% on modified gross income and allow a Net Operating Loss Carry Over (NOLCO). The Bank's MCIT and NOLCO may be applied against the Bank's income tax liability and taxable income, respectively, over a three-year period from the year of inception/incurrence.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.0% income tax. The FCDU's other income, those that are not classified as onshore or offshore under R.A. 9294, is subject to 30.0% RCIT based on net taxable income (or 2.0% MCIT based on gross income, if applicable). In addition, interest income on deposit placements with other FCDUs and offshore banking units (OBUs) is taxed at 7.5%. RA No. 9294, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.0% income tax.

Income taxes consist of:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| RCIT | **P130,198,536** | P146,514,417 | P111,615,784 |
| Final | **49,995,594** | 26,830,189 | 29,308,453 |
| MCIT | **-** | 75,761 | 327,030 |
| | **180,194,130** | 173,420,367 | 141,251,267 |
| Deferred | **(150,665,692)** | 6,736,685 | (30,434,593) |
| | **P29,528,438** | P180,157,052 | P110,816,674 |

| | **2019** | 2018 |
|---|---|---|
| Deferred tax assets: | | |
| Loss allowances | **P240,042,141** | P219,144,352 |
| Net expense accrual | **120,993,686** | - |
| Net retirement liability | **17,799,822** | 6,160,463 |
| Unamortized past service costs | **7,463,670** | 6,261,712 |
| Accumulated depreciation of investment properties | **6,732,718** | 5,089,264 |
| Unrealized mark-to-market gain on derivatives | **5,289,557** | - |
| | **398,321,594** | 236,655,791 |
| Deferred tax liabilities: | | |
| Revaluation gain on AR trustee | **6,887,884** | 7,594,600 |
| Unrealized gain on non-financial asset | **17,502,041** | 15,211,200 |
| Unrealized mark-to-market gain on derivatives | **-** | 12,895,999 |
| | **24,389,925** | 35,701,799 |
| | **P 373,931,669** | P200,953,992 |

The movement in the deferred tax balances as recognized in the statements of income and statements of OCI as is follows:

| | Balance at Beginning of Year | Recognized in Profit or Loss | Recognized in OCI | Balance at December 31, 2019 Net | Deferred Tax Assets | Deferred Tax Liabilities |
|---|---|---|---|---|---|---|
| **Loss allowance:** | | | | | | |
| Loans and receivables | **P216,743,829** | **P21,057,328** | **P -** | **P237,801,157** | **P237,801,157** | **P -** |
| Off-balance sheet commitments and contingencies | **1,660,007** | **(511,461)** | **-** | **1,148,546** | **1,148,546** | **-** |
| Investment property | **633,711** | **295,340** | **-** | **929,051** | **929,051** | **-** |
| Interbank loans receivable | **106,805** | **(106,805)** | **-** | **-** | **-** | **-** |
| Investment securities at amortized cost | **-** | **163,387** | **-** | **163,387** | **163,387** | **-** |
| Expense accrual | **-** | **120,993,686** | **-** | **120,993,686** | **120,993,686** | **-** |
| Net retirement liability | **6,160,463** | **(10,672,626)** | **22,311,985** | **17,799,822** | **17,799,822** | **-** |
| Unamortized past service costs | **6,261,712** | **1,201,958** | **-** | **7,463,670** | **7,463,670** | **-** |
| Accumulated depreciation of investment properties | **5,089,264** | **1,643,454** | **-** | **6,732,718** | **6,732,718** | **-** |
| Unrealized mark-to-market gain on derivatives | **(12,895,999)** | **18,185,556** | **-** | **5,289,557** | **5,289,557** | **-** |
| Revaluation gain AR trustee | **(7,594,600)** | **706,716** | **-** | **(6,887,884)** | **-** | **(6,887,884)** |
| Unrealized gain on non-financial asset | **(15,211,200)** | **(2,290,841)** | **-** | **(17,502,041)** | **-** | **(17,502,041)** |
| Deferred tax assets (liabilities) | **P200,953,992** | **P150,665,692** | **P22,311,985** | **P373,931,669** | **P398,321,594** | **(P24,389,925)** |

| | Balance at Beginning of Year | Recognized in Profit or Loss | Recognized in OCI | Balance at December 31, 2018 Net | Deferred Tax Assets | Deferred Tax Liabilities |
|---|---|---|---|---|---|---|
| Loss allowance: | | | | | | |
| Loans and receivables | P202,567,534 | P14,176,295 | P - | P216,743,829 | P216,743,829 | P - |
| Off-balance sheet commitments and contingencies | 950,899 | 709,108 | - | 1,660,007 | 1,660,007 | - |
| Investment property | 522,603 | 111,108 | - | 633,711 | 633,711 | - |
| Interbank loans receivable | 30,564 | 76,241 | - | 106,805 | 106,805 | - |
| Remeasurement | - | - | 6,160,463 | 6,160,463 | 6,160,463 | - |
| Net retirement liability | 9,670,267 | (9,670,267) | - | - | - | - |
| Unamortized past service costs | 6,725,696 | (463,984) | - | 6,261,712 | 6,261,712 | - |
| Accumulated depreciation of investment properties | 3,627,466 | 1,461,798 | - | 5,089,264 | 5,089,264 | - |
| Unrealized mark-to-market gain on derivatives | (3,944,876) | (8,951,123) | - | (12,895,999) | - | (12,895,999) |
| Revaluation gain on AR trustee | (7,594,600) | - | - | (7,594,600) | - | (7,594,600) |
| Unrealized gain on non-financial asset | (11,025,339) | (4,185,861) | - | (15,211,200) | - | (15,211,200) |
| Deferred tax assets (liabilities) | P201,530,214 | (P6,736,685) | P6,160,463 | P200,953,992 | P236,655,791 | (P35,701,799) |

The Bank did not recognize deferred tax assets on the following:

| | **2019** | 2018 |
|---|---|---|
| Loss allowance | **P71,103,267** | P31,688,165 |
| Expense accrual | **-** | 332,232,794 |
| Unrealized mark-to-market loss on derivatives | **-** | 140,732 |
| Excess of MCIT over RCIT | **-** | 75,761 |
| | **P71,103,267** | P364,137,452 |

Management believes that it is not likely that these will be realized in the future.

The reconciliation between the statutory income tax and income taxes follows:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Statutory income tax rate | **30.0%** | 30.0% | 30.0% |
| Tax effects of: | | | |
| FCDU income | **11.5** | 4.3 | (1.3) |
| Nondeductible operating expense | **6.1** | 3.7 | 2.3 |
| Tax-paid and tax-exempt income | **(7.7)** | 2.6 | 0.2 |
| Nondeductible interest expense | **(0.3)** | 1.3 | 2.0 |
| Others | **(31.4)** | 1.3 | (5.4) |
| Effective income tax rate | **8.2%** | 43.2% | 27.8% |

## 22. Income and Expenses

In the following table, service fees and commission income from contracts with customers in the scope of PFRS 15 is disaggregated by major type of service. The table also includes a reconciliation of the disaggregated service fees and commission income with the Bank's reportable segments (see Note 24).

| | **2019** | | | | |
|---|---|---|---|---|---|
| | **Treasury** | **Institutional Banking** | **Retail Banking** | **Others** | **Total** |
| Deposit-related | **P -** | **P2,471** | **P90,914** | **P96** | **P93,481** |
| Credit-related | **71** | **37,437** | **44,335** | **(47)** | **81,796** |
| Miscellaneous | **-** | **2,158** | **44,250** | **6,571** | **52,979** |
| | **P71** | **P42,066** | **P179,499** | **P6,620** | **P228,256** |

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Treasury | Institutional Banking | Retail Banking | Others | Total |
| Deposit-related | P268 | P72,458 | P47,535 | (P9) | P120,252 |
| Credit-related | - | 2,697 | 85,585 | (45) | 88,237 |
| Miscellaneous | - | 2,644 | 41,151 | 6,972 | 50,767 |
| | P268 | P77,799 | P174,271 | P6,918 | P259,256 |

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Treasury | Institutional Banking | Retail Banking | Others | Total |
| Deposit-related | P498 | P57,794 | P41,277 | (P22) | P99,547 |
| Credit-related | - | 2,967 | 99,768 | (46) | 102,689 |
| Miscellaneous | - | 1,561 | 36,682 | 5,408 | 43,651 |
| | P498 | P62,322 | P177,727 | P5,340 | P245,887 |

Miscellaneous income consists of:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Recovery on charged-off assets | **P52,067,687** | P60,738,165 | P64,216,177 |
| Income from assets acquired | **12,030,487** | 1,909,561 | 6,963,143 |
| Income from trust division | **10,513,971** | 8,993,323 | 8,136,237 |
| Unrealized gain from non-financial assets | **7,636,138** | 21,438,217 | 19,116,378 |
| Dividend income | **1,622,000** | 2,801,240 | 4,066,000 |
| Rent income - safety deposit box | **637,117** | 635,418 | 648,707 |
| (Loss) gain on disposal of property and equipment | **(145,870)** | (27,988) | 16,578 |
| Other income | **38,235,900** | 31,540,423 | 35,768,086 |
| | **P122,597,430** | P128,028,359 | P138,931,306 |

Other income mainly consists of proceeds from sale of cash cards. The following table shows the disaggregation of other income by the reportable segments of the Bank.

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Retail banking | **P32,074,588** | P22,727,046 | P12,401,350 |
| Institutional banking | **4,703,612** | 5,150,896 | 3,419,726 |
| Treasury | **307,537** | 15,568 | 690,939 |
| Others | **1,150,163** | 3,646,913 | 19,256,071 |
| | **P38,235,900** | P31,540,423 | P35,768,086 |

Miscellaneous expenses consist of:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Insurance | **P79,240,969** | P74,735,057 | P60,566,716 |
| Management and professional fees | **53,783,953** | 42,707,332 | 30,884,536 |
| Office supplies | **42,973,043** | 26,344,439 | 22,785,198 |
| Postage and cable | **24,911,017** | 23,258,748 | 18,701,647 |
| Banking and supervision fees | **16,332,915** | 11,563,538 | 9,898,056 |
| Litigation | **15,608,861** | 13,109,967 | 9,576,360 |
| Travel and transportation | **10,177,911** | 5,758,893 | 5,700,177 |
| Telecommunications | **7,962,754** | 8,485,284 | 8,592,624 |
| Advertising | **5,386,191** | 3,893,990 | 10,230,060 |
| Bank charges | **2,768,698** | 2,019,916 | 2,022,084 |
| Membership dues | **2,305,255** | 2,262,263 | 2,032,510 |
| Freight | **1,644,285** | 1,353,644 | 2,500,242 |
| Entertainment and representation | **1,244,282** | 1,273,992 | 1,304,326 |
| Fuel and lubricants | **312,423** | 631,191 | 465,981 |
| Other expenses | **51,455,848** | 30,141,027 | 28,531,558 |
| | **P316,108,405** | P247,539,281 | P213,792,075 |

Other expenses consist of fees paid for periodicals, VISA and check processing. The following table shows the disaggregation of other expense by the reportable segments of the Bank.

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Retail banking | **P38,085,489** | P20,086,987 | P19,775,778 |
| Treasury | **6,228,757** | 6,009,274 | 6,054,263 |
| Institutional banking | **2,474,133** | 1,841,733 | 799,631 |
| Others | **4,667,469** | 2,203,033 | 1,901,886 |
| | **P51,455,848** | P30,141,027 | P28,531,558 |

## 23. Basic/Diluted Earnings Per Share

Earnings per share is computed as follows:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Net income | **P330,683,222** | P237,355,239 | P287,954,120 |
| Weighted number of shares outstanding | **261,653,668** | 247,968,731 | 247,968,731 |
| Basic/diluted earnings per share | **P1.26** | P0.96 | P1.16 |

There are no potentially dilutive shares as at December 31, 2019, 2018 and 2017. Accordingly, diluted EPS is the same as basic EPS.

## 24. Operating Segment Information

The Bank is organized based on the products and services that it offers and operates three principal areas namely: Treasury, Institutional Banking and Retail Banking.

Treasury - principally provides money market, trading and treasury services, as well as the management of the Bank's funding operations by use of government securities and placements and acceptances with other banks.

Institutional Banking - principally handles loans, trade finance and other credit facilities and deposit and current accounts for institutional customers.

Retail Banking - addresses the individual and retail markets. It covers deposit taking and servicing, consumer lending such as home mortgages and personal loans.

Others - principally handling supportive roles which are performed by Operations, Finance and Corporate Affairs Group, Institutional Credit Risk Management Group and Retail Credit Management Group and other divisions under the direct stewardship of the Office of the President.

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

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

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

The Bank has no significant customers which contributes 10.0% or more of the total revenue, net of interest expense.

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on a pool rate which approximates the cost of funds.

The following table presents revenue and income information of operating segments presented in accordance with PFRS as of and for the years ended December 31, 2019, 2018 and 2017 (amount in thousands):

| | 2019 | | | | |
|---|---|---|---|---|---|
| | **Treasury** | **Institutional Banking** | **Retail Banking** | **Others** | **Total** |
| Net interest income | | | | | |
| Third party | **P158,855** | **P934,404** | **P1,185,330** | **P -** | **P2,278,589** |
| Intersegment | **(82,927** | **(244,462)** | **327,676** | **(287)** | **-** |
| | **75,928** | **689,942** | **1,513,006** | **1732)** | **2,278,589** |
| Non-interest income | **283,187** | **59,212** | **304,598** | **8,361** | **655,358** |
| Revenue - net of interest expense | **359,115** | **749,154** | **1,817,604** | **8,074** | **2,933,947** |
| Non-interest expenses | **157,656** | **501,766** | **1,143,859** | **770,454** | **2,573,735** |
| Income (loss) before income taxes | **201,459** | **247,388** | **673,745** | **(762,380)** | **360,212** |
| Income taxes | **81,056** | **2,346** | **(53,972)** | **99** | **29,529** |
| Net (loss) income | **P120,403** | **P245,042** | **P727,717** | **(P762,479)** | **P330,683** |
| Service fees and commission income | **P71** | **P42,066** | **P179,500** | **P6,619** | **P228,256** |
| Depreciation and amortization | **P2,796** | **P6,701** | **P72,167** | **P66,263** | **P147,927** |
| Software amortization | **P4** | **P12,700** | **P15,603** | **P13,583** | **P41,890** |
| Impairment losses | **P804** | **P215,410** | **P291,620** | **P1,079** | **P508,913** |

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Treasury | Institutional Banking | Retail Banking | Others | Total |
| Net interest income | | | | | |
| Third party | P96,319 | P725,008 | P1,141,922 | P - | P1,963,249 |
| Intersegment | 53,901 | (226,568) | 172,965 | (298) | - |
| | 150,220 | 498,440 | 1,314,887 | (298) | 1,963,249 |
| Non-interest income | 84,264 | 87,382 | 309,360 | 7,230 | 488,236 |
| Revenue - net of interest expense | 234,484 | 585,822 | 1,624,247 | 6,932 | 2,451,485 |
| Non-interest expenses | 103,626 | 295,275 | 916,507 | 718,565 | 2,033,973 |
| Income (loss) before income taxes | 130,858 | 290,547 | 707,740 | (711,633) | 417,512 |
| Income taxes | 137,319 | 23,620 | 19,147 | 71 | 180,157 |
| Net (loss) income | (P6,461) | P266,927 | P688,593 | (P711,704) | P237,355 |
| Service fees and commission income | P268 | P77,799 | P174,271 | P6,918 | P259,256 |
| Depreciation and amortization | P1,591 | P1,995 | P24,887 | P29,294 | P57,767 |
| Software amortization | P4,172 | P2,122 | P4,564 | P22,554 | P33,412 |
| Impairment losses | (P2,833) | P45,131 | P172,032 | P62 | P214,392 |

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Treasury | Institutional Banking | Retail Banking | Others | Total |
| Net interest income | | | | | |
| Third party | P101,412 | P659,072 | P1,045,332 | P - | P1,805,816 |
| Intersegment | 81,111 | (217,703) | 137,035 | (443) | - |
| | 182,523 | 441,369 | 1,182,367 | (443) | 1,805,816 |
| Non-interest income | 149,782 | 74,161 | 314,974 | 6,404 | 545,321 |
| Revenue - net of interest expense | 332,305 | 515,530 | 1,497,341 | 5,961 | 2,351,137 |
| Non-interest expenses | 137,973 | 257,664 | 857,933 | 698,796 | 1,952,366 |
| Income (loss) before income taxes | 194,332 | 257,866 | 639,408 | (692,835) | 398,771 |
| Income taxes | 68,535 | 26,950 | 15,332 | - | 110,817 |
| Net income (loss) | P125,797 | P230,916 | P624,076 | (P692,835) | P287,954 |
| Service fees and commission income | P498 | P62,322 | P177,727 | P5,340 | P245,887 |
| Depreciation and amortization | P1,563 | P2,675 | P26,179 | P28,406 | P58,823 |
| Software amortization | P7,150 | P33 | P1,898 | P24,304 | P33,385 |
| Impairment losses | P - | P63,290 | P137,124 | P - | P200,414 |

Segment information for the statements of financial position is as follows (amounts in thousands):

| | Year | Segment Assets | Segment Liabilities | Capital Expenditures |
|---|---|---|---|---|
| **Treasury** | **2019** | **P12,597,793** | **P3,976,841** | **P2,071** |
| | 2018 | 13,965,949 | 7,955,737 | 1,676 |
| **Institutional Banking** | **2019** | **29,931,119** | **20,006,104** | **8,619** |
| | 2018 | 28,848,378 | 20,759,230 | 493 |
| **Retail Banking** | **2019** | **12,725,371** | **19,971,515** | **3,572** |
| | 2018 | 11,276,432 | 16,781,370 | 5,500 |
| **Others** | **2019** | **412,498** | **2,329,884** | **27,347** |
| | 2018 | 284,138 | 1,514,575 | 12,375 |
| **Total** | **2019** | **P55,666,781** | **P46,284,344** | **P41,609** |
| Total | 2018 | P54,374,897 | P47,010,912 | P20,044 |

Presented below is the summary of information on reportable segments:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| **Revenues** - net of interest expense | | | |
| Total revenue for reportable segments | **P2,933,947** | P2,451,485 | P2,351,137 |
| **Income before Taxes** | | | |
| Total profit for reportable segments | **360,212** | 417,512 | 398,771 |

| | **2019** | 2018 |
|---|---|---|
| **Assets** | | |
| Total assets for reportable segments | **P55,666,781** | P54,374,897 |
| **Liabilities** | | |
| Total liabilities for reportable segments | **46,284,344** | 47,010,912 |

## 25. 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. Parties are also considered to be related if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

The Bank treats other subsidiaries and branch offices of the Parent Bank as related parties (collectively referred to as “affiliates”).

The Bank has loan transactions with investees and with certain DOSRI. Existing banking regulations limit the amount of individual loans to DOSRI, 70.0% of which must be secured, to the total of their respective deposits and book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed the respective total regulatory capital or 15.0% of total loan portfolio, whichever is lower.

On March 15, 2004, the BSP issued Circular 423 which provides for the amended definition of DOSRI accounts. It clarifies that loans granted to officers and employees under an approved fringe benefit program is excluded from the individual ceiling but is subject to 5.0% aggregate ceiling.

The following table shows information relating to DOSRI loans (in thousands):

| | **2019** | 2018 |
|---|---|---|
| Total outstanding DOSRI loans | **P418** | P725 |
| Percent of DOSRI loans to total loan portfolio | **0.0%** | 0.0% |
| Percent of unsecured DOSRI loans to total DOSRI loans | **Nil** | Nil |
| Percent of past due DOSRI loans to total DOSRI loans | **Nil** | Nil |
| Percent of non-performing DOSRI loans to total DOSRI loans | **Nil** | Nil |

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said Circular, total outstanding exposures to each of the bank’s subsidiaries and affiliates shall not exceed 10.0% of bank’s net worth, the unsecured portion of which shall not exceed 5.0% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.0% of the net worth of the lending bank. BSP Circular No. 560 is effective on February 15, 2007.

The significant account balances with respect to related parties included in the financial statements (after appropriate eliminations have been made) are as follows:

| Category/Transaction | Year | Amount of the Transaction | Outstanding Balance Due from Related Parties | Outstanding Balance Due to Related Parties | Terms | Conditions |
|---|---|---|---|---|---|---|
| **Parent** | | | | | | |
| *Current Deposits* | | | | | | |
| Deposits | **2019** | **P8,652,816,257** | **P7,353,611** | **P -** | **Demandable;** | **Unsecured;** |
| Withdrawals | | **(8,680,995,042)** | **-** | **-** | **non-interest bearing** | **no impairment** |
| Deposits | 2018 | 5,241,379,621 | 35,532,396 | - | Demandable; | Unsecured; |
| Withdrawals | | (5,272,460,445) | - | - | non-interest bearing | no impairment |
| *Bills Payable* | | | | | | |
| Availments | **2019** | **-** | **-** | **-** | **3 years;** | **Unsecured;** |
| Settlements | | **(4,131,213,945)** | **-** | **3,779,086,918** | **interest bearing** | **no impairment** |
| Availments | 2018 | 23,369,159,004 | - | - | 1-3 months and 3 years; | Unsecured; |
| Settlements | | (19,203,608,141) | - | 7,910,300,863 | interest bearing | no impairment |
| *Future Stock Subscription* | | | | | | |
| Deposits for future stock subscription | **2019** | **1,437,380,796** | **-** | **1,437,380,796** | **Demandable; non-interest bearing** | **Unsecured; no impairment** |
| *Interest Expense on Bills Payable* | **2019** | **149,971,042** | **-** | **262,326** | **Demandable; interest bearing** | **Unsecured; no impairment** |
| | 2018 | 93,121,232 | - | 16,039,805 | Demandable; interest bearing | Unsecured: no impairment |
| **Entities under Common Control** | | | | | | |
| *Current Deposits to CTBC - Hongkong* | | | | | | |
| Deposits | **2019** | **24,994,149** | **40,774,869** | **-** | **Demandable;** | **Unsecured;** |
| Withdrawals | | **(3,591,478)** | **-** | **-** | **non-interest bearing** | **no impairment** |
| Deposits | 2018 | 95,249,054 | 19,342,198 | - | Demandable; | Unsecured; |
| Withdrawals | | (105,537,531) | - | - | non-interest bearing | no impairment |
| *Current Deposits to CTBC - Canada* | | | | | | |
| Deposits | **2019** | **60,944,502** | **3,576,296** | **-** | **Demandable;** | **Unsecured;** |
| Withdrawals | | **(58,638,504)** | **-** | **-** | **non-interest bearing** | **no impairment** |
| Deposits | 2018 | 82,117,506 | 1,270,298 | - | Demandable; | Unsecured; |
| Withdrawals | | (82,497,939) | - | - | non-interest bearing | no impairment |
| **Key Management Personnel** | | | | | | |
| *Loans and Receivables* | | | | | | |
| Additions | **2019** | **11,135,128** | **20,861,241** | **-** | **1-5 years; interest bearing** | **Secured and unsecured; with impairment** |
| Collections | | **(12,998,504)** | **-** | **-** | 1-5 years; interest bearing | Secured and unsecured; with impairment |
| Additions | 2018 | 12,545,468 | 22,724,617 | - | 1-5 years; interest bearing | Secured and unsecured; with impairment |
| Collections | | (13,807,035) | - | - | | |
| *Interest Income on Loans and Receivables* | **2019** | **1,790,450** | **1,790,450** | **-** | **Demandable; interest bearing** | **Unsecured; no impairment** |
| | 2018 | 1,844,371 | 1,844,371 | - | Demandable; interest bearing | Unsecured; no impairment |
| **Other Related Parties** | | | | | | |
| Employees' retirement fund held by Trust Operations | | | | | | |
| *Deposit Liabilities* | | | | | | |
| Deposits | **2019** | **140,433,228** | **-** | **1,579,756** | **1-3years,** | **Secured,** |
| Withdrawals | | **(140,435,003)** | **-** | **-** | **interest bearing** | **no impairment** |
| Deposits | 2018 | 420,469,392 | - | 1,579,635 | 1-3years, | Secured, |
| Withdrawals | | (420,467,497) | - | - | interest bearing | no impairment |
| *Interest Expense on Deposit Liabilities* | **2019** | **930** | **-** | **-** | **Demandable; interest bearing** | **Unsecured; no impairment** |
| | 2018 | 5,226 | - | - | Demandable; interest bearing | Unsecured; no impairment |
| **TOTAL** | **2019** | | **P74,356,467** | **P5,218,309,796** | | |
| TOTAL | 2018 | | P80,713,880 | P7,927,920,303 | | |

All transactions with related parties are to be settled in cash.

Impairment losses recognized on loans and receivables from key management personnel is P0.3 million for the year ended December 31, 2019 (2018: P0.2 million; 2017: nil).

The remuneration of directors and other members of key management personnel are as follows:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Short-term benefits | **P91,591,501** | P102,892,441 | P117,926,986 |
| Post-employment benefits | **-** | 6,597,256 | 11,721,994 |
| Other long-term benefits | **1,929,633** | 3,318,208 | 953,021 |
| | **P93,521,134** | P112,807,905 | P130,602,001 |

In accordance with the Bank's By-Laws, profit share of officers and employees is computed at 10.0% of net income after tax.

The Bank's compensation to Key Management Personnel is shown as part of "Compensation and fringe benefits" in the statements of income.

Furthermore, the Bank has a separate funded noncontributory defined benefit plans covering substantially all its officers and regular employees. Under this retirement plan, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements. The Bank's employee benefit fund (or "retirement plan asset") is in the form of a trust account being maintained by the Bank's Trust Operations Department ("Trustee").

As discussed in Note 19, the Bank's retirement plan assets are invested in various debt and equity instruments, such as government securities, corporate papers, equity securities traded in PSE, as well as investments in BSP's special deposit account and placements with the Bank. The Bank's retirement plan assets do not have investments in real properties.

Other than placements with the Bank, the Bank's retirement plan assets do not have investments in securities, whether debt or equity, issued by the Bank as at December 31, 2019 and 2018.

As at December 31, 2019 and 2018, the carrying values of the Bank's retirement plan assets, which approximate its fair value, amounted to P191.2 million and P192.8 million, respectively (see Note 19).

## 26. Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments entered into by the Bank, recorded as derivative assets or derivative liabilities, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as at December 31, 2019 and 2018 and are not indicative of either market risk or credit risk (in thousands).

| | **2019** | | |
|---|---|---|---|
| | **Assets** | **Liabilities** | **Notional Amount** |
| **Freestanding Derivatives -** | | | |
| **Currency forwards and swaps** | | | |
| Buy: | | | |
| USD/PHP | **P -** | **P99,175** | **USD41,800** |
| Sell: | | | |
| USD/PHP | **77,016** | **-** | **USD55,029** |
| | **P77,016** | **P99,175** | |

| | 2018 | | |
|---|---|---|---|
| | Assets | Liabilities | Notional Amount |
| Freestanding Derivatives - | | | |
| Currency forwards and swaps | | | |
| Buy: | | | |
| USD/PHP | P882 | P25,353 | USD69,750 |
| Sell: | | | |
| USD/PHP | 67,063 | 100 | USD102,532 |
| | P67,945 | P25,453 | |

The Bank entered into currency forwards and swap contracts to manage its foreign exchange risks. Currency forwards are contractual agreements to buy or sell a specified currency at a specific price and date in the future. Currency swaps are contractual agreements to exchange principal and interest payments at fixed intervals denominated in two different currencies.

The net movements in fair value changes of derivatives are as follows (amount in thousands):

| | **2019** | 2018 |
|---|---|---|
| Net derivative asset at beginning of year | **P42,492** | P12,737 |
| Net changes in fair value of derivatives | **(65,005)** | 29,713 |
| Fair value of settled contracts | **354** | 42 |
| Net derivative asset at end of year | **(P22,159)** | P42,492 |

## 27. Classification and Measurement of Financial Instruments under PFRS 9

The following table provides a reconciliation between line items in the statements of financial position and categories of financial instruments:

| | | 2019 | | | | | |
|---|---|---|---|---|---|---|---|
| | Note | Mandatorily at FVTPL | Designated as at FVTPL | FVOCI - Debt Instruments | FVOCI - Equity Instruments | Amortized Cost | Total Carrying Amount |
| **Financial Assets** | | | | | | | |
| Cash and other cash items | 17 | P - | P - | P - | P - | P725,063,226 | P725,063,226 |
| Due from BSP | 17 | - | - | - | - | 4,277,491,280 | 4,277,491,280 |
| Due from other banks | 17 | - | - | - | - | 1,591,079,273 | 1,591,079,273 |
| Interbank loans receivable - net | | - | - | - | - | 1,518,431,320 | 1,518,431,320 |
| Financial assets at FVTPL | 7, 17 | 81,140,674 | - | - | - | - | 81,140,674 |
| Financial assets at FVOCI | 7, 17 | - | - | 6,420,539,349 | 13,120,817 | - | 6,433,660,166 |
| Investment securities at amortized cost - net | 7, 17 | - | - | - | - | 2,852,383,715 | 2,852,383,715 |
| Loans and receivables - net | 8 | - | - | - | - | 36,987,482,471 | 36,987,482,471 |
| Other assets* | 17 | - | - | - | - | 37,354,963 | 37,354,963 |
| **Total Financial Assets** | | P81,140,674 | P - | P6,420,539,349 | P13,120,817 | P47,989,286,248 | P54,504,087,088 |
| **Financial Liabilities** | | | | | | | |
| Deposit liabilities | 13, 17 | P - | P - | P - | P - | P37,685,524,645 | P37,685,524,645 |
| Financial liabilities at FVTPL | 17, 26 | 99,175,116 | - | - | - | - | 99,175,116 |
| Bills payable | 14, 17 | - | - | - | - | 4,774,481,380 | 4,774,481,380 |
| Outstanding acceptances | 17 | - | - | - | - | 54,618,030 | 54,618,030 |
| Manager's checks | 17 | - | - | - | - | 73,938,307 | 73,938,307 |
| Accrued interest, taxes and other expenses** | 17 | - | - | - | - | 466,121,317 | 466,121,317 |
| Other liabilities*** | 17 | - | - | - | - | 1,567,040,709 | 1,567,040,709 |
| **Total Financial Liabilities** | | P99,175,116 | P - | P - | P - | P44,621,724,388 | P44,720,899,504 |

**Includes returned checks and other cash items and rent deposit.*
***Excludes retirement liability, accrued taxes and other non-financial accruals.*
****Excludes withholding taxes payable, provision liability and deposits for future stock subscription.*

| | Note | Mandatorily at FVTPL | Designated as at FVTPL | FVOCI - Debt Instruments | FVOCI - Equity Instruments | Amortized Cost | Total Carrying Amount |
|---|---|---|---|---|---|---|---|
| | | 2018 | | | | | |
| Financial Assets | | | | | | | |
| Cash and other cash items | *17* | P - | P - | P - | P - | P504,999,873 | P504,999,873 |
| Due from BSP | *17* | - | - | - | - | 5,001,859,955 | 5,001,859,955 |
| Due from other banks | *17* | - | - | - | - | 1,266,759,792 | 1,266,759,792 |
| Interbank loans receivable - net | | - | - | - | - | 6,142,778,572 | 6,142,778,572 |
| Financial assets at FVTPL | *7, 17* | 127,362,442 | - | - | - | - | 127,362,442 |
| Financial assets at FVOCI | *7, 17* | - | - | 2,399,898,231 | 13,320,817 | - | 2,413,219,048 |
| Investment securities at amortized cost | *7, 17* | - | - | - | - | 2,790,519,408 | 2,790,519,408 |
| Loans and receivables - net | *8* | - | - | - | - | 35,197,027,258 | 35,197,027,258 |
| Other assets* | *17* | - | - | - | - | 38,569,682 | 38,569,682 |
| Total Financial Assets | | P127,362,442 | P - | P2,399,898,231 | P13,320,817 | P50,942,514,540 | P53,483,096,030 |
| Financial Liabilities | | | | | | | |
| Deposit liabilities | *13, 17* | P - | P - | P - | P - | P36,361,391,250 | P36,361,391,250 |
| Financial liabilities at FVTPL | *17, 26* | 25,452,851 | - | - | - | - | 25,452,851 |
| Bills payable | *14, 17* | - | - | - | - | 7,910,300,863 | 7,910,300,863 |
| Outstanding acceptances | *17* | - | - | - | - | 194,467,418 | 194,467,418 |
| Manager's checks | *17* | - | - | - | - | 80,275,446 | 80,275,446 |
| Accrued interest, taxes and other expenses** | *17* | - | - | - | - | 384,830,185 | 384,830,185 |
| Other liabilities*** | *17* | - | - | - | - | 1,928,685,203 | 1,928,685,203 |
| Total Financial Liabilities | | P25,452,851 | P - | P - | P - | P46,859,950,365 | P46,885,403,216 |

**Includes returned checks and other cash items and rent deposit.*
***Excludes retirement liability, accrued taxes and other non-financial accruals.*
**** Excludes withholding taxes payable, provision liability and deposits for future stock subscription.*

## 28. Event After the Reporting Period

On March 11, 2020, the World Health Organization declared the Coronavirus COVID-19 outbreak to be a pandemic in recognition of its rapid spread across the globe, with over 150 affected countries.

On March 16, 2020, Proclamation No. 929, Series of 2020, declared a state of calamity throughout the Philippines for a period of six (6) months, unless earlier lifted or extended as circumstances may warrant. Consequently, an Enhanced Community Quarantine was imposed throughout the entire Luzon until April 12, 2020, unless earlier lifted or extended as circumstances may warrant.

Economic impacts of these events include disruption to banking operations; significant disruption to client businesses in 'highly exposed sectors', particularly, trade and transportation, travel and tourism, hospitality/entertainment/sport, manufacturing, construction and retail; and a significant increase in economic uncertainty, evidenced by more volatile asset prices and currency exchange rates.

As of June 3, 2020, the effects of the COVID 19 pandemic has not resulted to material impact on the Bank's liquidity. The Bank is continuously monitoring its loan portfolio, asset quality and net interest margin to determine if there has been significant impact of the Bank's profitability, especially on the loan moratorium granted under Republic Act No. 11469, otherwise known as the Bayanihan to Heal as One Act.

Other than this, there are no known trends, events, uncertainties that had or reasonably expected to have a material favorable or unfavorable impact on income from continuing operations. There are also no known material commitments for capital expenditures as of reporting date. There are no significant elements of income or loss that arose from the Bank's continuing operations. Likewise, there are no seasonal aspects that had material effect on the financial condition or results of operations.

There are no known events that will trigger direct or contingent financial obligation that is material to the Bank, including any default or acceleration of an obligation. Also, there are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Bank with unconsolidated entities or other persons created as of the reporting date.

The BSP recognizes that the outbreak of COVID-19 has potential significant impact on the operations of BSP-supervised financial institutions (BSFIs) in terms of risks related to exposures to borrowers and/or industries or businesses severely disrupted or affected by the COVID-19 as well as disruption in operations due to measures implemented to control the spread of virus such as lockdown situation, localized work suspension, heightened health and safety risks faced by BSFIs' employees and customers.

In this light, the BSP issued Memorandum No. M-2020-008 (the "Memorandum") granting temporary regulatory relief measures to BSFIs affected by COVID-19. Relief measures relevant to the Bank are as follows:

a. Allowing BSFIs to provide financial assistance to officers who are affected even in the absence of BSP-approved purposes or even if not within the scope of the existing BSP-approved purposes, for the grant of loans, advances, or any other forms of credit accommodations to officers, subject to subsequent regularization of the BSP, as specified in the Memorandum;

b. Upon grant by BSFIs of a temporary grace period for payment or upon approval of the restructuring, but subject to reporting to the BSP, exclusion from the computation of past due ratio of the loans of borrowers in affected areas which should have been reclassified as past due from 8 March 2020, the date of declaration of the President of the state of public health emergency under Presidential Proclamation No. 922 (the “reference date”), including those loans becoming past due six (6) months thereafter, subject to conditions specified in the Memorandum;

c. Non-imposition of monetary penalties for delays incurred in the submission of all supervisory reports due to be submitted from the reference date up to six (6) months thereafter;

d. Subject to prior approval of the Bangko Sentral, staggered booking of allowance for credit losses computed over a maximum period of five (5) years for all types of credits extended to individuals and businesses directly affected by COVID-19 as of the reference date; and

e. Subject to prior approval of the Bangko Sentral, non-imposition of penalties on legal reserve deficiencies starting from reserve week following the reference date up to six (6) months thereafter.

## 29. Supplementary Information Required under BSP Circular No. 1074

The following supplementary information is required by Appendix 55 - Disclosure Requirements to the Audited Financial Statements (AFS) to Section 174 of the MORB of the BSP, amended by BSP Circular No. 1074, *Amendments to Regulations on Financial Audit of Banks*.

### A. Financial Performance Indicators

The following basic ratios measure the financial performance of the Bank:

| | | **2019** | 2018 | 2017 |
|---|---|---|---|---|
| a. | Net income | **P330,683,222** | P237,355,239 | P287,954,120 |
| b. | Average total equity | **8,373,211,275** | 7,352,087,196 | 7,234,671,341 |
| | Return on average equity (a/b) | **3.9%** | 3.2% | 4.0% |
| c. | Net income | **P330,683,222** | P237,355,239 | P287,954,120 |
| d. | Average total assets | **55,020,839,232** | 47,350,584,917 | 38,195,012,674 |
| | Return on average assets (c/d) | **0.6%** | 0.5% | 0.8% |
| e. | Net interest income | **P2,278,588,945** | P1,963,249,288 | P1,805,815,596 |
| f. | Average interest earning assets | **49,915,579,319** | 42,276,464,492 | 33,133,016,700 |
| | Net interest margin on average earning assets (e/f) | **4.6%** | 4.6% | 5.5% |

*Note: Average balances were determined as the average of the current and previous calendar balances of the respective statements of financial position accounts.*

## B. Commitments and Contingencies

In the normal course of business, the Bank enters into various commitments and incurs contingent liabilities that are not presented in the accompanying financial statements. The Bank does not anticipate any material losses as a result of these commitments and contingent liabilities.

For regulatory reporting purposes, the following is a summary of the commitments and contingent liabilities at their equivalent peso contractual amounts (amount in thousands):

| | **2019** | 2018 |
|---|---:|---:|
| Standby letters of credit | **P2,294,083** | P1,984,501 |
| Trust department accounts | **1,711,936** | 1,499,267 |
| Credit commitments | **1,246,887** | 421,538 |
| Sight/usance import letters of credit | **249,445** | 1,311,865 |
| Outward bills for collection | **181,804** | 1,141,728 |
| Others | **12,090** | 23,339 |

Securities and other properties held by the Bank in a fiduciary or agency capacity for its customers are not included in the Bank's statements of financial position since these items are not assets of the Bank. As at December 31, 2019 and 2018, total assets held by the Bank's Trust Department amounted to P1.7 billion and P1.5 billion, respectively (see Note 25).

In connection with the trust operations of the Bank, government securities with carrying value of P19.5 million (face value of P20.0 million) as of December 31, 2019 and 2018 are deposited with the BSP in compliance with existing banking regulations relative to the trust functions of the Bank.

In compliance with existing BSP regulations, 10.0% of the Bank's income from trust business is appropriated to retained earnings. This yearly appropriation is required until the retained earnings for trust functions equals 20.0% of the Bank's regulatory net worth. No part of such retained earnings shall at any time be paid out as dividends, but losses accruing in the course of business may be charged against such surplus. As at December 31, 2019 and 2018, the reserve for trust functions recorded under "Statutory reserve" in the statements of financial position amounted to P5.0 million.

As at December 31, 2019 and 2018, off-balance sheet commitments and contingent liabilities with credit risk exposure amounted to P3.8 million and P3.7 million. These include unused commercial letters of credit and credit commitments which are subject to ECL starting January 1, 2018.

Other Commitments

The assets pledged by the Bank are strictly for the purpose of providing collateral for the counterparty. To the extent that the counterparty is permitted to sell and/or re-pledge the assets, they are classified in the statements of financial position as pledged collateral. The pledged assets will be returned to the Bank when the underlying transaction is terminated but, in the event of the Bank's default, the counterparty is entitled to apply the collateral in order to settle the liability.

No asset is being pledged by the Bank to secure outstanding liabilities as at December 31, 2019 and 2018.

Other relevant disclosures required by BSP Circular No. 1074 are in Notes 3, 5 and 18.

## 30. Supplementary Information Required Under Revenue Regulations 15-2010

On November 25, 2010, the BIR issued Revenue Regulations (RR) No. 15-2010 for the amendments in certain provisions of RR No. 21-2002, as *Amended, Implementing Section 6(H) of the Tax Code of 1997, Authorizing the Commissioner of Internal Revenue to Prescribe Additional Procedural and/or Documentary Requirements in Connection with the Preparation and Submission of Financial Statements Accompanying the Bank's Tax Returns*.

In compliance with the above RR, the Bank presents information on taxes, duties and license fees paid or accrued during the taxable years.

The details of taxes and licenses account in 2019 are as follows:

| | |
|---|---:|
| Gross receipt tax (GRT) | **P174,819,007** |
| Documentary stamp tax | **74,737,299** |
| Business licenses | **4,556,728** |
| Bank car registration | **237,584** |
| Real property tax | **170,687** |
| Annual registration fee | **13,000** |
| Community tax certificate | **10,500** |
| Business taxes | **117,966** |
| | **P254,662,771** |

The NIRC of 1997 provides for the imposition of GRT on gross receipts derived by banks from sources within the Philippines. Accordingly, the Bank's gross receipts are subject to GRT as re-imposed in RA No. 9238 beginning January 1, 2004.

Details of the GRT remitted in 2019 are as follows:

| | Tax Base | Total Remittances | Balance |
|---|---:|---:|---:|
| Income subject to 5.0% | **P2,632,326,647** | **P120,171,816** | **P11,444,516** |
| Income subject to 1.0% | **18,736,304** | **168,060** | **19,303** |
| Other income subject to 7.0% | **614,504,455** | **41,399,847** | **1,615,465** |
| | **P3,265,567,406** | **P161,739,723** | **P13,079,284** |

<u>Documentary Stamp Tax</u>
Movement in documentary stamp tax as follows:

| | Balance |
|---|---:|
| Documentary stamps on hand, December 31, 2018 | **P21,981,935** |
| Purchases (BIR Form 2000) | **260,000,000** |
| Documentary stamps used | **(269,989,094)** |
| Documentary stamps on hand, December 31, 2019 | **P11,992,841** |

Withholding Taxes
Details of total remittances of withholding taxes in 2019 are as follows:

| | Total Remittances | Balance |
|---|---|---|
| Withholding taxes on compensation and benefits | **P158,232,356** | **P17,482,963** |
| Final withholding tax on interest on deposits | **134,071,977** | **7,367,154** |
| Expanded withholding taxes | **25,801,489** | **1,798,322** |
| | **P318,105,822** | **P26,648,439** |

Outstanding amount of withholding taxes are included in "Other liabilities" account in the statements of financial position.

Deficiency Tax
On March 16, 2015, the Bank received a Preliminary Assessment Notice (PAN) from the BIR, covering the taxable year 2011, amounting to P200.6 million, inclusive of penalties and interest. The said PAN pertains to the allocation of expenses under Revenue Regulations No. 4-2011 (RR 4-11).

Tax Case
In relation to RR 4-11, on April 6, 2015, several local banks and branches of foreign banks, including the Bank, filed a Petition for Declaratory Relief (with urgent application for the issuance of a Temporary Restraining Order and/or a Writ of Preliminary Injunction) with the Makati Regional Trial Court (RTC).

On April 27, 2015, the Makati RTC granted the application for a Writ of Preliminary Injunction and issued an Order stopping the BIR from enforcing, carrying-out, and implementing RR 4-11. The BIR moved for the reconsideration, but the same was denied. The case is now undergoing pre-trial conference which will eventually lead to trial stage proper. Pending these incidents, however, the court issued injunction against the BIR stays. Pre-trial conference was concluded in 2017, with Makati RTC directing the submission of legal memorandum. Both plaintiff and defendant complied with the court's directive. With the submission of the legal memoranda, Makati RTC has considered the case submitted for decision.

On June 26, 2018, our external counsel, ACCRA Law Office, received RTC-Makati's ruling which favoured the consortium banks and nullified the BIR regulation (RR 4-11) which then BIR Commissioner Henares issued and from where the tax assessments arose. In other words, the Court absolved the banks from their alleged tax liabilities. In its November 2018 report, ACCRA Law Office informed the consortium banks that BIR filed an appeal with the Supreme Court and ACCRA Law Office is now waiting for the Supreme Court's resolution whether it will reject/dismiss the appeal outright, or direct the consortium banks to file their Comment on this appeal before rendering its decision.

As at December 31, 2019, acting on BIR's appeal, the Supreme Court issued its Resolution dated March 27, 2019 requiring the banks to submit their comment on BIR's petition. As required, the Bank's external counsel, ACCRA Law Office, submitted the Comment which opposed the BIR's appeal and prayed for the confirmation of RTC-Makati's ruling. Both BIR and the banks are now waiting for further orders or resolution from the Supreme Court.

**CTBC BANK (PHILIPPINES) COMMERCIAL BANK CORPORATION**
**INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES**

**PART I**



**PART II (Schedules Required by Annex 68-J of the Revised SRC Rule 68)**



**PART III**



**PART IV**

**CTBC BANK (PHILIPPINES) CORPORATION**
**Fort Legend Towers, Third Avenue corner 31st Street,**
**Bonifacio Global City, Taguig City**

## RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
## DECEMBER 31, 2019

| | |
|---|---|
| Unappropriated retained earnings, as adjusted to available for dividend declaration, beginning[1] | **P -** |
| Net income during the year closed to retained earnings | **330,683,222** |
| Less: Non-actual/unrealized income (expenses) | |
| Unrealized foreign exchange gain-net (except those attributable to cash and cash equivalents) | **(59,525,816)** |
| Fair value adjustment (marking to market gains) | **443,328** |
| Gain on foreclose of investment properties during the year | **7,636,138** |
| Deferred tax benefit | **150,665,692** |
| Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRSs | **310,583** |
| Net income actually earned during the year | **260,681,735** |
| Add/Less: | |
| Dividend declaration during the period | **-** |
| Appropriations of Retained Earnings during the period | |
| Trust operations | **-** |
| Treasury shares[1, 2] | **-** |
| Minimum capital requirements per BSP Circular No. 854, BASEL III requirements, and ICAAP[1] | **(260,681,735)** |
| Reversal of appropriations | **-** |
| Effects of prior period adjustments | **-** |
| **Total retained earnings, available for dividend declaration[1], ending** | **P -** |

[1] - At the regular meeting of the BOD held on June 23, 2015, the BOD approved the restriction of the full amount of retained earnings for the following purposes:
i.) to comply with minimum capital requirement set forth under BSP Circular No. 854.
ii.) to comply with the requirements of the ICAAP pursuant to BSP Circular No. 639;
iii.) to cover the resulting treasury shares acquired in relation to the Bank's delisting and share buyback exercise; and
iv.) to provide for buffer in preparation for BASEL III requirements
[2] - Amount includes transaction cost.

**CTBC BANK (PHILIPPINES) CORPORATION**
**Fort Legend Towers, Third Avenue corner 31$^{st}$ Street,**
**Bonifacio Global City, Taguig City**

**SCHEDULES REQUIRED BY ANNEX 68-J**
**DECEMBER 31, 2019**

Philippine Securities and Exchange Commission (SEC) issued the Revised Securities Regulation Code Rule (SRC) 68. It prescribed the additional information and schedule requirements for issuers of securities to the public.

Below are the additional information and schedules required by the Revised SRC Rule 68. These are presented for purposes of filing with the SEC and is not required part of the basic financial statements.

| | |
|---|---|
| Schedule A: | Financial Assets |
| Schedule B: | Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties) |
| Schedule C: | Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements |
| Schedule D: | Long-Term Debt |
| Schedule E: | Indebtedness to Related Parties (Long-Term Loans from Related Companies) |
| Schedule F: | Guarantees of Securities of Other Issuers |
| Schedule G: | Capital Stock |

# CTBC BANK (PHILIPPINES) CORPORATION
## Fort Legend Towers, Third Avenue corner 31st Street, Bonifacio Global City, Taguig City

## SCHEDULE A – FINANCIAL ASSETS
## DECEMBER 31, 2019

**Financial Assets**

Below is the detailed schedule of financial assets in equity and debt securities of the Bank as of December 31, 2019:

| Name of Issuing Entity and Association of Each Issue | Number of Shares | Principal Amount of Bonds and Notes | Amount Shown in the Statement of Financial Position | Value Based on Market Quotation at End of Year | Income Received and Accrued |
|---|---|---|---|---|---|
| **Financial Assets at FVTPL** | | | | | |
| Government securities: | | | | | |
| Retail treasury bonds | - | P3,368,247 | P3,375,053 | P3,375,053 | P14,330 |
| Philippine treasury bills | - | 746,573 | 749,863 | 749,863 | - |
| Sub-total | - | 4,114,820 | 4,124,916 | 4,124,916 | 14,330 |
| Derivative assets | | | | | |
| Ecossential Foods Corporation | - | 1,508,037 | 36,864 | 36,864 | - |
| ANZ Banking Group Limited - Philippine Branch | - | 538,500,000 | 29,869,287 | 29,869,287 | - |
| BDO Unibank, Inc. | - | 1,229,315,000 | 15,121,360 | 15,121,360 | - |
| Bank of the Philippine Islands | - | 266,200,000 | 12,849,654 | 12,849,654 | - |
| China Banking Corporation | - | 271,450,000 | 17,470,842 | 17,470,842 | - |
| Metropolitan Bank and Trust Co. | - | 304,956,000 | 1,552,913 | 1,552,913 | - |
| Rizal Commercial Banking Corporation | - | 255,800,000 | 114,838 | 114,838 | - |
| Sub-total | - | 2,867,729,037 | 77,015,758 | 77,015,758 | - |
| | - | P2,871,843,857 | P81,140,674 | P81,140,674 | P14,330 |
| **Financial Assets at FVOCI** | | | | | |
| Government securities: | | | | | |
| Fixed rate treasury notes | - | P501,876,942 | P511,275,624 | P511,275,624 | P8,680,747 |
| Retail treasury bonds | - | 1,442,968,877 | 1,463,765,688 | 1,463,765,688 | 4,897,847 |
| Republic of the Philippines (ROP) bonds | - | 1,710,740,641 | 1,729,443,296 | 1,729,443,296 | 27,648,837 |
| Republic of Indonesia (ROI) bonds | - | 386,175,423 | 404,253,637 | 404,253,637 | 6,400,756 |
| Philippine treasury bills | - | 34,102,800 | 34,589,631 | 34,589,631 | - |
| United States treasury bills | - | 2,276,529,930 | 2,277,211,473 | 2,277,211,473 | - |
| Sub-total | - | 6,352,394,613 | 6,420,539,349 | 6,420,539,349 | 47,628,187 |
| Equity securities: | | | | | |
| BANCNET | 50,000 | - | 6,940,717 | 6,940,717 | - |
| PCHC | 21,000 | - | 5,000,100 | 5,000,100 | - |
| BAP | 5,000 | - | 500,000 | 500,000 | - |
| Orchard Gold and Country Club | 1 | - | 400,000 | 400,000 | - |
| Subic Bay Yacht Club Corporation | 1 | - | 280,000 | 280,000 | - |
| Sub-total | 76,002 | - | 13,120,817 | 13,120,817 | - |
| | 76,002 | P6,352,394,613 | P6,433,660,166 | P6,433,660,166 | P47,628,187 |

*Forward*

| Name of Issuing Entity and Association of Each Issue | Number of Shares | Principal Amount of Bonds and Notes | Amount Shown in the Statement of Financial Position | Value Based on Market Quotation at End of Year | Income Received and Accrued |
|---|---|---|---|---|---|
| **Investment Securities at Amortized Cost** | | | | | |
| Government securities: | | | | | |
| Fixed rate treasury notes | - | **P55,255,067** | **P55,127,803** | **P55,603,966** | **P1,189,236** |
| Retail treasury bonds | - | **461,737,207** | **460,830,507** | **482,743,991** | **2,098,958** |
| ROP bonds | - | **2,207,361,430** | **2,145,380,361** | **2,290,902,149** | **46,271,930** |
| ROI bonds | - | **172,159,127** | **171,543,232** | **171,278,837** | **2,759,256** |
| Philippine treasury bills | - | **746,573** | **19,501,812** | **19,652,193** | **-** |
| **Total** | **-** | **P2,897,259,404** | **P2,852,383,715** | **P3,020,181,136** | **P52,319,380** |

**CTBC BANK (PHILIPPINES) CORPORATION**
**Fort Legend Towers, Third Avenue corner 31st Street,**
**Bonifacio Global City, Taguig City**

## SCHEDULE B – AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
## DECEMBER 31, 2019

| Name and Designation of Debtor | Balance at Beginning of Year | Additions | Amounts Collected | Amounts Written Off | Current | Not Current | Ending Balance |
|---|---|---|---|---|---|---|---|
| Employee Loans/Total | P22,724,617 | P11,135,128 | (P12,998,504) | P - | P20,861,241 | P - | P20,861,241 |

**CTBC BANK (PHILIPPINES) CORPORATION**
**Fort Legend Towers, Third Avenue corner 31st Street,**
**Bonifacio Global City, Taguig City**

**SCHEDULE C – AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**
**DECEMBER 31, 2019**

| Name and Designation of Debtor | Balance at Beginning Period | Additions | Amounts Collected | Amounts Written Off | Current | Noncurrent | Balance at End of Period |
|---|---|---|---|---|---|---|---|
| | | | None to report | | | | |

**CTBC BANK (PHILIPPINES) CORPORATION**
**Fort Legend Towers, Third Avenue corner 31st Street,**
**Bonifacio Global City, Taguig City**

**SCHEDULE D - LONG-TERM DEBT**
**DECEMBER 31, 2019**

| Type of Issue and Type of Obligation | Amount Authorized by Indenture | Amount shown under caption "Current Portion of Long-Term Debt" in related balance sheet | Amount shown under caption "Long-Term Debt" in related balance sheet | Interest Rates | Amounts or Numbers of Periodic Installments | Maturity Dates |
|---|---|---|---|---|---|---|
| Deposit liabilities - time | P470,873,913 | P - | P470,873,913 | 2.52% to 4.57% | Various | Various |
| Bills payable | 1,000,000,000 | - | 995,394,463 | 5.04% | Interest is payable quarterly | 4/29/2022 |
| Bills payable | USD75,000,000 | - | 3,779,086,917 | 3.48% | Interest is payable monthly | 12/21/2021 |

**CTBC BANK (PHILIPPINES) CORPORATION**
**Fort Legend Towers, Third Avenue corner 31st Street,**
**Bonifacio Global City, Taguig City**

## SCHEDULE E - INDEBTEDNESS TO RELATED PARTIES
## DECEMBER 31, 2019

| Name of Related Parties | Balance at Beginning of Year | Balance at End of Year | Nature, Terms and Conditions |
|---|---|---|---|
| CTBC Bank Co. Ltd. | P7,910,300,863 | P3,779,086,918 | 3 years; interest bearing; unsecured |

**CTBC BANK (PHILIPPINES) CORPORATION**
**Fort Legend Towers, Third Avenue corner 31st Street,**
**Bonifacio Global City, Taguig City**

**SCHEDULE F – GUARANTEES OF SECURITIES OF OTHER ISSUERS**
**DECEMBER 31, 2019**

| Name of issuing entity of securities guaranteed by the company for which this statement is filed | Title of issue of each class of securities guaranteed | Total amount of guaranteed and outstanding | Amount owned by person of which statement is filed | Nature of Guarantee |
|---|---|---|---|---|

None to report

**CTBC BANK (PHILIPPINES) CORPORATION**
**Fort Legend Towers, Third Avenue corner 31st Street,**
**Bonifacio Global City, Taguig City**

**SCHEDULE G – CAPITAL STOCK**
**DECEMBER 31, 2019**

| Title of issue | Number of shares authorized | Number of shares issued and outstanding as shown under the related balance sheet caption | Number of shares reserved for options, warrants, conversion and other rights | Number of shares held by related parties | Directors, officers and employees | Others |
|---|---|---|---|---|---|---|
| Common shares | 300,000,000 | 300,000,000 | - | 299,012,001 Additional common shares and reissuance of treasury shares in September 2019 | 60 | 987,939 |

Required information is disclosed in Note 18: Equity to the basic financial statements of the Bank.

# CTBC BANK (PHILIPPINES) CORPORATION
**Fort Legend Towers, Third Avenue corner 31st Street,**
**Bonifacio Global City, Taguig City**

## SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
## DECEMBER 31, 2019

*Liquidity Ratios*
The ratios for the years 2019 and 2018 are as follows:

| | 2019 | 2018 |
|---|---|---|
| Current assets | **P30,857,532,935** | P32,305,832,275 |
| Current liabilities | **41,038,988,301** | 42,351,497,845 |
| Ratio of current assets to current liabilities | **75.2%** | 76.3% |
| Net liquid assets[1] | **P14,527,690,823** | P11,435,446,831 |
| Total deposits | **37,685,524,645** | 36,361,391,250 |
| Ratio of net liquid assets to total deposits | **38.5%** | 31.4% |

*Solvency Ratio*
The ratio for the years 2019 and 2018 is as follows:

| | 2019 | 2018 |
|---|---|---|
| Total liabilities | **P46,284,343,593** | P47,010,912,322 |
| Total equity | **9,382,437,488** | 7,363,985,061 |
| Ratio of debt to equity | **493.3%** | 638.4% |

*Assets to Equity Ratio*
The ratio for the years 2019 and 2018 is as follows:

| | 2019 | 2018 |
|---|---|---|
| Total assets | **P55,666,781,081** | P54,374,897,383 |
| Total equity | **9,382,437,488** | 7,363,985,061 |
| Ratio of total assets to equity | **593.3%** | 738.4% |

*Interest Rate Coverage Ratio*
The ratio for the years 2019 and 2018 is as follows:

| | 2019 | 2018 |
|---|---|---|
| Income before interest and taxes | **P1,325,723,446** | P1,032,770,725 |
| Interest expense | **965,511,787** | 615,258,433 |
| Interest coverage ratio | **137.3%** | 167.9% |

*Profitability Ratios*
The ratios for the years 2019 and 2018 are as follows:

| | **2019** | 2018 |
|---|---|---|
| Net income | **P330,683,222** | P237,355,239 |
| Average total equity[2] | **8,373,211,274** | 7,352,087,196 |
| Return on average equity | **3.9%** | 3.2% |
| Net income | **P330,683,222** | P237,355,239 |
| Average total assets[2] | **55,020,839,232** | 47,350,584,917 |
| Return on average assets | **0.6%** | 0.5% |
| Net interest income | **P2,278,588,945** | P1,963,249,288 |
| Average interest earning assets[2] | **49,915,579,319** | 42,276,464,492 |
| Net interest margin on average earning assets | **4.6%** | 4.6% |

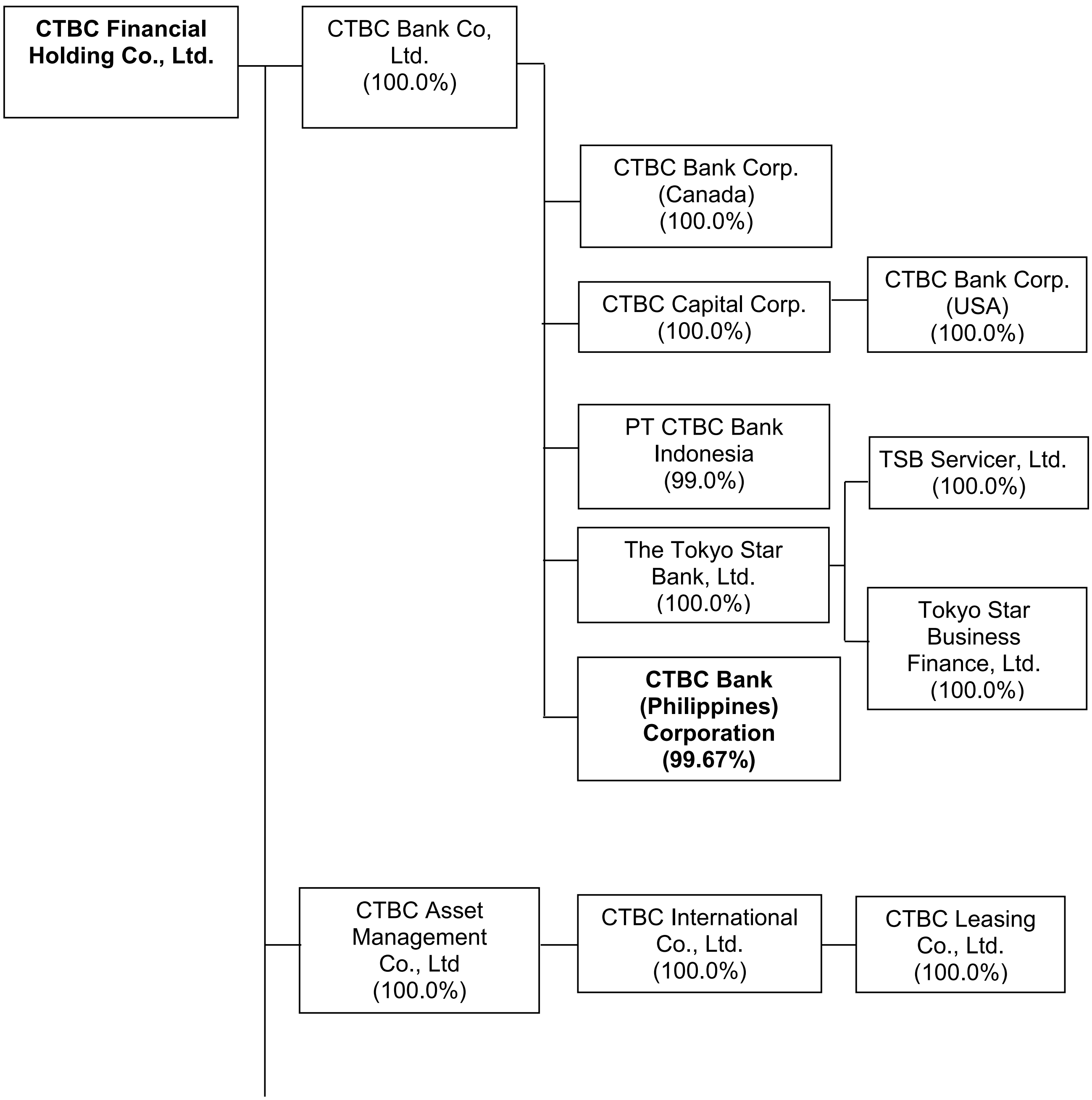
[1/] Net liquid assets consist of cash, due from BSP, due from other banks, interbank loans, securities held for trade and available for sale less derivatives liabilities and interbank borrowings.

[2/] Average balances were determined as the average of the current and previous calendar balances of the respective statements of financial position accounts.

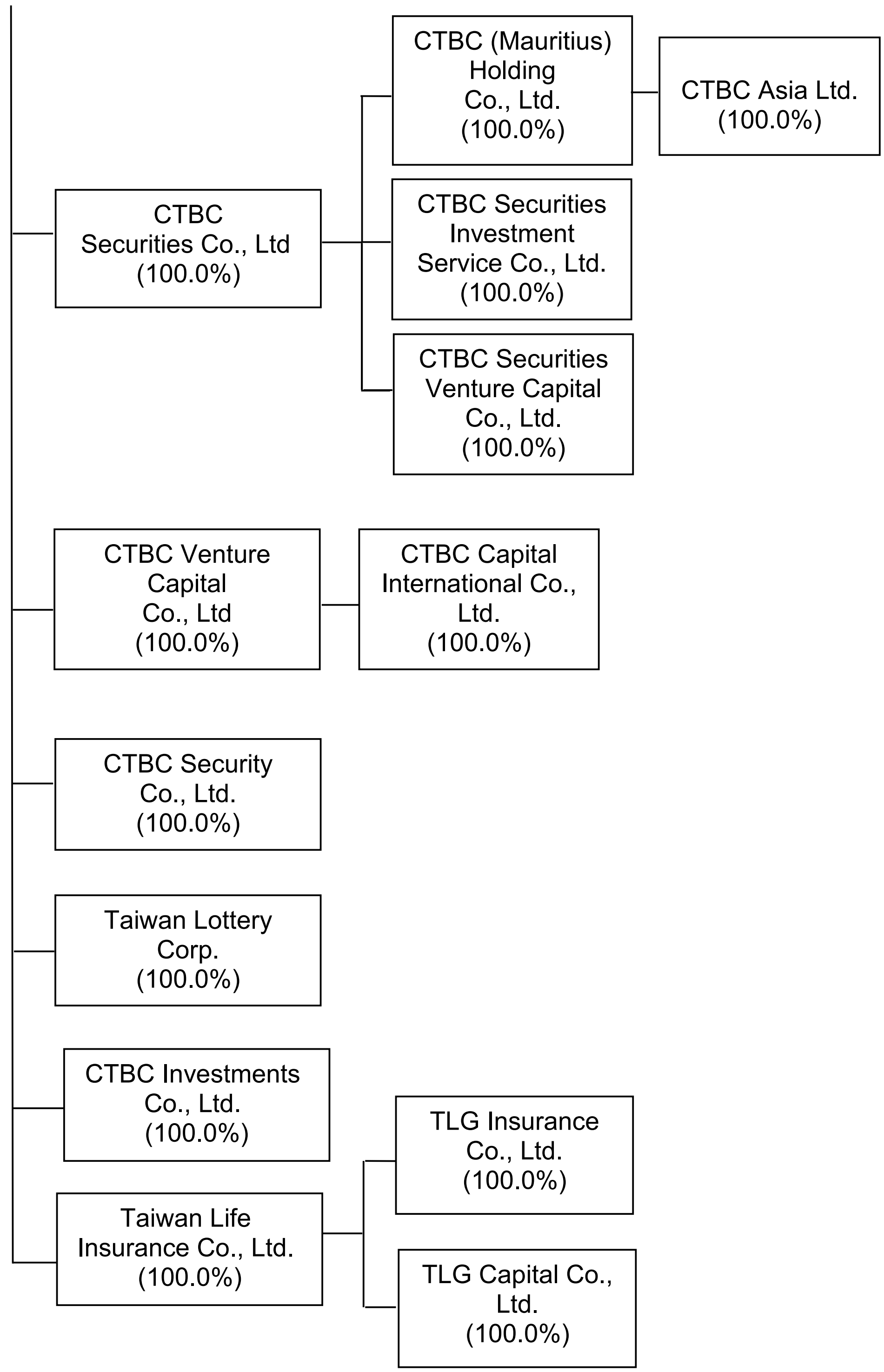
## CTBC BANK (PHILIPPINES) CORPORATION
**Fort Legend Towers, Third Avenue corner 31st Street,**
**Bonifacio Global City, Taguig City**

## RELATIONSHIP MAP
## DECEMBER 31, 2019

Below is a map showing the relationship between and among the Group and its ultimate parent Bank, subsidiaries, and associates as of December 31, 2019




*(Forward)*


CTBC (Mauritius) Holding Co., Ltd. (100.0%)
CTBC Asia Ltd. (100.0%)
CTBC Securities Co., Ltd (100.0%)
CTBC Securities Investment Service Co., Ltd. (100.0%)
CTBC Securities Venture Capital Co., Ltd. (100.0%)
CTBC Venture Capital Co., Ltd (100.0%)
CTBC Capital International Co., Ltd. (100.0%)
CTBC Security Co., Ltd. (100.0%)
Taiwan Lottery Corp. (100.0%)
CTBC Investments Co., Ltd. (100.0%)
TLG Insurance Co., Ltd. (100.0%)
Taiwan Life Insurance Co., Ltd. (100.0%)
TLG Capital Co., Ltd. (100.0%)

Amendment to PFRS 7, Disclosure: Offsetting Financial Assets and Financial Liabilities
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32, *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangements of 'similar agreement,' irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

a. Gross amounts of those recognized financial assets and recognized financial liabilities;
b. Amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statements of financial position;
c. Net amounts presented in the statements of financial position;
d. Amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
   - Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32;
   - Amounts related to financial collateral (including cash collateral); and
e. Net amount after deducting the amounts in (d) from the amounts in (c) above.

Pursuant to the amendments to PFRS 7 requiring the Bank to disclose information about rights to offset and related arrangements, the Bank's financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2019 and 2018 are as follows (in millions):

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Related Amounts not Offset in the Statements of Financial Position | | |
| | Gross Amounts of Recognized Financial Assets | Gross Amounts of Recognized Financial Liabilities Offset in the Statements of Financial Position | Net Amounts of Financial Assets Presented in the Statements of Financial Position | Financial Instruments | Cash Collateral Received | Net Amount |
| **Financial Assets** | | | | | | |
| Derivatives-trading assets | P77 | P - | P77 | P - | P - | P - |
| Derivatives held for risk management | - | - | - | - | - | - |
| Reverse sale and repurchase, securities borrowing and similar agreements | - | - | - | - | - | - |
| Loans and receivables | - | - | - | 3,669 | 3,669 | - |
| **Total** | P77 | P - | P77 | P3,669 | P3,669 | - |
| **Financial Liabilities** | | | | | | |
| Derivatives-trading liabilities | P99 | P - | P99 | P - | P - | P - |
| Derivatives held for risk management | - | - | - | - | - | - |
| Sale and repurchase, securities lending and similar agreements | - | - | - | - | - | - |
| Customer deposits | - | - | - | - | - | - |
| **Total** | P99 | P - | P99 | P - | P - | P - |

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Gross Amounts of Recognized Financial Assets | Gross Amounts of Recognized Financial Liabilities Offset in the Statements of Financial Position | Net Amounts of Financial Assets Presented in the Statements of Financial Position | Related Amounts not Offset in the Statements of Financial Position | | Net Amount |
| | | | | Financial Instruments | Cash Collateral Received | |
| Financial Assets | | | | | | |
| Derivatives-trading assets | P68 | P - | P68 | P - | P - | P - |
| Derivatives held for risk management | - | - | - | - | - | - |
| Reverse sale and repurchase, securities borrowing and similar agreements | - | - | - | - | - | - |
| Loans and receivables | - | - | - | 3,293 | 3,293 | - |
| Total | P68 | P - | P68 | P3,293 | P3,293 | P - |
| Financial Liabilities | | | | | | |
| Derivatives-trading liabilities | P25 | P - | P25 | P - | P - | P - |
| Derivatives held for risk management | - | - | - | - | - | - |
| Sale and repurchase, securities lending and similar agreements | - | - | - | - | - | - |
| Customer deposits | - | - | - | - | - | - |
| Total | P25 | P - | P25 | P - | P - | P - |

The gross amounts of recognized financial assets and financial liabilities and their net amounts as presented in the statements of financial position are on the following basis:

- Derivative assets and liabilities - fair value;
- Assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing - amortized cost;
- Loans and advances to customers - amortized cost; and
- Customer deposits - amortized cost.

The amounts that are offset in the statements of financial position are measured on the same basis.

The tables below reconcile the 'net amounts of financial assets and financial liabilities presented in the statements of financial position,' as set out above, to the line items presented in the statements of financial position are as follows (in millions):

| | | **2019** | | | |
|---|---|---|---|---|---|
| **Types of Financial Assets** | ***Note*** | **Net Amounts** | **Line Item in The Statement of Financial Position** | **Carrying Amount in Statement of Financial Position** | **Financial Assets not in Scope of Offsetting Disclosures** |
| Derivative-trading assets | 7 | **P77** | **Financial assets at FVTPL** | **P -** | **P -** |
| Derivatives held for risk management | | **-** | **-** | **-** | **-** |
| Reverse sale and repurchase, securities borrowing and similar agreements | | **-** | **-** | **-** | **-** |
| Loans and receivables | | **-** | **Loans and receivables - net** | **-** | **-** |
| **Financial Liabilities** | | | | | |
| Derivative-trading liabilities | | **99** | **Financial liabilities at FVTPL - net** | **-** | **-** |
| Sale and repurchase securities lending and similar agreements | | **-** | **-** | **-** | **-** |
| Derivatives held for risk management | | **-** | **-** | **-** | **-** |
| Customer deposits | | **-** | **-** | **-** | **-** |

| | | 2018 | | | |
|---|---|---|---|---|---|
| Types of Financial Assets | *Note* | Net Amounts | Line Item in The Statement of Financial Position | Carrying Amount in Statement of Financial Position | Financial Assets not in Scope of Offsetting Disclosures |
| Derivative-trading assets | 7 | P68 | Financial assets at FVTPL | P - | P - |
| Derivatives held for risk management | | - | - | - | - |
| Reverse sale and repurchase, securities borrowing and similar agreements | | - | - | - | - |
| Loans and receivables | | - | Loans and receivables - net | - | - |
| Financial Liabilities | | | | | |
| Derivative-trading liabilities | | 25 | Financial liabilities at FVTPL - net | - | - |
| Sale and repurchase securities lending and similar agreements | | - | - | - | - |
| Derivatives held for risk management | | - | - | - | - |
| Customer deposits | | - | - | - | - |

# D P W F S T I F F U

**For**

## AUDITED FINANCIAL STATEMENTS

**SEC Registration Number**

A S 0 9 5 0 0 8 8 1 4

**COMPANY NAME**

C T B C B A N K ( P H I L I P P I N E S ) C O R P O R A T I O N [ F o r m e r l y C h i n a t r u s t ( P h i l i p p i n e s ) C o m m e r c i a l B a n k C o r p o r a t i o n ]

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

F o r t L e g e n d T o w e r s , T h i r d A v e n u e c o r n e r 3 1 s t S t r e e t B o n i f a c i o G l o b a l C i t y T a g u i g C i t y

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| A A F S | | |

**COMPANY INFORMATION**

| Company's email Address | Company's Telephone Number/s | Mobile Number |
|---|---|---|
| | | |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 110 | | December 31 |

**CONTACT PERSON INFORMATION**

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

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| Andrew A. Falcon | andrew.falcon@ctbcbank.com.ph | 811-8509 | |

**CONTACT PERSON's ADDRESS**

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

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

# Certification

I, Andrew A. Falcon is duly authorized representatives of CTBC BANK (PHILIPPINES) CORP. with SEC registration number AS9508814A with principal office at Fort Legend Towers, Third Avenue corner 31st Street, Bonifacio Global City, Taguig City, do hereby certify and state that:

1) The CTBC BANK (PHILIPPINES) CORP. will comply with the guidelines for the alternative filing of reports and/or documents through electronic mail with the Securities and ExchangeCommission through Corporate Governance and Finance Department (CGFD) issued on 30th day of March 2020 in light of the imposition of an Enhanced Community Quarantine and StringentSocial Distancing Measures over Luzon to prevent the spread of the 2019 CoronavirusDisease (COVID-2019).
2) The information contained in SEC Form 17-Q_31March2020 Report submitted online on 14 May 2020 is **true and correct** to the best of my knowledge.
3) On behalf of CTBC BANK (PHILIPPINES) CORP., I hereby **undertake** to a) submit hard or physical copies of SEC Form 17-Q_31March2020 Report with proper notarization and certification, b) pay the filing fees (where applicable) c) pay the penalties due (whereapplicable) d) other impositions (where applicable), within ten (10) calendar days fromthe date of the lifting of the Enhanced Community Quarantine period and resumption ofSEC's normal working hours.
4) I am fully aware that non-submission of hard/physical copies of reports as well as certification that they refer to one and the same document submitted online, within ten(10) calendar days from the lifting of the Enhanced Community Quarantine period andresumption of SEC's normal working hours, shall invalidate the reports, applications,compliance, requests and other documents submitted via email. Hence, thecorresponding penalties under existing rules and regulations of the Commission shallapply without prejudice to the imposition of penalties under Section 54 of the SecuritiesRegulation Code and other applicable existing rules and regulations for failure to complywith the orders of the Commission.
5) I am executing this certification on 14 May 2020 to attest to the truthfulness of the foregoing facts and for whatever legal purpose it may serve.

ANDREW A. FALCON, FVP
Principal Financial Officer, Comptroller &
Principal Accounting Officer
SSS ID No. 33-8761568-1

# COVER SHEET

ASO95008814A

S.E.C. Registration Number

CTBC BANK (PHILIPPINES)

CORPORATION

Company's Full Name

Fort Legend Towers Third

Avenue corner 31st Street

Bonifacio Global City

Taguig City

(Business Address: No. Street/ City/ Town / Province)

Atty. Maritess Parilla-Elbinias

Contact Person

88988928 7

Company Telephone Number

| 12 | 31 | SEC FORM 17-Q<br>**Quarterly Report** | 05 | 04 |
|---|---|---|---|---|
| Month | Day | Form Type | Month | Day |
| Fiscal Year | | | Annual Meeting | |

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

---

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

*sye/jps*

**Security Code** BS-021
**SEC Number** AS095-008814A
**File Number** ________

**CTBC BANK (PHILIPPINES) CORPORATION**
Sixteenth to Nineteenth Floors, Fort Legend Towers,
31st St. corner 3rd Avenue, Bonifacio Global City, Taguig City
(Company's Full Name)

**988-9287**
(Telephone Number)

**2020 December 31**
(Fiscal Year Ending)
(Month & Day)

**SEC FORM 17-Q**
**Quarterly Report**
Form Type

Amendment Designation
(If Applicable)

**March 31, 2020**
Period Ended Date

(Secondary License Type and File Number)

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17- Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. For the quarterly period ended March 31, 2020

2. Commission identification number AS095-008814A

3. BIR Tax Identification No. 004-665-166

4. Exact name of registrant as specified in its charter
CTBC Bank (Philippines) Corporation

5. Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: (SEC Use Only)

7. Address of registrant's principal office Postal Code

Sixteenth to Nineteenth Floors, Fort Legend Towers, 1634
31st St. corner 3rd Avenue, Bonifacio Global City, Taguig City

8. Registrant's telephone number, including area code (02) 988-9287

9. Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 4 and 8 of the RSA

| **Title of each Class** | | **Number of shares common stock outstanding and amount of debt outstanding** |
|---|---|---|
| Common | ₱10.00 par value | 348,307,202 shares<br>₱3,483,072,020 |

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

Yes [ ] No [ / ]

12. Indicate by check mark whether the registrant:

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

Yes [/]            No [   ]

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

Yes [/]            No [   ]

## PART I – FINANCIAL INFORMATION

### Item 1. Financial Statements

(Refer to Attached Financial Statements)

### Item 2. Management Discussion and Analysis of Financial Condition and Results of Operation

Total resources of the Bank slightly increased to Php55.7 billion as of March 31, 2020 compared with 2019 year-end level of Php55.67 billion. There are notable movements in various asset lines with offsetting effects as the Bank sold a portion of its investment portfolio during the period, thereby resulting to minimal net movement in total assets. Interbank Loan Receivable – net increased by 145% to Php3.7 billion from Php1.5 billion last December 2019. Due from Other Banks also went up by Php1.8 billion, from Php1.6 billion to Php3.4 billion. On the other hand, Due from Bangko Sentral ng Pilipinas (BSP) and Financial Assets at Fair Value through Other Comprehensive Income dropped by 32% and 36% or Php1.4 billion and Php2.3 billion, respectively.

As of March 2020, Total Liabilities decreased by 3% from Php46.3 billion to Php44.9 billion, mainly on account of Other Liabilities, which decreased by Php1.8 billion attributed to the decrease in Deposit for Stock Subscription amounting to Php1.4 billion. The said subscription that was initially lodged under Other Liabilities was fully converted to capital in March upon obtaining SEC approval for the increase in authorized shares. As a result, Common Stock and Additional Paid-Up Capital increased by Php483 million and Php949 million, respectively, due to the additional capital subscribed and fully paid by the stockholders on March 2020. Meanwhile, Deposit Liabilities increased by Php486.4 million during the period.

Net interest income increased by 19% to Php634.7 million from Php531.2 million in the same period last year. The Foreign Exchange Gains and Miscellaneous Income went down by 60% and 46%, or by Php23.6 million and Php23.4 million, respectively, compared to the same period last year. The Bank recognized an 88% or Php68.3 million increase in net income after tax, mainly due to the Bank's Provision for Impairment and Credit Losses that went down by 46% or Php62.1million. The result of operations translated to an ROE and ROA of 1.45% and 0.26%, respectively.

Non-performing loans (NPL) ratio slightly increased to 2.08% from 2.00%, while NPL coverage slightly decreased to 90.14% from 91.63% as of end of last year. The Bank's capital adequacy ratio (CAR) is well above industry average at 22.13% as of March 31, 2020.

**Key Financial Indicators**

The following ratios are used to assess the performance of the Bank presented on a comparable basis:

| | March 31, 2020 | March 31, 2019 |
|---|---|---|
| Return on Average Equity (ROE) | 1.45% | 1.04%* |
| Return on Average Assets (ROA) | 0.26% | 0.15%* |
| Cost-to-Income Ratio | 62.74% | 67.28% |

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Non-Performing Loan Ratio (NPL) | 2.08% | 2.00% |
| Non-Performing Loan Cover | 90.14% | 91.63% |
| Capital Adequacy Ratio | 22.13% | 19.97% |

The manner by which the Bank calculates the above indicators is as follows:

- Return on Average Equity ---- Net Income divided by average total capital funds (current calendar or fiscal year-end Total Capital Account balance + current calendar or fiscal year-end Total Capital Account balance divide by 2 per BSP Circular 1074) for the period indicated
- Return on Average Assets ---- Net Income divided by average total resources (current calendar or fiscal year-end Total Assets balance + current calendar or fiscal year-end Total Assets balance divide by 2 per BSP Circular 1074) for the period indicated
- Cost to income ratio --- Total Operating expenses divided by the sum of net interest income plus other income
- Non-Performing Loan Ratio --- Total non-performing loans (net of specific allowance for credit losses per BSP Circular 772) divided by gross loan portfolio
- Non-Performing Loan Cover --- Total allowance for probable loan losses divided by total non-performing loans (net of specific allowance for credit losses per BSP Circular 772)
- Capital Adequacy Ratio --- Total capital divided by risk-weighted assets

*restated based on BSP Circular 1074

## SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

*Liquidity ratio*

The ratios for March 2020 and end-of-year 2019 were as follows:

| | March 2020 | December 2019 |
|---|---|---|
| Net liquid assets | **₽ 10,005,331,886** | ₽ 10,735,954,805 |
| Total deposits | **38,171,974,524** | 37,685,524,645 |
| Ratio of net liquid assets to total deposits | **26%** | 28% |

Net liquid assets consist of cash, due from banks, interbank loans, securities held for trade and available for sale less interbank borrowings.

*Debt to equity ratio*

The ratios for March 2020 and end-of-year 2019 were as follows:

| | March 2020 | December 2019 |
|---|---|---|
| Total liabilities | **₽ 44,949,482,847** | ₽ 46,284,343,593 |
| Total equity | **10,749,314,002** | 9,382,437,488 |
| Ratio of debt to equity | **418%** | 493% |

*Assets-to-equity ratio*

The ratios for March 2020 and end-of-year 2019 were as follows:

| | March 2020 | December 2019 |
|---|---|---|
| Total assets | **₽ 55,698,796,849** | ₽ 55,666,781,081 |
| Total equity | **10,749,314,002** | 9,382,437,488 |
| Ratio of total assets to equity | **518%** | 593% |

*Interest coverage ratio*

The ratios for March 2020 and end-of-year 2019 were as follows:

| | March 2020 | December 2019 |
|---|---|---|
| Income before income tax | **₽ 236,108,346** | ₽ 360,211,660 |
| Interest expense | **180,139,278** | 965,511,787 |
| Interest coverage ratio | 131% | 37% |

**Additional Management Discussion and Analysis (for those with variances of more than 5% March 31, 2020 vs. December 31, 2019)**

**Balance Sheet –**

Cash and Other Cash Items decreased by 23% from P725 million to P559 million. Financial Assets at Fair Value through Profit or Loss heightened to P103 million from P81 million or 27% higher compared to December last year. Deferred Income Tax (DIT) went down to P355 million from P374 million due to lesser DIT booked on impaired accounts.

Financial Liabilities at Fair Value through Profit or Loss decreased by 38% to P61 million from P99 million. In addition, Outstanding Acceptances went up by P5 million due to higher Accounts Payable-Remittance and Income Tax payable went up by P57 million. Manager's Checks and Accrued Interest, Taxes and Other Expenses went down by P12.2 million and P60.4 million, respectively. Cumulative Translation Adjustment went down to negative P9.2 million from negative P8.2 million last December 2019. The Bank has recorded Net Unrealized Loss on Financial Assets at FVOCI amounting to P103 million this quarter versus Net Unrealized Gain of P108 million as of December 31, 2019 due to unfavourable market movements prevalent during the month of March 2020.

**Income Statement (variance analysis for March 31, 2020 vs. March 31, 2019)**

The bank posted a growth of P20.6 million or 3% on Interest Income versus same period last year. Interest Income from Deposits with Other Banks also went up by 50%, from P8 million to P12 million. Likewise, Interest Income on Trading and Investment Securities increased from P57.9 million to P80.6 million compared to same period last year as the Bank grew its investment portfolio for the first two months of the year. On the other hand, the Interest Income on Interbank Loans Receivable decreased by 69% from P36.7 million to P11.4 million.

Interest Expense on Deposit Liabilities went down by P81 million on account of lower average volume of high cost deposits as compared last year. Also, Interest Expense from Lease Liabilities went down from P2.3 million to P1.7 million. Total Trading Gains grew to P97.1 million from P87.8 million last year as the bank took advantage of favorable market conditions

Total operating income grew by 9% mainly due to higher Net Interest Income and Trading and Securities Gain - net which grew by P103 million and P9 million, respectively. As of March 31, 2020, the Bank booked a total of P74 million in provision for Impairment and Credit Losses. Increase in various operating expense lines were noted as compared to the same period last year. Taxes, Licenses and Documentary Stamps used increased by P4 million and Amortization of Software License by P2 million. Provision for income tax increased to P90.3 million from P37.3 million as of the same period last year due to decrease in Deferred Tax Asset (DTA) on expense accrual in March 2020; no recognition of DTA on expense accrual in March 2019 and increase in DTA on Loans and Receivables in March 2020 is 7% lower compared to the increase in DTA on loans in March 2019.

**Material Events and Uncertainties**:

As of March 31, 2020, the effects of the COVID 19 pandemic has not resulted to material impact on the Bank's liquidity. The Bank is continuously monitoring its loan portfolio, asset quality and net interest margin to determine if there have been significant impact of the Bank's profitability, especially on the loan moratorium granted under Republic Act No. 11469, otherwise known as the Bayanihan to Heal as One Act. Other than this, there are no known trends, events, uncertainties that had or reasonably expected to have a material favorable or unfavorable impact on income from continuing operations. There are also no known material commitments for capital expenditures as of reporting date. There are no significant elements of income or loss that arose from the Bank's continuing operations. Likewise, there are no seasonal aspects that had material effect on the financial condition or results of operations.

There are no known events that will trigger direct or contingent financial obligation that is material to the Bank, including any default or acceleration of an obligation. Also, there are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Bank with unconsolidated entities or other persons created as of the reporting date.

## PART II – OTHER INFORMATION

(none)

## SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant had duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

| | |
|---|---|
| Issuer | **CTBC BANK (PHILIPPINES) CORPORATION** |
| Signature<br>(Title) | **MR. ANDREW A. FALCON**<br>First Vice President<br>Finance Group Head |
| Date | **May 14, 2020** |
| Signature<br>(Title) | **ATTY. MARITESS P. ELBINIAS**<br>First Vice President<br>Corporate Secretary and Legal Department Head |
| Date | **May 14, 2020** |

**Notes to Financial Statements Required Under SRC Rule 68.1**

1. Diluted Earnings per share as of March 31, 2020 is P0.49.

2. The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines. The Bank's financial statements as of March 31, 2020 are prepared in compliance with new Philippine Financial Reporting Standards (PFRS):

1) The same accounting policies and methods of computation are followed in these interim financial statements as compared with the most recent annual financial statements.

2) Seasonal or cyclical events and/or conditions do not significantly affect the interim operations of the bank.

3) Trading gains as of March 31, 2020 amounted to P97.1 million, compared to P87.8 million of the same period last year.

4) There are no changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years.

5) There are no issuances, repurchases, and repayments of debt and equity securities.

6) There are no cash dividends paid separately for ordinary shares and other shares.

7) Segment information for the period ended March 31, 2020 and 2019 are as follows:

| | TREASURY GROUP | | CORPORATE BANKING | | RETAIL BANKING | | OTHERS | | TOTAL | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 |
| **Results of operations (in thousands)** | | | | | | | | | | |
| Net interest income | **5,874** | 16,430 | **220,087** | 153,097 | **408,737** | 361,743 | **(47)** | (45) | **634,652** | 531,226 |
| Non-interest income | **109,121** | 122,930 | **10,843** | 19,780 | **76,823** | 129,675 | **1,638** | 1,922 | **198,425** | 274,307 |
| Total revenue | **114,995** | 139,360 | **230,930** | 172,877 | **485,561** | 491,419 | **1,592** | 1,878 | **833,077** | 805,533 |
| Non-interest expense | **35,153** | 36,702 | **101,053** | 133,737 | **261,617** | 330,539 | **199,146** | 189,731 | **596,969** | 690,709 |
| Income (loss) before income tax | **79,842** | 102,658 | **129,877** | 39,140 | **223,943** | 160,880 | **(197,554)** | (187,853) | **236,108** | 114,824 |
| Income tax provision (benefit) | **60,527** | 43,790 | **6,783** | 1,764 | **22,945** | (8,302) | **16** | 23 | **90,270** | 37,275 |
| **Net income (loss)** | **19,316** | 58,868 | **123,095** | 37,376 | **200,998** | 169,181 | **(197,571)** | (187,876) | **145,838** | 77,549 |
| **YTD Average (in Php millions)** | | | | | | | | | | |
| Total assets | **10,070** | 7,188 | **32,139** | 32,438 | **12,728** | 12,234 | **534** | 387 | **55,470** | 52,247 |
| Total liabilities | **3,967** | 5,366 | **19,965** | 22,138 | **20,170** | 16,798 | **2,089** | 558 | **46,192** | 44,860 |

8) At the regular meeting of the BOD held on June 23, 2015, the BOD approved the amendments on the restriction of the retained earnings for the following purposes:
   - To comply with the minimum capital requirements set by the Bangko Sentral ng Pilipinas (BSP) pursuant to Circular No. 854;
   - To comply with the requirements of the Internal Capital Adequacy Assessment Process (ICAAP) pursuant to BSP Circular No. 639;

- To cover the resulting treasury shares acquired in relation to the Bank's delisting and tender offer exercise; and
- To provide for buffer to comply with BASEL III requirements.

9) The Bank's common shares were listed in the Philippines Stock Exchange (PSE) in June 1999. On October 7, 2011, the Board of Directors (BOD) authorized the Bank to file a petition for voluntary delisting with the PSE and to purchase the outstanding shares through a tender offer in accordance with the rules of the PSE and Securities and Exchange Commission (SEC), subject to prior regulatory approval. On December 15, 2011, the Bank obtained approval for the delisting and share buyback through a special stockholders' meeting as required by the Bank's By-Laws. On December 19, 2011, the Bank received the approval of the Monetary Board for the delisting and share buyback. As of January 27, 2012, common shares held by minority stockholders amounting to Php12.7 million were tendered to and reacquired by the Bank. On February 8, 2012, the PSE approved the Bank's petition for voluntary delisting. Official delisting of the Bank's shares from the trading Board became effective on February 24, 2012, after the payment of pertinent fees.

   On July 21, 2014, Republic Act No. 10641 entitled "An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose Republic Act 7721" was signed into a law by the President of the Philippines. Under the said law, foreign banks may own up to 100% of domestic subsidiary banks.

On October 29, 2014, the BSP issued Circular No. 854, which became effective on November 19, 2014, prescribing the revised minimum capitalization of banks operating in the Philippines. Existing banks not meeting the requirement shall be given a period of five years from effectivity of the circular within which to meet the minimum capital. In addition, these banks must submit an acceptable capital build-up program within one year from date of effectivity of the circular. The Bank, falling under the category of commercial banks with total number of branches ranging from ten to one hundred, must have a minimum capital of P10.0 billion by November 2019.

On April 28, 2016, the Bank submitted its capital build up program (CBUP) to the BSP detailing the Bank's strategic plans in order to meet the required capital level. On June 16, 2016, the Monetary Board approved the Bank's CBUP. As at December 31, 2018, the Bank's unimpaired capital amount to P6.9 billion. Thus, the Bank needed additional P3.0 billion capital in order to comply with BSP Circular 854 by November 2019.

In accordance with the Bank's CBUP, the Bank's stockholders, during their annual meeting held on July 25, 2019, approved the increase of authorized shares from 300 million to 400 million shares in order to have sufficient unissued shares to be purchased by Parent Bank.

On September 27, 2019, in compliance with BSP Circular No. 854, Parent Bank purchased the remaining 52,031,269 unissued shares of the Bank and the 484,920 treasury shares at a price of P29.755 per share. The issuance resulted to the following movements:

| in thousands | Increase (Decrease) |
|---|---|
| Additional paid-in capital | P1,019,770,021 |
| Capital stock | 520,312,690 |
| Treasury stock | (15,951,674) |
| Retained earnings | (1,571,372) |

The decrease in Retained earnings pertains to (a) the excess of the carrying amount of the treasury stock over the consideration; and (b) stock issuance costs amounting to P0.05 million.

In addition, Parent Bank subscribed to 48,307,202 new shares at the same price of P29.755 per share and paid the entire subscribed amount in cash.

The Bank filed its application for the amendment of its articles of incorporation with the BSP for the increase in authorized capital on October 11, 2019.

The Bank's application for the increase in authorized capital stock was approved by the Monetary Board of the BSP on February 10, 2020 and was later approved by SEC on March 6, 2020.

Based on Section 123 of the MORB, deposits for stock subscription shall be recognized as part of equity for prudential reporting purposes when all of the following conditions are met:

a. The deposit for stock subscription meets the definition of an equity instrument under PAS 32 Financial Instruments: Presentation such that the deposit for stock subscription shall not be interest-bearing nor withdrawable by the subscriber;

b. The bank's existing authorized capital is already fully subscribed;

c. The bank's stockholders and board of directors have approved the proposed increase in authorized capital;

d. The bank has filed an application for the amendment of its articles of incorporation for the increase in authorized capital with the appropriate supervising department of the BSP, duly supported by complete documents as prescribed by the BSP: Provided, That the approval of the SEC on the same application shall be obtained within the period prescribed under the SEC Financial Reporting Bulletin (FRB) on Deposits for future Subscription.

In case the applications for the amendment of articles of incorporation for the increase in authorized capital have been returned due to insufficiency of supporting documents, the deposit for stock subscription shall not qualify for recognition as an equity instrument; and

e. The bank must have obtained approval of the Monetary Board on transactions involving significant ownership of voting shares of stock by any person, natural or juridical, or by one group of persons as provided in Sec. 122 (Transactions involving voting shares of stocks, Item "b"), if applicable.

As at December 31, 2019, the said subscription amounting to P1.4 billion is lodged under the “Deposits for future stock subscription” account in “Other liabilities” in the statements of financial position (see Note 16). The said deposit was reclassified by the Bank as capital on February 10, 2020 for prudential reporting purposes and on March 6, 2020 for financial reporting purposes.

10) There are no material events subsequent to the end of the interim period that has not been reflected in the financial statements.

11) There are no changes in the composition of the issuer during the interim period including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructuring and discontinuing operations.

12) Summary of the Bank’s commitments and contingent liabilities:

| | **As of March 31, 2020** | **As of December 31, 2019** |
|---|---|---|
| Trust department | | |
| Investment management accounts | Php1,130,791,358 | Php1,071,082,267 |
| Trust and other fiduciary accounts | 559,326,120 | 572,920,218 |
| | 1,690,117,478 | 1,644,002,485 |
| Forward exchange bought | 8,110,016,900 | 2,866,220,995 |
| Forward exchange sold | 8,076,442,060 | 2,879,075,060 |
| Spot exchange bought | 387,525,024 | 2,652,613,490 |
| Spot exchange sold | 389,850,050 | 2,751,344,584 |
| Inward Bills for collection | 244,799,297 | 181,803,920 |
| Unused commercial letters of credit | 2,600,729,043 | 2,543,528,494 |
| Others | 143,572,151 | 850,599,411 |
| | Php21,643,052,002 | Php16,369,188,439 |

13) There are no other material contingencies and any other events or transactions that are material to an understanding of the current interim period.

14) PFRS 9, Financial Instruments (2014). PFRS 9 (2014) replaces PAS 39, Financial Instruments: Recognition and Measurement and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018 with early adoption permitted.

The Bank adopted PFRS 9 starting January 1, 2018 consistent with the Parent Bank’s initiative to adopt IFRS 9 on its scheduled mandatory effective date.

PFRS 9 affected the Bank's financial assets at FVPL that are held for trading and investment securities classified as AFS investments and HTM investments. These financial assets have been reclassified according to the Bank's business models in managing its financial statements and contractual cash flow characteristics. The standard also gave rise to additional allowance for credit losses due to the adoption of the Expected Credit Loss (ECL) model.

15) PFRS 16 Leases supersedes PAS 17 Leases and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 Revenue from Contracts with Customers at or before the date of initial application of PFRS 16. The Bank recognized new assets and liabilities for its operating leases due to the adoption of the standard. The nature of the expense related to these leases has changed because PFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use (ROU) assets and interest expense on lease liabilities.

Under PAS 17, the Bank recognizes operating lease expenses on a straight-line basis over the term of the lease and recognizes assets and liabilities only to the extent that there is a timing difference between actual lease payments and the expense recognized.

The Bank applied the modified retrospective approach as its transition option in applying PFRS 16. The Bank measured, on a lease-by-lease basis, the ROU asset 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 statements of financial position. The Bank initially booked ROU asset and lease liability amounting to P193.1 million.

16) Financial risk disclosures and financial instruments

The Bank is in the business of creating value out of taking risks.

Major financial risks arise primarily from the use of financial instruments which include:

- Credit risk
  Credit risk is the risk that one party to a financial transaction will fail to honor an obligation and cause the Bank to incur a financial loss. Credit risk arises primarily from the Bank's corporate and retail loans (customer credit risk) and investment securities (counterparty credit risk).

- Market risk (e.g., foreign exchange risk, interest rate risk, etc.)
  Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchanges rates, equity prices and other market changes. The Bank's market risk originates from its holdings in its foreign exchange instruments, debt securities, equities and derivatives.

- Liquidity risk
  Liquidity risk is the risk of loss to earnings or capital due to the inability to meet funding requirements within a reasonable period of time at a reasonable price.

The following principles summarize the Bank's overall approach to risk management:

- The BOD provides the overall direction and supervision of the Bank's risk management;
- The key risks faced by the Bank - both financial and non-financial - are managed by appropriate functional levels within the Bank;
- The risk management functions are independent of the businesses (also referred to as Front office) that take and assume risks; and
- Risk management involves managing the balance between risk and reward, to enable the Bank to fulfill its commitment to protect shareholder interest, as well as deliver value to the banking public, and comply with relevant regulations.

The Bank, owing to its commercial banking license, engages in retail and corporate lending as well as deposit taking, and securities investment. As such, the Bank's activities result in recognition of financial assets, such as corporate loans, personal loans, mortgage loans, government securities, etc., and/or financial liabilities, such as demand and time deposits, and bills payable. The Bank also enters into plain-vanilla financial derivatives such as forwards and swaps as part of its risk management strategies and client-driven activities.

The Bank has various financial exposures in foreign currencies from FX spots and derivatives transactions, as well as FX-denominated loans and Philippine government securities. As of date, the Bank does not have investments in securities issued by foreign entities.

The bank classifies its financial assets in accordance with its business model: financial assets at FVPL, Investment Securities at Amortized Cost (AC), financial assets at FVOCI, and loans and receivables. Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities carried at amortized cost.

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction is used since it provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not quoted in an active market, the fair value is determined by using appropriate valuation techniques incorporating as much as possible market desirable inputs, such as economic indicators and volatility. Valuation techniques include discounted cash flow methodologies, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

The fair value of derivatives that are not quoted in active markets is determined using appropriate valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by management. 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, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

There were no significant changes to the Bank's policies relating to financial instruments and risk management during the quarter-ended.

17) New or Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted

The Bank has adopted the following amendments to standards starting January 1, 2016 and, accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards did not have any significant impact on the Bank's financial statements.

- *Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to PAS 16 and PAS 38)*. The amendments to PAS 38, *Intangible Assets* introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated,' or when the intangible asset is expressed as a measure of revenue.

  The amendments to PAS 16, *Property, Plant and Equipment* explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g., changes in sales volumes and prices.

- *Annual Improvements to PFRSs 2012 - 2014 Cycle*. This cycle of improvements contains amendments to four standards, none of which to have significant impact on the Bank's financial statements.

  - *Changes in method for disposal (Amendment to PFRS 5).* PFRS 5 is amended to clarify that:

    - if an entity changes the method of disposal of an asset (or disposal group) - i.e., reclassifies an asset (or disposal group) from held-for-distribution to owners to held-for-sale (or vice versa) without any time lag - then the change in classification is considered a continuation of the original plan of disposal and the entity continues to apply held-for-distribution or held-for-sale accounting. At the time of the change in method, the entity measures the carrying amount of the asset (or disposal group) and recognizes any write-down (impairment loss) or subsequent increase in the fair value less costs to sell/distribute of the asset (or disposal group); and

    - if an entity determines that an asset (or disposal group) no longer meets the criteria to be classified as held-for-distribution, then it ceases held-for-distribution accounting in the same way as it would cease held-for-sale accounting.

    Any change in method of disposal or distribution does not, in itself, extend the period in which a sale has to be completed.

  - *'Continuing involvement' for servicing contracts (Amendment to PFRS 7).* PFRS 7 is amended to clarify when servicing arrangements are in the scope of its disclosure requirements on continuing involvement in transferred financial assets in cases when they are derecognized in their entirety. A servicer is deemed to have continuing involvement if it has an interest in the future performance of the transferred asset - e.g. if the servicing fee is dependent on the amount or timing of the cash flows collected from the transferred financial asset; however, the collection and remittance of cash flows from the transferred financial asset to the transferee is not, in itself, sufficient to be considered 'continuing involvement.'

  - *Offsetting disclosures in condensed interim financial statements (Amendment to PFRS 7).* PFRS 7 is also amended to clarify that the additional disclosures required by *Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to PFRS 7)* are not specifically required for inclusion in condensed interim financial statements for all interim periods; however, they are required if the general requirements of PAS 34, *Interim Financial Reporting* require their inclusion.

- *Disclosure Initiative (Amendments to PAS 1)* addresses some concerns expressed about existing presentation and disclosure requirements and to ensure that entities are able to use judgment when applying PAS 1.

The amendments clarify that:

- Information should not be obscured by aggregating or by providing immaterial information.

- Materiality considerations apply to all parts of the financial statements, even when a standard requires a specific disclosure.

- The list of line items to be presented in the statement of financial position and statements of income and other comprehensive income can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

  An entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

19) Offsetting Financial Assets and Financial Liabilities

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

As of March 31, 2020
*in millions of Php*

| | | | | Related amounts not offset in the statement of financial position | | |
|---|---|---|---|---|---|---|
| Types of financial assets | Gross amounts of recognized financial assets | Gross amounts of recognized financial liabilities offset in the statement of financial position | Net amounts of financial assets presented in the statement of financial position | Financial instruments | Cash Collateral received | Net amount |
| Derivatives-trading assets | 51 | 0 | 51 | 0 | 0 | 0 |
| Derivatives held for risk management | 0 | 0 | 0 | 0 | 0 | 0 |
| Reverse sale and repurchase, securities borrowing and similar agreements | 0 | 0 | 0 | 0 | 0 | 0 |
| Loans and advances to customers | 0 | 0 | 0 | 3,577 | 3,577 | 0 |
| Total | 51 | 0 | 51 | 3,577 | 3,577 | 0 |

## Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

As of March 31, 2020
*in millions of Php*

| Types of financial liabilities | Gross amounts of recognized financial liabilities | Gross amounts of recognized financial liabilities offset in the statement of financial position | Net amounts of financial assets presented in the statement of financial position | Related amounts not offset in the statement of financial position: Financial instruments | Related amounts not offset in the statement of financial position: Cash Collateral received | Net amount |
|---|---|---|---|---|---|---|
| Derivatives-trading liabilities | 61 | 0 | 61 | 0 | 0 | 0 |
| Derivatives held for risk management | 0 | 0 | 0 | 0 | 0 | 0 |
| Sale and repurchase, securities lending and similar agreements | 0 | 0 | 0 | 0 | 0 | 0 |
| Customer deposits | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 61 | 0 | 61 | 0 | 0 | 0 |

## Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

As of December 31, 2019
*in millions of Php*

| Types of financial assets | Gross amounts of recognized financial assets | Gross amounts of recognized financial liabilities offset in the statement of financial position | Net amounts of financial assets presented in the statement of financial position | Related amounts not offset in the statement of financial position: Financial instruments | Related amounts not offset in the statement of financial position: Cash Collateral received | Net amount |
|---|---|---|---|---|---|---|
| Derivatives-trading assets | 77 | 0 | 77 | 0 | 0 | 0 |
| Derivatives held for risk management | 0 | 0 | 0 | 0 | 0 | 0 |
| Reverse sale and repurchase, securities borrowing and similar agreements | 0 | 0 | 0 | 0 | 0 | 0 |
| Loans and advances to customers | 0 | 0 | 0 | 3,669 | 3,669 | 0 |
| Total | 77 | 0 | 77 | 3,669 | 3,669 | 0 |

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

As of December 31, 2019
*in millions of Php*

| Types of financial liabilities | Gross amounts of recognized financial liabilities | Gross amounts of recognized financial liabilities offset in the statement of financial position | Net amounts of financial assets presented in the statement of financial position | Related amounts not offset in the statement of financial position | | |
|---|---|---|---|---|---|---|
| | | | | Financial instruments | Cash Collateral received | Net amount |
| Derivatives-trading liabilities | 99 | 0 | 99 | 0 | 0 | 0 |
| Derivatives held for risk management | 0 | 0 | 0 | 0 | 0 | 0 |
| Sale and repurchase, securities lending and similar agreements | 0 | 0 | 0 | 0 | 0 | 0 |
| Customer deposits | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 99 | 0 | 99 | 0 | 0 | 0 |

The tables below reconcile the 'Net amounts of financial assets and financial liabilities presented in the statement of financial position', as set out above, to the line items presented in the statement of financial position.

As of March 31, 2020
*in millions of Php*

| Types of financial assets | Net amounts | Line item in the statement of financial position | Carrying amount in statement of financial position | Financial assets not in scope of offsetting disclosures | Note |
|---|---|---|---|---|---|
| Derivative-trading assets | 51 | Financial Assets at Fair Value through Profit or Loss | 0 | 0 | - |
| Derivatives held for risk management | 0 | - | 0 | 0 | - |
| Reverse sale and repurchase, securities borrowing and similar agreements | 0 | - | 0 | 0 | - |
| Loans and advances to customers | 0 | Loans and advances to customers | 0 | 0 | - |

As of March 31, 2020
*in millions of Php*

| Types of financial liabilities | Net amounts | Line item in the statement of financial position | Carrying amount in statement of financial position | Financial liabilities not in scope of offsetting disclosures | Note |
|---|---|---|---|---|---|
| Derivative-trading liabilities | 61 | Derivative liabilities | 0 | 0 | - |
| Sale and repurchase securities lending and similar agreements | 0 | - | 0 | 0 | - |
| Derivatives held for risk management | 0 | - | 0 | 0 | - |
| Customer depositis | 0 | - | 0 | 0 | - |

As of December 31, 2019
*in millions of Php*

| Types of financial assets | Net amounts | Line item in the statement of financial position | Carrying amount in statement of financial position | Financial assets not in scope of offsetting disclosures | Note |
|---|---|---|---|---|---|
| Derivative-trading assets | 77 | Financial Assets at Fair Value through Profit or Loss | 0 | 0 | - |
| Derivatives held for risk management | 0 | - | 0 | 0 | - |
| Reverse sale and repurchase, securities borrowing and similar agreements | 0 | - | 0 | 0 | - |
| Loans and advances to customers | 0 | Loans and Receivables - net | 0 | 0 | - |

As of December 31, 2019
*in millions of Php*

| Types of financial liabilities | Net amounts | Line item in the statement of financial position | Carrying amount in statement of financial position | Financial liabilities not in scope of offsetting disclosures | Note |
|---|---|---|---|---|---|
| Derivative-trading liabilities | 99 | Derivative liabilities | 0 | 0 | - |
| Sale and repurchase securities lending and similar agreements | 0 | - | 0 | 0 | - |
| Derivatives held for risk management | 0 | - | 0 | 0 | - |
| Customer deposits | 0 | - | 0 | 0 | - |

## CTBC BANK (PHILIPPINES) CORPORATION
## STATEMENTS OF CONDITION

**(With Comparative Figures for December 31, 2019)**
**(in Php)**

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| | (Unaudited) | (Audited) |
| **RESOURCES** | | |
| Cash and Other Cash Items | 559,453,426 | 725,063,226 |
| Due from Bangko Sentral ng Pilipinas (BSP) | 2,909,677,038 | 4,277,491,280 |
| Due from Other Banks | 3,437,159,710 | 1,591,079,273 |
| Interbank Loans Receivable - net | 3,722,995,711 | 1,518,431,320 |
| Financial Assets at Fair Value through Profit or Loss (FVTPL) | 103,120,510 | 81,140,674 |
| Financial Assets at Fair Value through Other Comprehensive Income (FVOCI) | 4,116,010,092 | 6,433,660,166 |
| Investment Securities at Amortized Cost (AC) | 3,406,467,230 | 2,852,383,715 |
| Loans and Receivables - net | 36,280,904,142 | 36,987,482,471 |
| Property and Equipment - net | 218,939,484 | 215,065,549 |
| Investment Properties - net | 173,719,501 | 178,880,010 |
| Deferred Income Tax - net | 354,905,585 | 373,931,669 |
| Other Assets | 415,444,420 | 432,171,728 |
| | 55,698,796,849 | 55,666,781,081 |
| **LIABILITIES AND CAPITAL FUNDS** | | |
| Liabilities | | |
| Deposit Liabilities | | |
| Demand | 8,258,296,752 | 8,022,741,163 |
| Savings | 8,576,694,448 | 7,306,283,512 |
| Time | 21,336,983,324 | 22,356,499,970 |
| | 38,171,974,524 | 37,685,524,645 |
| Financial Liabilities at FVTPL | 61,418,904 | 99,175,116 |
| Bills Payable | 4,781,665,697 | 4,774,481,380 |
| Outstanding Acceptances | 59,812,407 | 54,618,030 |
| Manager's Checks | 61,720,637 | 73,938,307 |
| Accrued Interest, Taxes and Other Expenses | 480,139,034 | 540,575,013 |
| Income Tax Payable | 76,394,418 | 19,805,124 |
| Other Liabilities | 1,256,357,226 | 3,036,225,978 |
| | 44,949,482,847 | 46,284,343,593 |
| Capital Funds | - | - |
| Common Stock | 3,483,072,020 | 3,000,000,000 |
| Treasury Stock | - | - |
| Additional Paid-in Capital | 2,022,761,750 | 1,073,283,696 |
| Retained Earnings | 5,416,378,079 | 5,270,539,979 |
| Statutory Reserve | 4,981,159 | 4,981,159 |
| Cumulative Translation Adjustment | (9,163,430) | (8,165,508) |
| Net Unrealized Gain (Loss) on Financial Assets at FVOCI | (102,279,866) | 108,233,872 |
| Net Unrealized Gain (Loss) on Retirement Liability | (66,435,710) | (66,435,710) |
| | 10,749,314,002 | 9,382,437,488 |
| | 55,698,796,849 | 55,666,781,081 |

**CTBC BANK (PHILIPPINES) CORPORATION**
**STATEMENTS OF INCOME**
**(With Comparative Figures for three months ended March 31, 2019)**
**(in Php)**

| | January to March | |
|---|---|---|
| | **2020** | 2019 |
| **INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD** | | |
| **Loans and receivables** | **710,692,641** | 691,467,702 |
| **Investment securities** | **70,198,353** | 48,238,371 |
| **Interbank loans receivable** | **11,389,599** | 36,710,800 |
| **Deposits with other banks and others** | **12,141,068** | 8,113,432 |
| **INTEREST INCOME ON FINANCIAL ASSETS AT FVTPL** | **10,369,989** | 9,628,440 |
| | **814,791,650** | **794,158,745** |
| **INTEREST EXPENSE** | | |
| **Deposit liabilities** | **134,590,258** | 215,302,224 |
| **Bills payable and other borrowings** | **43,894,517** | 45,354,658 |
| **Lease liabilities** | **1,654,503** | 2,275,893 |
| | **180,139,278** | 262,932,775 |
| **NET INTEREST INCOME** | **634,652,372** | 531,225,970 |
| **Trading and securities gain - net** | **97,078,253** | 87,758,289 |
| **Service charges, handling fees and commission income** | **57,589,635** | 58,148,787 |
| **Foreign exchange gain - net** | **15,918,163** | 39,481,359 |
| **Miscellaneous - net** | **27,838,978** | 51,191,310 |
| **TOTAL OPERATING INCOME** | **833,077,401** | 767,805,715 |
| **Compensation and fringe benefits** | **251,414,312** | 250,403,136 |
| **Provision for (recovery from) impairment and credit losses** | **74,290,048** | 136,390,860 |
| **Taxes, licenses and documentary stamps used** | **70,285,591** | 66,691,029 |
| **Security, messengerial and janitorial expenses** | **40,293,921** | 38,987,216 |
| **Occupancy and other equipment-related costs** | **37,019,666** | 35,564,353 |
| **Depreciation and amortization** | **36,793,755** | 37,687,321 |
| **Amortization of software license** | **12,200,618** | 10,033,050 |
| **Miscellaneous** | **74,671,144** | 77,224,863 |
| **TOTAL OPERATING EXPENSES** | **596,969,055** | 652,981,828 |
| **INCOME BEFORE INCOME TAX** | **236,108,346** | 114,823,884 |
| **PROVISION FOR INCOME TAX** | **90,270,246** | 37,275,384 |
| **NET INCOME** | **145,838,100** | 77,548,500 |
| Basic/Diluted Earnings Per Share * | **0.49** | 0.31 |

**CTBC BANK (PHILIPPINES) CORPORATION**
**STATEMENTS OF COMPREHENSIVE INCOME**
**(With Comparative Figures for three months ended March 31, 2019)**
**(in Php)**

| | January to March | |
|---|---|---|
| | **2020** | **2019** |
| **NET INCOME FOR THE PERIOD** | **145,838,100** | **77,548,500** |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | |
| ***Items that may not be reclassified to profit or loss*** | | |
| **Net unrealized gain (loss) on equity financial assets at FVOCI** | - | - |
| **Net remeasurement gain (loss) on retirement liability - net of tax** | - | - |
| | - | - |
| ***Items that may be reclassified to profit or loss*** | | |
| **Net unrealized gain (loss) on debt financial assets at FVOCI** | **(210,513,738)** | **113,649,104** |
| **Cumulative Translation Adjustment** | **(997,922)** | **(657,999)** |
| | **(211,511,660)** | **112,991,105** |
| | **(211,511,660)** | **112,991,105** |
| **TOTAL COMPREHENSIVE INCOME (LOSS), NET OF TAX** | **(65,673,560)** | **190,539,605** |

**CTBC BANK (PHILIPPINES) CORPORATION**
**STATEMENTS OF CHANGES IN EQUITY**
**(in Php)**

| | Common Stock | Treasury Stock | Additional Paid-in Capital | Retained Earnings | Statutory Reserve | Cumulative Translation Adjustments | Net Unrealized Gain (Loss) on Financial Assets at FVOCI | Net Remeasurement Gain (Loss) on Retirement Asset/Liability | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at January 01, 2020** | **3,000,000,000** | **-** | **1,073,283,696** | **5,270,539,979** | **4,981,159** | **(8,165,508)** | **108,233,872** | **(66,435,710)** | **9,382,437,487** |
| Net income for the period | - | | - | 145,838,100 | | - | - | | 145,838,100 |
| **Other Comprehensive Income for the period** | | | | | | | | | |
| Items that may not be reclassified to profit or loss: | | | | | | | | | |
| Net unrealized (loss) gain on equity financial assets at FVOCI | | | | | | | - | | - |
| Net remeasurement (loss) gain on retirement liability | | | | | | | | - | - |
| Items that may be reclassified to profit or loss: | | | | | | | | | |
| Net unrealized loss on debt financial assets at FVOCI | - | | - | - | | | (210,513,738) | | (210,513,738) |
| Cumulative Translation Adjustments | - | | - | - | | (997,922) | | | (997,922) |
| Total other comprehensive income | - | - | - | - | - | (997,922) | (210,513,738) | - | (211,511,660) |
| Total comprehensive income for the period | - | - | - | 145,838,100 | - | (997,922) | (210,513,738) | - | (65,673,560) |
| Transactions with Parent Bank | | | | | | | | | |
| Issuance of Capital Stock | 483,072,020 | | 949,478,054 | | | | | | 1,432,550,074 |
| Re-issuance of Treasury Stock | | - | | | | | | | - |
| Total transactions with Parent Bank | 483,072,020 | - | 949,478,054 | - | - | - | - | - | 1,432,550,074 |
| **Balance at March 31,2020** | **3,483,072,020** | **-** | **2,022,761,750** | **5,416,378,079** | **4,981,159** | **(9,163,430)** | **(102,279,866)** | **(66,435,710)** | **10,749,314,001** |
| | | | | | | | | | |
| **Balance at December 31, 2018** | **2,479,687,310** | **(15,951,674)** | **53,513,675** | **4,941,428,129** | **4,981,159** | **8,793,915** | **(94,093,041)** | **(14,374,412)** | **7,363,985,061** |
| Net income for the period | - | | - | 77,548,500 | | | | | 77,548,500 |
| **Other Comprehensive Income for the period** | | | | | | | | | |
| Items that may not be reclassified to profit or loss: | | | | | | | | | |
| Net unrealized (loss) gain on equity financial assets at FVOCI | | | | | | | - | | - |
| Net remeasurement (loss) gain on retirement liability | | | | | | | | - | - |
| Items that may be reclassified to profit or loss: | | | | | | | | | |
| Net unrealized gain on debt financial assets at FVOCI | | | | | | | 113,649,104 | | 113,649,104 |
| Cumulative Translation Adjustments | | | | | | (657,999) | | | (657,999) |
| Total other comprehensive income | - | - | - | - | - | (657,999) | 113,649,104 | - | 112,991,105 |
| Total Comprehensive Income for the period | - | - | - | 77,548,500 | - | (657,999) | 113,649,104 | - | 190,539,605 |
| Transactions with Parent Bank | | | | | | | | | |
| Issuance of Capital Stock | - | | - | | | | | | - |
| Re-issuance of Treasury Stock | | - | | | | | | | - |
| Cost of reissuance of Treasury Stock charged to Retained Earnings | | | | - | | | | | - |
| Total transactions with Parent Bank | - | - | - | - | - | - | - | - | - |
| **Balance at March 31,2019** | **2,479,687,310** | **(15,951,674)** | **53,513,675** | **5,018,976,629** | **4,981,159** | **8,135,916** | **19,556,063** | **(14,374,412)** | **7,554,524,666** |
| | | | | | | | | | |
| **Balance at January 1, 2019** | **2,479,687,310** | **(15,951,674)** | **53,513,675** | **4,941,428,129** | **4,981,159** | **8,793,915** | **(94,093,041)** | **(14,374,412)** | **7,363,985,061** |
| Net income for the year | | | | 330,683,223 | | | | | 330,683,223 |
| **Other Comprehensive Income for the Year** | | | | | | | | | |
| Items that may not be reclassified to profit or loss: | | | | | | | | | |
| Net unrealized loss on equity financial assets at FVOCI | | | | | | | (200,000) | | (200,000) |
| Net remeasurement loss on retirement liability | | | | | | | | (52,061,298) | (52,061,298) |
| Items that may be reclassified to profit or loss: | | | | | | | | | |
| Net unrealized gain on debt financial assets at FVOCI | | | | | | | 202,526,913 | | 202,526,913 |
| Cumulative Translation Adjustments | | | | | | (16,959,423) | | | (16,959,423) |
| Total other comprehensive income | - | - | - | - | - | (16,959,423) | 202,326,913 | (52,061,298) | 133,306,191 |
| Total comprehensive income for the year | - | - | - | 330,683,223 | - | (16,959,423) | 202,326,913 | (52,061,298) | 463,989,414 |
| Transactions with Parent Bank | | | | | | | | | |
| Issuance of Capital Stock | 520,312,690.00 | | 1,019,770,021 | | | | | | 1,540,082,711 |
| Re-issuance of Treasury Stock | | 15,951,674 | | | | | | | 15,951,674 |
| Cost of reissuance of Treasury Stock charged to Retained Earnings | | | | (1,571,372) | | | | | (1,571,372) |
| Total transactions with Parent Bank | 520,312,690.00 | 15,951,674 | 1,019,770,021 | (1,571,372) | - | - | - | - | 1,554,463,012 |
| **Balance at December 31, 2019** | **3,000,000,000** | **-** | **1,073,283,696** | **5,270,539,979** | **4,981,159** | **(8,165,508)** | **108,233,872** | **(66,435,710)** | **9,382,437,487** |

**CTBC BANK (PHILIPPINES) CORPORATION**
## STATEMENT OF CASH FLOWS
**(in Php)**

| | For the three months ended March 31 | |
|---|---|---|
| | **2020** | **2019** |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before income tax | **236,108,346** | 114,823,884 |
| Adjustments for: | | |
| Provision for (recovery from) impairment and credit losses | **74,290,048** | 136,390,860 |
| Depreciation and amortization | **36,793,755** | 37,687,321 |
| Amortization of computer software | **12,200,618** | 10,033,050 |
| Amortization of deferred charges | **-** | - |
| (Gain) / loss on sale of property and equipment | **(1,190,319)** | 11 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in: | | |
| Financial assets at fair value through profit and loss | **(21,979,836)** | (918,660,935) |
| Loans and Receivables | **632,288,281** | (1,785,874,617) |
| Other assets | **4,526,690** | 23,232,711 |
| Increase (decrease) in: | | |
| Deposit liabilites | **486,449,879** | 588,571,826 |
| Manager's checks | **(12,217,670)** | 3,450,341 |
| Accrued interest and other expenses | **(60,435,979)** | (37,235,120) |
| Other liabilities | **(380,244,168)** | 926,972,849 |
| Net cash generated from (used in) operations | **1,006,589,645** | (900,607,819) |
| Income taxes paid | **(14,654,867)** | (10,769,257) |
| Net cash provided by (used in) operating activities | **991,934,777** | (911,377,076) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Decrease (increase) in: | | |
| Financial assets at fair value through Other Comprehensive Income (OCI) | **2,106,138,414** | 295,692,314 |
| Investment in bonds and other debt instruments | **(554,083,515)** | (30,884,716) |
| Investment in an associate | | |
| Additions to property and equipment | **(237,400,452)** | (201,659,503) |
| Proceeds from disposals of property and equipment | **199,277,918** | (425,278) |
| Additions to investment properties | **3,805,672** | (45,676) |
| Net cash provided by (used in) investing activities | **1,517,738,037** | 62,677,141 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Increase (decrease) in: | | |
| Bills payable | **7,184,317** | (3,999,610,169) |
| Outstanding Acceptances | **5,194,377** | (122,711,354) |
| Proceeds from issuance of Common Stock | **1,432,550,074** | - |
| Deposit for Stock Subscription | **(1,437,380,796)** | - |
| Net cash provided by (used in) financing activities | **7,547,972** | (4,122,321,523) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **2,517,220,787** | (4,971,021,458) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | |
| Cash and other cash items | **725,063,226** | 504,999,873 |
| Due from Bangko Sentral ng Pilipinas | **4,277,491,280** | 5,001,859,955 |
| Due from other banks | **1,591,079,273** | 1,266,759,792 |
| Interbank loans receivable | **1,518,431,320** | 6,142,778,572 |
| Total | **8,112,065,099** | 12,916,398,192 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR PER CASH FLOWS** | **10,629,285,886** | 7,945,376,734 |
| **CASH AND CASH EQUIVALENTS, END** | | |
| Cash and other cash items | **559,453,426** | 376,154,304 |
| Due from Bangko Sentral ng Pilipinas | **2,909,677,038** | 4,258,773,422 |
| Due from other banks | **3,437,159,710** | 863,271,180 |
| Interbank loans receivable | **3,722,995,711** | 2,447,177,828 |
| Total | **10,629,285,885** | 7,945,376,734 |
| **OPERATIONAL CASH FLOWS FROM INTEREST** | | |
| Interest received | **813,140,681** | 843,799,970 |
| Interest paid | **(183,186,328)** | (258,589,210) |
| | **629,954,354** | 585,210,761 |

**CTBC BANK (PHILIPPINES) CORPORATION**
**Aging of Loans and Receivables**
**As of March 31, 2020**

| Type of Accounts Receivable | Total | 1 Month | 2 - 3 Mos. | 4 - 6 Mos. | 7 to 11 Mos. | 1 - 2 Years | 3 - 5 Years | 5 Years - Above | Past Due Accounts & Items in Litigation |
|---|---|---|---|---|---|---|---|---|---|
| **a) Trade Receivables** | | | | | | | | | |
| 1) DBTR | 1,067,752,664 | 160,760,864 | 275,782,494 | 533,130,109 | 4,914,240 | | | | 93,164,956 |
| 2) IBTR- PESO | 1,652,948,812 | 300,433,604 | 194,201,647 | 1,125,999,318 | 25,671,390 | | | | 6,642,853 |
| 3) IBTR- USD | 125,940,990 | 121,276,860 | 1,832,374 | 2,831,757 | - | | | | - |
| 4) CLA | 59,812,407 | 28,071,168 | 31,741,239 | - | - | | | | - |
| Subtotal | 2,906,454,873 | 610,542,497 | 503,557,754 | 1,661,961,184 | 30,585,630 | - | - | - | 99,807,809 |
| Less: Allow. For Doubtful Acct. | 22,390,458 | | | | | | | | |
| **Net Trade Receivable** | 2,884,064,415 | 610,542,497 | 503,557,754 | 1,661,961,184 | 30,585,630 | - | - | - | 99,807,809 |
| **b) Non - Trade Receivables** | | | | | | | | | |
| 1 BILLS DISCOUNTED - REG - HO DEP | 315,986,018 | 21,024,383 | 68,111,162 | 83,154,147 | 78,545,295 | 7,602,747 | 9,631,618 | 47,916,666 | - |
| 2 BILLS DISCOUNTED - REG - RM/CM/OT | 307,009,635 | - | - | - | 200,000 | 90,377,947 | 216,431,688 | - | - |
| 3 BILLS DISCOUNTED - CHK DISC - CLEAN | 155,028,560 | 28,986,510 | 102,500,103 | 21,231,947 | - | 2,310,000 | - | - | - |
| 4 TIME LOAN - ST - CLEAN | 7,864,511,969 | 2,997,753,549 | 2,132,967,444 | 1,392,790,975 | 1,341,000,000 | - | - | - | - |
| 5 TIME LOAN- SALARY LOAN | 4,563,622,936 | 166,452,462 | 683,562,979 | 761,817,947 | 1,329,132,069 | 1,333,306,361 | 289,351,118 | - | - |
| 6 TIME LOAN - ST - HOLD-OUT DEP | 2,600,000,000 | 2,100,000,000 | 50,000,000 | 150,000,000 | 300,000,000 | - | - | - | - |
| 7 TIME LOAN - ST - REM/CHM/OTHS | 140,690,400 | 40,900,000 | 35,160,000 | 59,080,187 | 2,000,000 | 3,550,212 | - | - | - |
| 8 TIME LOAN - MT - CLEAN | 2,954,265,258 | 372,500,000 | 622,068,021 | 580,793,577 | 602,220,667 | 273,374,659 | 503,308,334 | - | - |
| 9 TIME LOAN - MT - HOLD-OUT DEP | 126,000 | - | - | - | 126,000 | - | - | - | - |
| 10 TIME LOAN - MT - REM/CHM/OTHS | 160,085,427 | - | - | 32,388,753 | 12,362,500 | 19,107,414 | 96,226,760 | - | - |
| 11 TIME LOAN - LT - HOLD-OUT DEP | 3,150,000 | - | - | - | - | 3,150,000 | - | - | - |
| 12 TIME LOAN - MORTGAG MGR | 138,076,089 | - | - | - | - | - | - | 138,076,089 | - |
| 13 TIME LOAN - LT - REM/CHM/OTHS | 311,101,933 | 4,600,000 | - | 42,314,106 | 73,953,225 | 155,027,653 | 5,891,042 | 29,315,907 | - |
| 14 TIME LOAN - DREAM HOME LOAN | 880,124 | - | - | - | - | - | - | 880,124 | - |
| 15 L & D - DOSRI - BD - HOLD-OUT DEP | - | - | - | - | - | - | - | - | - |
| 16 L & D - OFFICERS - HOUSING LOAN | 3,298,444 | - | - | - | - | - | 2,507,226 | 791,218 | - |
| 17 L & D - OFFICERS - CAR LOAN | 9,346,233 | - | 519,486 | - | 1,986,355 | 3,042,339 | 3,787,510 | 10,543 | - |
| 18 L & D - OFFICERS - MULTI-PURP LN | 3,489,282 | - | 185,229 | 295,860 | 1,140,985 | 1,468,778 | 398,429 | - | - |
| 19 L & D - OFFICERS - EMERGENCY LN | 111,477 | - | - | - | - | 85,875 | 25,602 | - | - |
| 20 L & D - STAFF - MULTI-PURP LN | 2,902,674 | 40,500 | 230,158 | 505,736 | 1,170,008 | 890,474 | 65,798 | - | - |
| 21 L & D - STAFF - EMERGENCY LN | 69,361 | - | - | - | 43,998 | 25,363 | - | - | - |
| 22 L & D - FX - RES - CLEAN | 3,107,293,016 | 1,692,454,672 | 988,192,139 | 418,199,538 | - | - | 8,446,665 | - | - |
| 23 L & D - FX - RES - CLEAN-OFFSHORE | 3,275,376,000 | 741,195,000 | - | 19,005,000 | - | 1,520,400,000 | 994,776,000 | - | - |
| 24 L & D - FX - RES - HOLD-OUT DEP | 266,171,360 | - | 506,800 | 12,264,560 | - | 253,400,000 | - | - | - |
| 25 L & D - FX - RES - REM/CHM/OTH | 352,117,403 | 7,602,000 | 304,080,000 | - | 10,136,000 | 29,901,200 | 398,203 | - | - |
| 26 PD - L & D - DOM - BD - REG | - | - | - | - | - | - | - | - | - |
| 27 PD - SALARY LOAN | 147,748,131 | - | - | - | - | - | - | - | 147,748,131 |
| 28 ITL- SALARY LOANS - NDOSRI | 34,711,453 | - | - | - | - | - | - | - | 34,711,453 |
| 29 L & D-FX-NRES-CLEAN-OFF TAX-EX | 2,654,365,000 | - | - | - | - | 2,432,640,000 | 221,725,000 | - | - |
| 30 TL-MORT-MAXCSHBACK-20% | 88,768,962 | - | - | - | - | 6,186,482 | 8,736,294 | 73,846,185 | - |
| 31 TL-MORT-TRADITIONAL | 2,081,419,824 | 16,403,800 | 123,362,625 | 214,867,452 | 244,962,535 | 594,337,796 | 628,519,722 | 258,965,894 | - |
| 32 TL-MORT-TRD-PROMO | 10,831,509 | - | - | 1,999,076 | - | 4,850,723 | - | 3,981,711 | - |
| 33 PD-TL-MORT-TRADITIONAL | 55,697,054 | - | - | - | - | - | - | - | 55,697,054 |
| 34 TL-MORTGAGE-DEVELOPER | 3,765,097 | - | - | - | - | - | - | 3,765,097 | - |
| 35 NPL - PD - SALARY LOAN | 315,003,950 | - | - | - | - | - | - | - | 315,003,950 |
| 36 NPL - PD - MORTGAGE MGR | - | - | - | - | - | - | - | - | - |
| 37 NPL - PD - TL-MORT-TRADITIONAL | 11,655,531 | - | - | - | - | - | - | - | 11,655,531 |
| 38 NPL - PD - L&D - DOM - BD-REG | - | - | - | - | - | - | - | - | - |
| 39 NPL - PD-L&D - DOM - TL-ST | 233,313,735 | - | - | - | - | - | - | - | 233,313,735 |
| 40 NPL-CUR-TIME LOAN-SALARY LOAN | 3,511,952 | - | - | - | - | - | - | - | 3,511,952 |
| 41 NPL-CUR- TL-MORT-TRD-PROMO | 6,972,190 | - | - | - | - | - | - | - | 6,972,190 |
| 42 NPL-PD-REST-L&D-PL-PUBLIC | 10,003,886 | - | - | - | - | - | - | - | 10,003,886 |
| 43 NPL-CURRENT-REST-L&D-PL-PUBLIC | 10,008,655 | - | - | - | - | - | - | - | 10,008,655 |
| 44 RESTRUC LOANS - DOM - NDOSRI | - | - | - | - | - | - | - | - | - |
| 45 L&D-FX-RES-CLEAN-OFF-TAX-EX | 1,317,680,000 | - | - | - | - | 1,317,680,000 | - | - | - |
| 46 PD - L & D - DOM - BD - CHK DISC | - | - | - | - | - | - | - | - | - |
| 47 NPL-PD-L & D-DOM-TL-RE-HFC | 387,565 | - | - | - | - | - | - | - | 387,565 |
| 48 DBP - CLEAN - NDOSRI | 10,660,776 | 10,660,776 | - | - | - | - | - | - | - |
| 49 PAST DUE - MORTGAGE MGR | 1,587,519 | - | - | - | - | - | - | - | 1,587,519 |
| 50 PD-TL-MORT-MAXCSHBACK-20% | 3,067,631 | - | - | - | - | - | - | - | 3,067,631 |
| 51 NPL - PD-L&D-DOM-BD-CHK DISC | 22,157,515 | - | - | - | - | - | - | - | 22,157,515 |
| 53 PD - L & D - DOM - TL - ST | 500,000 | - | - | - | - | - | - | - | 500,000 |
| 54 PD - DREAM HOME LOAN | 78,636 | - | - | - | - | - | - | - | 78,636 |
| 55 NPL L & D-FX -NONRES-CLEAN-OFF | 157,082,660 | - | - | - | - | - | - | - | 157,082,660 |
| 56 NPL-PD-RESTRUC LOAN-DOM-NDOSRI | 10,451,821 | - | - | - | - | - | - | - | 10,451,821 |
| Subtotal | 33,726,140,649 | 8,200,573,652 | 5,111,446,146 | 3,790,708,862 | 3,998,979,637 | 8,052,716,023 | 2,990,227,011 | 557,549,435 | 1,023,939,883 |
| Add: Unamortized Transaction cost | 50,223,217 | | | | | | | | |
| Less: Allow. For Doubtful Acct. | 810,621,505.83 | | | | | | | | |
| **Net Non - Trade Receivable** | 32,965,742,360 | 8,200,573,652 | 5,111,446,146 | 3,790,708,862 | 3,998,979,637 | 8,052,716,023 | 2,990,227,011 | 557,549,435 | 1,023,939,883 |

| | |
|---|---|
| Accounts Receivables | 182,325,918 |
| Accrued Interest Receivables | 265,868,197 |
| Unquoted Debt Securities | - |
| | 448,194,115 |
| Less: Allowance for impairment | 13,647,757 |
| | 434,546,358 |
| **Net Receivables (a + b)** | **36,284,353,132** |
| Less: Unearned Interest and Discounts | 3,448,990 |
| | **36,280,904,142** |

Notes: If the Company's collection period does not match with the above schedule and revision is necessary to make the schedule not misleading, the proposed collection period in this schedule may be changed to appropriately reflect the Company's actual collection period.

# ANNEX "G"

**MINUTES OF THE ANNUAL MEETING OF THE STOCKHOLDERS OF**
**CTBC (PHILIPPINES) BANK CORP.**
**5 F1 Hotel Manila 32nd Street Bonifacio Global City,**
**Taguig 1634, Philippines**
**July 25, 2019, Thursday, at 9:30 AM**

**ATTENDEES:**

| Name of Stockholder | No. of Shares |
|---|---|
| CTBC Bank Co., Ltd. (by proxy in favor of Jack Lee) | 246,495,812 |
| Jack Lee | 1 |
| William B. Go | 53 |
| Wei Erh-Chang | 1 |
| Chen, Yeun-Ginn | 1 |
| Huang Chih-Chung | 1 |
| Edwin B. Villanueva | 1 |
| Ng Meng Tam | 1 |
| Alexander A. Patricio | 1 |
| Stephen D. Sy | 1 |
| TOTAL | 246,495,873 |

## 1.0 CALL TO ORDER

1.1 Mr. Jack Lee, Chairman, called the meeting to order at 9:30 a.m. Atty. Maritess P. Elbinias, Assistant Corporate Secretary, recorded the minutes thereof.

## 2.0 CERTIFICATION OF NOTICE AND QUORUM

2.1 Atty. Maritess P. Elbinias certified that notices had been sent to the stockholders in accordance with the By-Laws of the Bank. Atty. Elbinias declared that out of 247,483,811 (net of Treasury Shares of 484,920) issued and outstanding shares, 246,495,873 shares or approximately more than 99.60% of the outstanding capital stock were present in person or represented by proxy. A quorum was present for the transaction of business.

## 3.0 APPROVAL OF THE MINUTES OF THE ANNUAL STOCKHOLDERS' MEETING OF JULY 5, 2018

3.1 The stockholders read the Minutes. Upon motion made and duly seconded, and there being no objection, the Minutes of the Annual Shareholders' Meeting of July 5, 2018 was declared approved by the Chairman.

| | Voted in Favor | Voted Against | Abstained |
|---|---|---|---|
| Number of Voted Shares | 246,495,873 | 0 | 0 |
| % of Voting Shares Present | 99.6% | 0.00% | 0.00% |

## 4.0 CHAIRMAN'S ADDRESS

4.1 Mr. Jack Lee delivered the Chairman's address to the stockholders.

The highlights were as follows:

The global markets in the early part of 2018 enjoyed the spill-over effects of the upbeat economy that prevailed during the better part of the previous year, with both emerging and advanced economies growing at roughly the same rate as they did in 2017. That said, uncertainties brought about by the implementation of trade tariffs by the United States and other major economies and the retaliatory measures taken in turn by those affected by the same effectively dampened the global economic growth during the latter part of last year.

The protectionist trade policy adopted by the United States proved to be beneficial to its domestic economy as the country recorded strong economic expansion in 2018. Notably, economic growth in most countries markedly slowed down, particularly in the European Union, China and Japan. Most emerging markets in Southeast Asia however, benefitted from the changes in the global supply chain and was able to sustain their economic growth for the period under review.

In Taiwan where our Parent Bank is based, economic growth in 2018 was maintained at above 2.5%, keeping the country's economy fundamentally strong. Under this favourable business environment, our Parent Bank was able to sustain its outstanding performance, reporting an industry-leading net revenue of USD 3.1billion, a consolidated pre-tax income of USD 1.16billion and a consolidated after-tax income of USD 0.97billion which translates into a consolidated after-tax ROE of 10.32%. The Bank further capped the year with highlights that included its continued leadership in the development of innovative and intuitive digital financial services as well as an active international expansion which resulted in an increase in its overseas profits by 22%.

We remain proud of our Parent Bank's remarkable innovativeness and expertise which continued to gain recognition from both domestic and international organizations. Among the many awards received by the Bank during the year were: Best Bank in Asia at the Financial Insights Innovation Awards held by International Data Corporation; Best Bank in

Taiwan by FinanceAsia for the 17th time; For its institutional banking services, Taiwan's Best Trade Finance Bank by Global Finance for the 11th time; Best Retail Bank award in Taiwan by The Asian Banker for the 12th consecutive year.

As part of CTBC Bank's global family, CTBC Bank Philippines will continue to leverage on its Parent Bank's franchise while taking advantage of the country's sustained economic growth and resilient banking system. We will continue to grow our retail and corporate loan portfolios, expand our product offerings and client base revenues, further explore business opportunities for new growth and strengthen our compliance effectiveness, as we maintain steady profits to maximize shareholder value.

We are excited to move forward to the next chapter of our corporate history, and remain thankful to our Parent Bank for their solid support and confidence in our leadership team, our Board of Directors for their guidance and continued stewardship, our employees for their hardwork and commitment, and most especially our clients, shareholders, and partners for their continued support and trust.

Thank you and good morning to you all.

## 5.0 PRESIDENT'S REPORT AND APPROVAL OF THE 2018 ANNUAL REPORT

5.1 Mr. Oliver Jimeno, OIC-President and CEO, delivered his report

The highlights of his report are as follows:

To our dear shareholders, good morning. It is my privilege to share with you the results of the Bank's performance for the year 2018.

Despite a gradual slowdown of the country's GDP in 2018, the Philippines remained resilient amidst an adverse global environment arising from the tension between China and the United States, coupled with the steady increase in oil price. Armed with strong macro-economic policies and government's thrust to boost infrastructure, the country still remained as one of the fastest growing economies in the region.

For CTBC Bank Philippines, we made sure that we took advantage of this robust economic growth. As of December 31, 2018, the Bank's total assets reached an unprecedented level of 54 billion pesos on the back of strong performance in Loans and Receivables, which grew by 28% to 35 billion. The Bank also registered a significant jump in its deposit level, which stood at 36 billion pesos as of year-end 2018. This marks a 36% growth from the 27 billion peso level in 2017. Meanwhile, the Bank's net income before tax inched up to 418 million pesos from the previous year's 399 million pesos, owing to the increase in revenue, spurred by a 25% improvement in average loan balances. Notwithstanding the strong performance in terms of revenue, the Bank's net income softened to 237 million pesos. This bottom-line figure is lower than the 288 million pesos net income registered in 2017 on account of the increase in provision for income taxes attributable mainly to lower deductible expenses. Overall, this performance translated to a 3.3% Return on Average Equity or ROE.

Meanwhile, the Bank once again manifested its financial strength with a high capital adequacy ratio at 16.3% as of December 2018. The Bank also exercised continued prudence in its lending operations as its non-performing loan ratio as of year-end remained low at 1.36%.

As of June this year, the Bank steadily gained its momentum in total loans especially in its middle market segment, which already grew by 1.2 billion pesos during the six-month period. In addition, the Bank's retail loans also posted a 400 million peso increase in volume coming from personal loans and mortgage loans, validating the roadmap that the Bank has set for itself.

With continuous focus on the middle market segment, the Bank's Institutional Banking Group will continue to accelerate its portfolio build up. This will be done through a multi-product relationship approach via expansion and optimization of its banking products and services to cover among others: cash management, trade finance, treasury and trust products. To sustain its growing network and maintain a competitive advantage, the Retail Banking Group will diversify more its consumer loan business and come up with more actions towards digital expansion.

Further, the Bank will continue to leverage the capabilities of its parent bank to strengthen its muscle through the provision of differentiated products, as well as to better prepare its operations for an integrated ASEAN market.

With clear strategies in place, coupled with resolute management and hardworking organization, we are well positioned to propel the Bank towards sustainable growth and profitability. We remain committed to do all these in a spirit of gratitude towards our customers, business partners, our Board of Directors, shareholders, and all CTBC Bankers, all of whom continue to inspire us as we prepare to face new challenges and opportunities in the years to come.

Thank you very much!

5.2 The President then submitted for approval by the stockholders the Bank's 2018 annual report. Copies were made available to the shareholders.

Upon motion duly made and seconded, and there being no objection, the Chairman declared the 2018 Annual Report to the shareholders approved.

| | Voted in Favor | Voted Against | Abstained |
|---|---|---|---|
| Number of Voted Shares | 246,495,873 | 0 | 0 |
| % of Voting Shares Present | 99.6% | 0.00% | 0.00% |

**6.0 SUBMISSION OF THE AUDITED FINANCIAL STATEMENTS OF THE BANK AND OF THE TRUST AND INVESTMENT SERVICES DEPARTMENT AS OF DECEMBER 31, 2018**

6.1 The Audited Financial Statements of the Bank and of the Trust and Investment Services Department as of 31 December 2018 was then submitted for the approval of the stockholders.

Upon motion made and duly seconded and there being no objection, the Chairman declared the Audited Financial Statements of the Bank and of the Trust and Investment Services Department as of 31 December 2018 approved.

| | Voted in Favor | Voted Against | Abstained |
|---|---|---|---|
| Number of Voted Shares | 246,495,873 | 0 | 0 |
| % of Voting Shares Present | 99.6% | 0.00% | 0.00% |

**7.0 APPROVAL RATIFICATION OF THE ACTS, DECISIONS AND PROCEEDINGS OF THE BOARD OF DIRECTORS, COMMITTEES, MANAGEMENT AND OFFICERS SINCE LAST ANNUAL MEETING**

7.1 Upon motion of duly made and seconded, and there being no objection, the Chairman declared all the acts, decisions and proceedings of the Board of Directors, Committees, Management and Officers for the year 2018-2019 and since the last annual meeting, ratified.

| | Voted in Favor | Voted Against | Abstained |
|---|---|---|---|
| Number of Voted Shares | 246,495,873 | 0 | 0 |
| % of Voting Shares Present | 99.6% | 0.00% | 0.00% |

**8.0 APPROVAL OF THE AMENDMENT TO THE ARTICLES OF INCORPORATION**

8.1 Atty. Elbinias presented the proposed amendments to the Articles of Incorporation. The Corporate Secretary explained that the Bank has to comply with the Bangko Sentral ng Pilipinas (“BSP”) Circular No. 854 Series of 2014 entitled Minimum Capitalization of Banks. Pursuant to the Circular, the Bank is required to have an unimpaired capital of Php10 Billion by November 2019.

The Bank's Capital Build Up Program to meet the required capital as approved by the BSP consists of the following:

(i.) Income from operations; and
(ii.) Capital infusion by Parent Bank, CTBC Bank Co., Ltd.

For the Capital Build Up Program, the following were approved by the Board in its April 30, 2019 meeting at the CTBC Bank Board Room 19th Floor Fort Legend Towers, 3rd Ave., cor. 31st St., Bonifacio Global City, Taguig City, Philippines.

(i.) Amendment to Article Seventh of the Articles of Incorporation increasing the authorized capital stock from 3 Billion Pesos to 4 Billion Pesos

(ii.) Issuance of the following common shares to Parent Bank CTBC Bank Co., Ltd. at the share price of P29.755 per share.

| | | |
|---|---|---|
| a. Treasury Shares | : | 484,920 |
| b. Remaining shares from the existing authorized capital stock (ACS) | : | 52,031,269 |
| c. Shares from the increase in the ACS subject to the approval by the Securities and Exchange Commission of the amendment to the Articles of Incorporation | : | 48,307,202 |
| Total | : | 100,823,391 |

The Corporate Secretary further mentioned that the Board approval of the issuance of the shares to CTBC Bank Co., Ltd. is consistent with Article Eleventh of the Bank's Articles of Incorporation, to wit:

ELEVENTH: Unless otherwise determined by the Board of Directors, no holder of stock of the Bank shall be entitled as such, as a matter of right, to purchase or subscribe for any stock of any class which the Bank may issue or sell, whether or not exchangeable for any stock of the Bank of any class or classes and whether out of unissued shares authorized by the articles of incorporation of the Bank as originally filed or by any amendment thereof or out of shares of stock of the Bank acquired by it after the issue thereof, and whether issued for cash, labor done, personal property, or real property, or leases thereof. Nor, unless otherwise determined by the Board of Directors, shall any holder of any shares of the capital stock of the Bank be entitled as such, as a matter of right, to purchase or subscribe for any obligation which the Bank may issue or sell that shall be convertible into or exchangeable for any shares of stock of the Bank of any class or classes, or to which shall be attached or appurtenant to any warrant or warrants or any other instrument or instruments that shall confer upon the holder or holders of such obligation the right to subscribe for or purchase from the Bank any shares of its capital stock of any class or classes.

Upon motion made and duly seconded, and there being no objection, the following resolutions were approved.

**A. Amendment to Article Seventh of the Articles of Incorporation**

**AMENDMENT TO ARTICLE SEVENTH OF THE ARTICLES OF INCORPORATION**

"**RESOLVED,** that the Corporation increase its authorized capital stock by ONE BILLION PESOS (Php1,000,000,000.00), and for this purpose Article Seventh of the Amended Articles of Incorporation of the Corporation shall be amended to read as follows:

**FROM** : **SEVENTH:** That the capital stock of the Bank is THREE BILLION PESOS (P 3,000,000,000.00) and said capital stock is divided into Three Hundred Million (300,000,000) Common Stock with a par value of Ten Pesos (P 10.00) each.

**TO** : **SEVENTH:** That the capital stock of the Bank is FOUR BILLION PESOS (P4,000,000,000.00) and said capital stock is divided into Four Hundred Million (400,000,000) Common Stock with a par value of Ten Pesos (P10.00) each;

**RESOLVED FURTHER,** that the Board of Directors is hereby authorized to amend, modify, and/or revise the foregoing resolutions, and adopt such other resolutions, and do such acts necessary and incidental for the Bank to be in compliance with BSP Circular No. 854 Series of 2014, the Securities Regulation Code and its amendments, and the relevant requirements of the *Bangko Sentral Ng Pilipinas* and the Securities and Exchange Commission and other regulatory agencies."

| | Voted in Favor | Voted Against | Abstained |
|---|---|---|---|
| Number of Voted Shares | 246,495,873 | 0 | 0 |
| % of Voting Shares Present | 99.6% | 0.00% | 0.00% |

## 9.0 ELECTION OF THE MEMBERS OF THE BOARD OF DIRECTORS

9.1 Mr. William Go nominated the following as members of the Board of Directors:

Lee, Wen-Hung a.k.a. Jack Lee
William B. Go
Chen Yeun-Ginn a.k.a. James Chen and. Y.G. Chen

Wei Erh-Chang a.k.a. Peter Wei
Huang, Chih-Chung a.k.a. C.C. Huang
Edwin B. Villanueva (Independent Director)
Alexander A. Patricio (Independent Director)
Stephen D. Sy (Independent Director)

Upon motion made and duly seconded, and there being no objection, the eight (8) nominees were elected as members of the Board of Directors.

| | Voted in Favor | Voted Against | Abstained |
|---|---|---|---|
| Number of Voted Shares | 246,495,873 | 0 | 0 |
| % of Voting Shares Present | 99.6% | 0.00% | 0.00% |

## 10.0 APPOINTMENT OF EXTERNAL AUDITOR

10.1 Upon motion made and duly seconded, and there being no objection, the Chairman declared the accounting firm of R.G. Manabat and Co. ("RGM") duly appointed external auditor of the Bank and of the Trust and Investment Services Department.

| | Voted in Favor | Voted Against | Abstained |
|---|---|---|---|
| Number of Voted Shares | 246,495,873 | 0 | 0 |
| % of Voting Shares Present | 99.6% | 0.00% | 0.00% |

## 11.0 ADJOURNMENT

11.1 The Chairman asked if there were questions or matters that the shareholders would like to raise or be considered. No questions nor other matters were raised by the shareholders. Upon motion made and seconded, the meeting was adjourned.

**Certified Correct:**

**ATTY. MARITESS P. ELBINIAS**
Corporate Secretary

**ZIMAR B. MENDIOLA**
Assistant Corporate Secretary