BanKo

A subsidiary of BPI

ANNUAL REPORT 2019

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ABOUT BANKO

BPI Direct BanKo, Inc., A Savings Bank (or "BanKo"), a wholly owned subsidiary of the Bank of the Philippine Islands (BPI), is the product of a merger between two specialized thrift banks in December 2016: BPI Direct Savings Bank (the Philippines' first internet bank), and BPI Globe BanKO (the country's first mobile savings bank).

BanKo is the financial inclusion arm of BPI, with a mission to make banking services more accessible to the unserved and underserved Filipinos.

The bank primarily serves self-employed micro entrepreneurs (SEMEs) by providing them with affordable and appropriate credit facility called NegosyoKo Loan, and empowering them with expert financial advice and solutions that promote the growth and expansion of their enterprises.

In 2019, BanKo shifted its core system to the Alternative Deposit and Payment System (ADPS), which supports basic loans, deposit and mobile wallets, allowing the bank to serve more clients.

BanKo also re-launched the PondoKo Savings Account as an app-based deposit product, making it easier for more Filipinos to open and access their accounts. It promises to be a highly digital banking experience.

After three years of operations, the bank now has 300 branches and BLUs, Php 7 billion in loans, and more than 100,000 self-employed micro-entrepreneurs served.

The bank has made a considerable impact in the lives of thousands of previously underserved Filipinos by creating an enabling business environment for them, and is poised to make a significant contribution to the country's economic development in the long run.

OUR MISSION AND VISION

Our Mission:

Building a better Philippines.

Our Vision:

To uplift the lives of Filipinos belonging to C and D income class whose needs are underserved and unserved by formal financial institutions.

OUR BUSINESS

NEGOSYOKO LOAN

BanKo's main product, the NegosyoKo Loan, fulfills BPI's mandate for financial inclusion by catering to Self-Employed Micro-Entrepreneurs (SEMEs). BanKo's business model of highly focused sales distribution and high-touch delivery of service is supported by a branch network situated near microenterprise locations primarily for loans solicitation, processing and servicing.

BanKo is guided by BPI's core competencies of providing high quality customer service and a comprehensive set of products, multi-channel delivery, and stringent credit, risk and compliance processes while addressing the needs of unbanked and underserved individuals, giving them access to formal financial services that they have been deprived of.

The target market is comprised of households from the C&D classes who own microenterprises. These microbusinesses fall under the following categories: wholesale and retail trading, manual services, food services, manufacturing, agri-business.

Before BanKo, the credit requirements of these micro-enterprises were not being adequately served. These vary from small amounts for operational purposes such as increasing working capital or covering unexpected expenses, to large amounts to expand current business or invest in a new venture. However, SEMEs are confronted with hurdles such as the lack of documents required by banks for business loans, or very high interest rates offered by non-bank lenders.

The NegosyoKo Loan product employs a meaningfully differentiated approach to address the needs of its market. It offers loan amounts ranging from Php25K to Php300K with interest rates as low as 2% per month, in 6-month to 3-year terms. The application process is simplified by requiring documents that are ready on-hand, such as a valid ID, business permit, barangay clearance, or utility bills. Clients are then provided with a savings account with no maintaining balance after loan approval.

Currently, BanKo has a microinsurance product bundled with the microloans that offers an affordable basic life and non-life insurance coverage.

BanKo's loan officers, called BanKoMares and BanKoPares, establish direct relationships with clients by promoting financial literacy. Its 300 branches and BLUs nationwide are present in micro-enterprise locations, providing a venue for servicing loans and conversing face-to-face with clients. An innovative scorecard based on interviews with local residents and community leaders, and decentralized approval of loans by in-branch personnel result in a fast turnaround time. Collection terms and methods are flexible.

BanKo is present in 71 out of 81 provinces in the Philippines, growing an average of 100 branches annually in the last 3 years.

With the success of the NegosyoKo Loan, BanKo is now the 2nd biggest microfinance bank in the country, with a 16% share in microfinance loans among banks. BanKo's relevance has also been validated through several recognitions from local and international agencies.

PONDOKO SAVINGS ACCOUNT

PondoKo is a Basic Deposit Account, offering features such as low initial deposit of Php50, no maintaining balance, simple requirements, access via a mobile app, and deposit insurance coverage from the Philippine Deposit Insurance Corporation.

BanKo also extends banking services outside the bank through third party agents such as money service businesses, consumer goods retail chains and the like. There are currently 46 partner agents and 782 doors offering deposit, withdrawal, and fund transfer and bills payment services.

Clients also experience cashless banking anytime, anywhere via the BanKo mobile app which features transactions options such as Buy Load, Pay Bills and Send Money to a BanKo account or to other bank accounts of dependents in the provinces.

The PondoKo savings account is positioned as the wiser way to manage finances by safekeeping money, earning interest, and minimizing incidental expenses through mobile transactions. The product is tailor fit for wage earners, microentrepreneurs and beneficiaries, who will be guided through their lifecycle from onboarding to first usage.

Financial Highlights

Profitability

(In P Mn)	Current Year	Previous Year
	2019	2018
Revenues	**P 3,171.6**	**P 1,982.5**
Total Net Interest Income	P 2,781.5	P 1,718.7
Total Non-Interest income	P 390.1	P 263.8
Total Operating Expenses	**P 2,170.1**	**P 1,223.3**
Pre-provision operating profit	**P 1,001.5**	**P 759.2**
Provisions	P575.5	P 402.8
Taxes	153.4	87.4
Net Income	**P 272.6**	**P 268.9**

Selected Balance Sheet Data

(In P Mn)	Current Year	Previous Year
	2019	2018
Liquid Assets	P 3,932.5	P 5,225.2
Loans and advances, gross	P 12,910.0	P 9,767.8
Loans and advances, net	P 12,193.5	P 9,245.1
Total Assets	P 17,871.2	P 15,596.4
Deposits	P 13,961.1	P 12,560.6
Total Equity	P 2,616.9	P 2,365.4

Selected Ratios

	Current Year	Previous Year
	2019	2018
Return on Equity	10.49%	11.63%
Return on Assets	1.78%	1.79%
Capital Adequacy Ratio	16.05%	20.88%
Branches/BLUs	300	200
Employees	2,833	1,851
Officers	688	461
Staff	2,145	1,390

STATEMENTS OF FINANCIAL POSITION

December 31 2019 and 2018 (all amount in Philipine Peso)

	2019	2018
RESOURCES		
Cash and other cash items	216,587,760	86,383,976
Due from other banks	830,391,583	884,795,667
Interbank loans receivable	393,634,185	300,158,333
Due from Bangko Sentral ng Pilipinas	2,491,887,897	3,853,846,029
	5,560	100,065,545
Loans and advances, net	12,193,544,153	9,245,194,688
Assets held for sale	82,358,184	75,446,961
Property and Equiptment,net	1,002,078,934	460,599,271
Deferred income tax assets, net	327,038,301	237,456,216
Other resources, net	333,752,015	352,491,944
Total resources	**17,871,278,572**	**15,596,438,630**
LIABILITIES AND CAPITAL FUNDS		
Deposit liabilities	13,961,113,446	12,560,640,302
Accrued taxes, interest and other expenses	196,940,611	110,198,851
Other liabilities	1,096,242,025	560,122,334
Total liabilities	**15,254,296,082**	**13,230,961,487**
CAPITAL FUNDS		
Share capital	405,572,100	405,572,100
Other comprehensive income	(18,191,065)	2,959,183
Other reserves	(269,815,403)	(269,815,403)
Surplus	2,499,416,858	2,226,761,263
Total capital funds	**2,616,982,490**	**2,365,477,143**
Total Liabilities and Equity	**17,871,278,572**	**15,596,438,630**

STATEMENTS OF INCOME

For the Years Ended December 31 2019 and 2018 (all amount in Philipine Peso)

	2019	2018
INTEREST INCOME		
Loans and advances	2,828,766,683	1,652,444,541
Deposits with BSP and other banks	65,600,439	126,588,155
Interbank loans receivable	18,991,150	37,118,508
Investment securities	2,587,735	6,210,369
	2,915,946,007	**1,822,361,573**
INTEREST EXPENSE ON DEPOSITS	134,349,991	103,622,893
NET INTEREST INCOME	**2,781,596,016**	**1,718,738,680**
PROVISION FOR IMPAIRMENT	575,510,838	402,811,564
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT	**2,206,085,178**	**1,315,927,116**
OTHER INCOME		
Service fee income	327,326,094	209,618,152
Profit on assets sold	19,357,796	13,193,833
Miscellaneous income	43,492,737	41,018,341
	390,176,627	**263,830,326**
OTHER EXPENSES		
Compensation and fringe benefits	761,972,587	433,626,042
Occupancy and equipment-related expenses	801,620,928	372,420,864
Other operating expenses	606,563,073	417,257,446
	2,170,156,588	**1,223,304,352**
INCOME BEFORE PROVISION FOR INCOME TAX	**426,105,217**	**356,453,090**
PROVISION FOR INCOME TAX		
Current	242,461,125	82,470,244
Deferred	(89,011,503)	4,992,461
	153,449,622	**87,462,705**
NET INCOME FOR THE YEAR	**272,655,595**	**268,990,385**

FINANCIAL CONDITION AND RESULTS OF OPERATION

In 2019, BanKo's key strategies focused on two pillars: the growth of its microenterprise loans business, and employee engagement.

The growth of the loans business were anchored on the bank's expansion of its branch network, which involved increasing its number of branches and BLUs; improvement of turn-around time particularly in the credit investigation process to improve efficiency by 50%; management of its portfolio quality, and the amplification of its brand and image.

Employee engagement was developed through various programs such as BanKomustahan, a quarterly town hall meeting where employees are given updates on the status and plan of the organization, and at the same time, employees are given a venue to talk to BanKo's top management.

As a result, BanKo generated a net income of Php 272.6 million, up 1.4% from the previous year. This translates to a return on equity of 10.4% and return on assets of 1.7%. The earnings allowed BanKo to grow its capital to Php 2.6 billion.

Loans grew by 32.0% to Php 12.1 billion while deposits increased by 11.1% to Php 13.9 billion. The bank's loan-to-deposit ratio increased from 73.6% to 87.3% from previous year.

The net interest income of Php 2.7 billion is an increase of 61.8 % from the previous year's Php 1.7 billion. This was driven by the improvement in loan yields by 28.8% from 22.5% to 29.0% and the increase in average loan base from Php 7.3 billion to Php 10.2 billion this year.

Fees and commissions grew by 47.9%, which is attributed to the higher fees generated from SEME and personal loans.

Efficiency in operations is reflected in the cost-to-income ratio of 68.3%, in spite of the increase in expenses driven by the continuous SEME branch expansion.

The bank's non-performing loan ratio is at 7.2% in 2019 with reserve cover of 82.8%.

As of the end of 2019, consolidated common equity tier 1 ratio stood at 15.1% and capital adequacy ratio was at 16.0%. These ratios are well above minimum regulatory requirements, with an adequate buffer to support the Bank's operations.

FINANCIAL CONDITION AND RESULTS OF OPERATION

BanKo on its Third Year

From a small number of branches three years ago, BanKo now has a total of 300 branches nationwide, a strong and steady clip of around a hundred branches a year. The demand for microfinance products, particularly in areas not reached by traditional financial institutions, remains strong, and BanKo has reached out to more of these places in a strategic way.

Market vendors, barbers, operators of small beauty parlors, carinderia (small eatery) owners, and other microentrepreneurs now have a more accessible bank that offers the financial services they need to grow their businesses.

More than 800 new loan specialists were hired to support the expansion and community engagement programs. Known as BanKoMares and BanKoPares, the loan officers make the application process easy by visiting SEME clients in their place of business and explaining the features of the program and recommending terms that meet the client's needs and capabilities.

Many of the SEMEs hold business in and around the public market area. BanKo held "Palengke" (wet market) caravans in 53 cities and municipalities across the country, wherein SEMEs located in the market area were given financial literacy seminars. Attendees of the palengke caravan were also pampered with beauty and wellness treatments, such as haircuts, manicures, pedicures and massages. Consultation booths were also present in the caravans, where BanKoMares and BanKoPares answered inquiries and accepted loan applications.

Awards and Partnerships in 2019

BanKo was the recipient of a number of significant awards in 2019.

AsiaMoney, a leading regional financial publication, recognized BanKo as Best in Microfinance in the Philippines for its accomplishments in bringing microfinance loans to SEMEs in grassroots communities, which uplifted the lives of more Filipinos.

The success of the "NegosyoKo" loan product merited an award as the Best Innovation Project for Clients category in the BPI Excellence Awards, the highest award in the Unibank.

BanKo NegosyoKo Loan also merited an Ayala Innovation Excellence Award for its "understanding of its market's needs, its meaningful and differentiated approach to banking, and delivering business profitability and social impact."

Two SEME clients of BanKo were also given the Microentrepreneur Award by the 8th Mindanao Business Leader and Entrepreneur Awards for successfully growing their businesses.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PHILOSOPHY

The Board of Directors and Management, employees and shareholders of the BPI Direct BanKo, Inc., A Savings Bank (BanKo) believe that a sound and effective corporate governance is the cornerstone of its strength and long term existence. It subscribes to a philosophy of adhering to honesty, integrity, and professionalism in the conduct of its business, exercising prudence in arriving at decisions, enforcing internal discipline and a system of checks and balances in its operating processes, and providing transparency to its various publics regarding basic management policies and practices, major business strategies and decisions and its operating results.

The Board of Directors and Management, hereby commit themselves to the defined principles and practices, and acknowledge that the same will guide them in pursuing their corporate goals. They shall also undertake every effort necessary to create the necessary awareness of these principles and practices within the organization in order to ensure proper internalization by every member of the organization

GOVERNANCE STRUCTURE

Board of Directors

The Board of Directors (the Board) bears the primary responsibility for creating and enhancing the long term shareholder value of BanKo and ensuring that this objective is achieved in all its business activities. It must ensure BanKo’s ability to satisfy the needs of its customers, sustain its leadership and competitiveness, and uphold its reputation in order to maintain BanKo’s long term success and viability as a business entity. Its mandate consists of setting the strategic business directions of BanKo, appointing its senior executive officers, confirming its organizational structure, approving all major strategies and policies, overseeing all major risk-taking activities, monitoring the financial results, measuring and rewarding the performance of management, and generating a reasonable investment return to shareholders. It shall also provide an independent check on management.

Powers of the Board of Directors

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

Duties and Responsibilities

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

Selection

Our shareholders may recommend candidates for board membership for consideration by the Nominations Committee. Such recommendations are sent to the Committee through the Office of the Corporate Secretary. Candidates recommended by shareholders are evaluated in the same manner as Director Candidates identified by any other means. The Committee itself may identify and recommend qualified individuals for nomination and election to the Board. For this purpose, the Committee may utilize professional search firms and other external groups to search for qualified candidates.

The Nominations Committee pre-screens the candidates and prepares a final list of candidates prior to the Annual Stockholders Meeting. Only nominees whose names appear on the final list of candidates are eligible for election to the Board.

No other nomination shall be entertained after the final list of candidates are drawn up. No nomination shall be entertained or allowed on the floor during the Annual Stockholders Meeting.

Board members are elected by BanKo stockholders who are entitled to one vote per share at the Bank's Annual Stockholders Meeting, where votes may be cumulated as provided for in the Corporation Code. The nominees receiving the highest number of votes are declared elected and hold office for one year until their successors, qualified in accordance with the by-laws, are elected at the next Annual Stockholders Meeting.

The Board of Directors is primarily responsible for overseeing the selection and performance of the key members of the senior management, who manage the day to day affairs of the institution. Integrity, technical expertise and experience in the institution's business, either current or planned, shall be the key considerations in the selection process. The members of senior management are then expected to uphold the general operating philosophy, vision and core values of the institution. The board of directors shall replace members of senior management, when necessary, and have in place an appropriate plan of succession.

The Chairperson provides leadership in the Board and ensures that it functions effectively while maintaining a relationship of trust with board members. He or she presides at all meetings of the Board when present, and renders advice and counsel to the President.

The Chairperson is responsible for ensuring that the meetings of the Board are held in accordance with the Amended By-Laws of the Bank or as the Chairperson may deem necessary, and supervises the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the President, Management and the directors.

He or she conducts the proper orientation for first time directors and provides training opportunities for all directors, exercises control over quality, quantity and timeliness of the flow of information between Management and the Board, and assists in ensuring compliance with the BanKo's guidelines on corporate governance.

The Chairperson of the Board shall ensure that the board takes an informed decision, and encourage and promote critical discussions within the decision-making process.

Lastly, the Chairperson is responsible for conducting a performance evaluation of the Board at least once a year.

Board Composition and Qualification

Simon R. Paterno (Non-Executive Director for almost 2 years), Filipino, 61 years old, Mr. Paterno served as head of BPI's Financial Products & Alternative Channels. As such, he was responsible for building and managing BPI's service capabilities across all asset, liability, payments, and bancassurance platforms. He also served on the Bank's Management, Asset & Liability, Credit Committees, as well as on the Boards of AF Payments, Zalora Philippines, BPI Century Tokyo Lease and Finance Corporation, BPI Century Tokyo Rental Corporation, BPI/MS Insurance Corporation and BPI Direct BanKo where he was the Chairman.

Prior to joining BPI, Mr. Paterno represented CIMB in its search for a Philippine bank investment, having joined the group in late 2012 as CEO-designate of Bank of Commerce, which was targeted for acquisition by CIMB. Between 2004 and 2012, he was Managing Director and Country Manager of Credit Suisse, where he also founded and served as Chairman of Credit Suisse Securities Philippines, Inc., the firm's securities broker/dealer subsidiary. Between 2002 and 2004, Mr. Paterno was President & CEO of Development Bank of the Philippines and concurrently Chairman of the LGU Guarantee Corp. and other DBP subsidiaries. Prior to DBP, Mr. Paterno was a Managing Director at J.P. Morgan, where he spent 18 years in various capacities, rising from Head of Philippine banking to Head for sovereign clients in all of Asia. During the Asian Financial Crisis, he led the project teams that advised the Indonesian Bank Restructuring Agency (IBRA) and its Malaysian counterpart, Danaharta.

In his career, Mr. Paterno worked on some of the most significant sovereign financing transactions in the Philippines: restructuring of its foreign debt (1991), debut eurobond (1992), Brady exchanges (1994), Domestic Bond Exchanges (2006), and Debt Exchange Warrants (2008).

Mr. Paterno received his MBA from Stanford University in 1984 and his AB Honors Program in Economics (Cum Laude) from the Ateneo de Manila University in 1980.

Mr. Paterno retired as of June 30, 2019. He is the Founder and CEO of 2QR Corporation, a financial Technology start-up.

Aurelio R. Montinola III, (Non- Executive Director for 3 years), Filipino, 68 years old. He also served as President and Chief Executive Officer of BPI for eight years from 2005 to 2013, and BPI Family Savings Bank, Inc. for twelve years from 1992 to 2004. He is the Chairman of the Bank's Personnel and Compensation Committee.

Mr. Montinola is the Chairman of the Board and Non-Executive Director of Far Eastern University and an Independent Director of Roxas and Company, both listed companies.

Since May 2017, he has served as an Independent Director of Xeleb Technologies, Inc., a subsidiary of publicly-listed Xurpas, Inc. He is also the Chairman of the Nicanor Reyes Educational Foundation Inc., Roosevelt Colleges, Inc., East Asia Computer Center Inc., Amon Trading Corporation, and the Kabang Kalikasan ng Pilipinas Foundation, Inc. He is also a member of the Board of Trustees of BPI Foundation Inc. where he sits as Vice-Chairman.

Among the significant awards received by Mr. Montinola include Management Man of the Year 2012 (Management Association of the Philippines), Asian Banker Leadership Award (twice), and Legion d'Honneur (Chevalier) from the French Government. He obtained his degree in Bachelor of Science in Management Engineering from the Ateneo de Manila University in 1973 and his MBA from Harvard Business School in 1977.

Ignacio R. Bunye, (Independent Director for almost 2 years), Filipino, 75 years old, has been an independent member of the Board since June 27, 2018. He is the Chairman of the Bank's Corporate Governance and Related Party Committee. He is a member of the Bank's Risk Management Committee.

Mr. Bunye was a member of the Monetary Board of the Bangko Sentral ng Pilipinas from 2008 to 2014. He previously held the positions of Presidential Political Adviser in 2008, Presidential Spokesperson in 2003, and Press Secretary in 2002.

He also worked for BPI's Treasury and Corporate Finance departments in 1983 before he began his government service in the City of Muntinlupa (then a municipality) as Officer-In-Charge and Mayor between 1986 and 1998.

During his twelve-year stewardship in Muntinlupa, Mr. Bunye founded the Muntinlupa Polytechnic College (now Pamantasan ng Lungsod ng Muntinlupa) and laid the foundation for the establishment of the Ospital ng Muntinlupa. He also served as Chairman of the Metropolitan Manila Authority (now Metropolitan Manila Development Authority) between 1991 and 1992, and was a member of the House and Representatives representing Muntinlupa between 1998 and 2001. A former print and broadcast journalist, he now writes a regular and weekly column for Manila Bulletin, Tempo, People's Tonight , Sun Star, BusinessWeek Mindanao, and Filipino Reporter (in New York).

Mr. Bunye is a member of the Philippine Integrated Bar. He Obtained his Bachelor of Arts degree and Bachelor of Laws degree from Ateneo de Manila University in 1964 and 1969 respectively. He passed the Philippine Bar Examination in 1969. Significant awards and recognition received by Mr. Bunye include the Asian Institute of Management Honor and Prestige Award, the Bangko Sentral Service Excellence Medal, the Gran Oden de Isabela Catolica, and the Order of Lakandula.

Natividad N. Alejo, (Non-Executive Director for 8 years), Filipino, 63 years old. She is a member of the bank's Audit Committee. She was the Chairman of the BanKo from June 2017 to December 2017, and President of BPI Family Savings Bank. Ms. Alejo served as the Executive Vice President and Group Head of Retail Banking from 2012 to Feb. 28, 2015, and Senior Vice President and Consumer Banking Group Head from 2007 to 2011 at the Bank of the Philippine Islands. Prior to that, she was President and Director of BPI Capital Corporation and BPI Securities Corporation from 2001 to 2006, and President of the Investment House Association of the Philippines in 2004 to 2006.

Ms. Alejo graduated with an AB Economics degree (Summa Cum Laude and Gansewinkle Scholastic Trophy Awardee) from Divine World University, Tacloban City in 1976. She took up MA Economics at University of the Philippines in 1978 and completed the Advanced Management Program at Harvard Business School in fall of 2005.

Jesus V. Razon, Jr. (Independent Director for 4 years), Filipino, 73 years old. He is the Chairman of the Bank's Audit Committee and a member of the Corporate Governance, Nomination, and Personnel and Compensation committees. Mr. Razon was the Senior Vice President of the Consumer Banking Group and Human Resources Management Group at BPI. He also previously served as a Director of Prudential Bank since August 2005.

Jose Ferdinand B. Luzuriaga (Independent Director for 3 years), Filipino, 58 years old. He is the Chairman of the Bank's Risk Management Committee and member of the Audit Committee.

Mr. Luzuriaga is the Group Investment Officer and Group Chief Finance Officer and Committee Chairman of Inquirer Group of Companies and President of LINQ Information Entertainment Quadrant Corporation (Philippines).

Marie Josephine M. Ocampo (Non- Executive Director for almost 2 years), Filipino, 58 years old, Ms. Ocampo is the Head of the Mass Retail Segment of the Bank. She is responsible for BPI's Unsecured Lending and Cards Group in which she oversees BPI's credit, debit and prepaid card businesses as well as personal and micro finance loans. She is a member of the Board of TAFE Corporation, BPI Payments Holdings Inc., Global Payments Asia-Pacific Philippines, Inc., AF Payments Inc., Zalora Philippines and CARD MRI Rizal Bank Inc.

Ms. Ocampo started her career in BPI as Vice-President for Marketing and Sales of BPI Credit Cards in 1996. She soon took the position of President for BPI Card Corporation, the bank's credit card subsidiary where she won the prestigious Agora Award-2000 Marketing Company of the Year. In 2005, Ms. Ocampo was then cross-posted to BPI's Consumer Banking Group as Head of Kiosk Banking and Head of Personal Banking. She also became the Chief Marketing Officer of BPI from 2008 until 2014 where she was responsible for retooling the bank's data warehouse and customer analytics capabilities into its distinct competitive advantage. Ms. Ocampo also developed the bank's CRM initiatives on top of driving the bank's advertising and digital initiatives across the breadth of products, channels and services. In 2015, she became the Payments and Remittance group head, and was tasked to grow fee revenue via expanding existing businesses and developing new payment platforms.

Prior to joining BPI, Ms. Ocampo gained her extensive marketing experience as Assistant Product Manager at Johnson & Johnson Australia in 1985 and as Associate Marketing Director in Johnson & Johnson Philippines in 1987. She led the expansion of Johnson & Johnson's Health Care, Baby Care and Sanitary Protection business.

Ms. Ocampo graduated Magna Cum Laude and received her Bachelor of Science in Business Management, Honors Program at Ateneo de Manila University. She also completed the Advanced Management Program at the Harvard Business School in 2007

Rodolfo K. Mabiasen, Jr. (Executive Director for 3 years), Filipino, 44 years old. He is Head of BanKo's Financial Inclusion and Microfinance Group. Prior to that, he also served as Vice President of BPI's Northern Luzon Area.

Mr. Mabiasen graduated with a degree in BS Accountancy and BS Commerce major in Economics from the St. Louis University in 1995.

Jerome B. Minglana (Executive Director for 3 years), Filipino, 46 years old, President of BPI Direct BanKo since January 2017. He previously served as President of BPI Globe BanKO from 2015-2016. He also took on other roles in BPI, such as Vice President and Division Head of Retail Banking Group and Assistant Vice President and Division Head of Retail Banking Group. He also served as Area Business Director, where he led all BPI Branches in Extreme North Luzon Area.

He obtained his Bachelor of Science in Accountancy and BS Commerce major in Management degrees from St. Louis University in 1994 and 1995 respectively.

Board Committee

Board members with executive responsibilities are compensated as full time officers of the company, not as Executive Directors or Non-Executive Directors.

Chairman	Simon R. Paterno

Members	Rodolfo K. Mabiasen, Jr. Jerome B. Minglana Aurelio R. Montinola III Natividad N. Alejo Marie Josephine M. Ocampo* Ignacio R. Bunye . (Independent) Jesus V. Razon, Jr. (Independent) Jose Ferdinand B. De Luzuriaga (Independent)

*Replaced Mr. Simon R. Paterno as Chairman of the Board effective January 22, 2020

Corporate Governance Committee and Related Party Committee

The Corporate Governance Committee assists the Board in fulfilling its corporate governance responsibilities, and ensures the Board's effectiveness and due observance of sound corporate governance principles and guidelines, as embodied in the Manual of Corporate Governance.

The Related Party Transaction Committee which is under the Corporate Governance Committee is charged with ensuring that the Bank's dealings with the public and various stakeholders are imbued with the highest standards of integrity. In conjunction with the Executive, Audit, Risk, and Corporate Governance Committees, this Committee endeavors to ensure compliance with Bangko Sentral regulations and guidelines on related party transactions. independently reviews, vets, and endorses significant and material related party transactions—above and beyond transactions qualifying under directors, officers, shareholders, and related interests restrictions—such that these transactions are dealt on terms no less favorable to the Bank than those generally available to an unaffiliated third party under the same or similar circumstances.

Chairman	Ignacio R. Bunye (Independent)

Members	Jesus V. Razon Jr. (Independent) Marie Josephine M. Ocampo

Nomination Committee

The Nominations Committee ensures that the Board of Directors is made up of individuals of proven integrity and competence, and that each member possesses the ability and resolve to effectively oversee the Bank in his capacity as board member and member in their respective board committee. This Committee also reviews and evaluates the qualifications of all persons nominated to the Board.

Chairman	Simon R. Paterno

Members	Jose Ferdinand de Luzuriaga (Independent) Marie Josephine M. Ocampo

Audit Committee

The Audit Committee monitors and evaluates the adequacy and effectiveness of the Bank's system of internal control systems, risk management, and governance practices. It provides oversight on the integrity of the Bank's financial statements and financial reporting process, performance of the internal and external audit functions and compliance with bank policies, applicable laws, and regulatory requirements. This Committee also reviews the external auditor's annual audit plan and scope of work, and assesses its overall performance and effectiveness. In consultation with management, this Committee also approves the external auditor's terms of engagement and audit fees.

Chairman	Jesus V. Razon, Jr. (Independent)

Members	Natividad N. Alejo Jose Ferdinand B. De Luzuriaga (Independent)

Risk Management Committee

The Risk Management Committee is tasked with nurturing a culture of risk management across the enterprise. It supports the Board by overseeing and managing the Bank's exposures to financial and non-financial risks, assesses new and emerging risk issues across the Bank, regularly reviews the Bank's risk management appetite, policies, structures and metrics, and monitors overall liquidity and capital adequacy, in order to meet and comply with regulatory and international standards on risk measurement and management.

Chairman	Jose Ferdinand B. De Luzuriaga (Independent)

Members	Simon R. Paterno Ignacio R. Bunye

Personnel and Compensation Committee

The Personnel and Compensation Committee directs and ensures the development and implementation of long-term strategies and plans for the Bank's human resources, in alignment with the Board's vision for the organization.

Chairman	Aurelio R. Montinola III

Members	Simon R. Paterno Jesus V. Razon Jr. (Independent)

Executive Officers of BanKo

The executive Officers of BanKo are the President, Vice President, Secretary and Treasurer. The Executive Officers shall be appointed by the Board of Directors. In addition, the Board of Directors shall appoint (from time to time) such other senior officers as provided for in the BanKo By-Laws.

President	Jerome B. Minglana

Senior Vice President	Rodolfo K. Mabiasen, Jr.

Meetings and Attendance

The BPI Direct BanKo Board meets regularly for the effective discharge of its obligation. Regular board meetings are convened monthly, held every fourth Wednesday of the month. Board of Directors meetings are set immediately after the Annual Stockholder Meeting to cover the full term of the newly elected or re-elected members of the Board, reckoned from the date of the current year's Annual Stockholder Meeting to that of the following year. Special meetings may be called for as needed. Discussions during the board meetings are open independent views are given due consideration. Board reference materials are made available to the directors at least five days in advance of the scheduled meeting. Independent and Non-Executive Directors of the Bank also meet at least once a year without the presence of the executive director or management.

The Board's full-year attendance at the 2019 Board Meetings and Committee Meetings are outlined as follows:

Board

Name of Director	No. of Meetings	No. of Meetings Attended	Attendance Percentage
Marie Josephine M. Ocampo	13	12	92%
Simon R. Paterno	13	12	92%
Aurelio R. Montinola III	13	12	92%
Natividad N. Alejo	13	12	92%
Jesus V. Razon, Jr.	13	12	92%
Jerome B. Minglana	13	13	100%
Rodolfo K. Mabiasen, Jr.	13	13	100%
Jose Ferdinand B. de Luzuriaga	13	13	100%
Ignacio R. Bunye	13	13	100%

Audit Committee

Name of Director	No. of Meetings	No. of Meetings Attended	Attendance Percentage
Jesus V. Razon, Jr.	5	4	80%
Jose Ferdinand B. de Luzuriaga	5	5	100%
Natividad N. Alejo	5	4	80%

Risk Management Committee

Name of Director	No. of Meetings	No. of Meetings Attended	Attendance Percentage
Simon R. Paterno	3	3	100%
Ignacio R. Bunye	3	3	100%
Jose Ferdinand B. de Luzuriaga	3	3	100%

Corporate Governance Committee

Name of Director	No. of Meetings	No. of Meetings Attended	Attendance Percentage
Marie Josephine M. Ocampo	2	2	100%
Jesus V. Razon, Jr.	2	2	100%
Ignacio R. Bunye	2	2	100%

Nomination Committee

Name of Director	No. of Meetings	No. of Meetings Attended	Attendance Percentage
Simon R. Paterno	1	1	100%
Jose Ferdinand B. de Luzuriaga	1	1	100%
Marie Josephine M. Ocampo	1	1	100%

Performance Evaluation and Self-Assessment

Monitoring of governance by the Board requires a continuous review of the internal structure of the Bank to ensure that there are clear lines of accountability for management throughout the organization.

In this regard, the Board, under the guidance of the Corporate Governance Committee, annually conducts a self-assessment to ascertain the alignment of leadership fundamentals and issues, validate the Board's appreciation of its roles and responsibilities and confirm that the Board possesses the right mix of background and competencies. Performance of the Board is measured on the basis of what it delivers and how it delivers, how it meets its responsibilities to all BPI stakeholders, and how it addresses issues that impact the Board's ability to effectively fulfill its fiduciary duties.

Succession Planning and Talent Management

Financials services today face many transformative factors – regulation, market disruption, new technologies and business models, competition- that affect the business in major and long-term ways. Our Board understands that the Bank must continually evolve, adapt, and even restructure the business to remain ahead of strategic, market, technology and regulatory shifts. The Board, through its Personnel and Compensation Committee, manages the talent pipeline and assembles the required personnel capable of navigating such changes.

In consultation with the President, The personnel and Compensation Committee reviews the Bank's talent development process for the proper management. Senior management provides a report to this Committee on the results of its talent and performance review process for key management positions and other high-potential individuals. Aside from ensuring that there is a sufficient pool of qualified internal candidates to fill senior leadership positions, this review process identifies opportunities, performance gaps, and proactive measures in the Bank's executive succession planning. And as part of the same executive planning process, the Committee as a whole or a part thereof, in consultation with the Board and the President and CEO, evaluates and nominates potential successors to the President and the CEO.

Induction and Director Education

Board members acquire appropriate skills appointment, and thereafter remain abreast of relevant new laws, regulations, and changing commercial risks through in-house training and external courses. New Directors are briefed on BPI Direct BanKo's background. Organizational structure, and, in compliance with BanKo Sentral Circular No. 758, the general and specific duties and responsibilities of the Board.

They also receive briefings on relevant policies and rules governing their roles as Directors. They are given an overview of the industry, regulatory environment, business of banking, strategic plans of the Bank, its governance framework, i.e. Manual of Corporate Governance, Director's Code of Conduct, Board operations (schedules, procedures and processes), including support from the Corporate Secretary and senior management. Continuing education of Board members includes internal meetings with senior executives and operational or functional heads, dedicated briefings, on specific areas of responsibility within the business and special presentations on current issue or regulatory initiatives with respect to Data Privacy, Cyber Risk, and Cyber Security, the Anti- Money Laundering and Terrorist Financing Prevention Program, Foreign Account Tax.

Compliance Act, Securities Regulations Code, SEC memorandum circulars, and Bangko Sentral regulations, among others. The Bank brings technical, subject matter experts as needed. Other in-bank courses on anti-money laundering, business continuity management, conflict of interest, risk management overview, and information security awareness. Board members also regularly attend governance for a, conferences, and summits.

Remuneration

Our remuneration decisions for the Board and management are aligned with risk incentives and support sustainable, long-term value creation. Apart from ensuring that Board and management pay appropriately reflects industry conditions and financial performance, the Bank likewise rebalances returns back to shareholders through dividend declaration.

Under the Bank's Amended By-Laws, as approved by the shareholders, the Board of Directors, as a whole, determines the level of remuneration and/or benefits for directors sufficient to attract and retain directors and compensate them for their time commitments and responsibilities of their role.

Our Personnel and Compensation Committee recommends to the Board the fees and other compensation for directors, ensuring that compensation fairly remunerates directors for work required in a company of BPI's size and scope. As provided by our Amended By-Laws and pursuant to a Board resolution, each director is entitled to receive fees and other compensation for his services as director. The Board has the sole authority to determine the amount, form, and structure of the fees and other compensation of the directors. In no case shall the total yearly compensation of the Board Directors exceed 1% of the Bank's net income before income tax during the preceding year.

Board members receive per diems for each occasion of attendance at meetings of the Board or of a board committee. All fixed or variable remuneration paid to directors may be given as approved by stockholders during the Annual Stockholders Meeting, upon recommendation of the Personnel and Compensation Committee. Other than the usual per diem arrangement for Board and Committee meetings and the aforementioned compensation of Directors, there is no standard arrangement as regards compensation of directors, directly or indirectly, for any other service provided by the directors for the last completed fiscal year.

Board members with executive responsibilities within the BPI group are compensated as fulltime officers of the company, not as Executive Directors or Non-Executive Directors. No director participates in discussions of the remuneration scheme for himself or herself. Historically, total compensation paid annually to all directors has been significantly less than the cap of 1% of the total net income stipulated by the Bank's

Amended By-Laws. The remuneration policy is reviewed annually to ensure that it remains competitive and consistent with the Bank's high performance culture, objectives, and long-term outlook, risk assessment and strategies.

Retirement Policy

The best interests of BanKo are served by retention of directors that make very meaningful contributions to the Board and the organization, regardless of age. It is the Bank's strong view that with age often comes unmatched wisdom and experience, expert business judgment, invaluable industry and community relations and authority, and deeply ingrained appreciation of the principles of corporate governance.

The Bank believes that imposing uniform and fixed limit on director tenure is counter-productive as it may force the arbitrary retirement of valuable directors.

Nevertheless, the Bank has set a retirement age for Directors at 80 years old. In specific cases, the Board, in mutual agreement with the director, may opt to postpone said director's retirement depending on the following conditions:

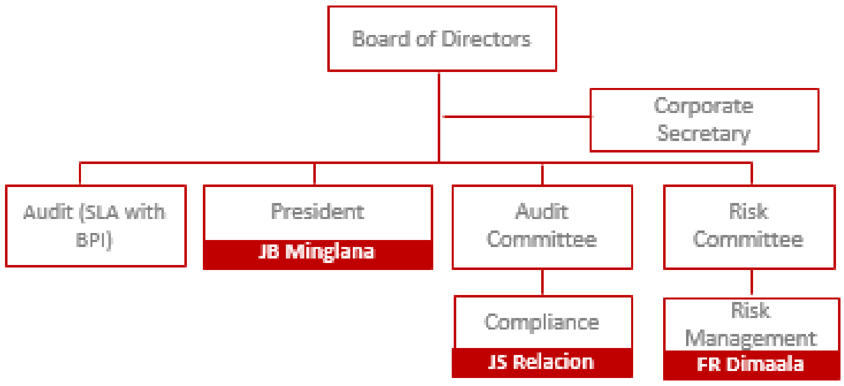
i. Consistent and robust application of more dynamic and constructive corporate governance practices such as the annual Board's performance evaluation, regular succession planning, an exhaustive nomination process, and annual Fit and Proper assessment for more effective board refreshment.
ii. The Board also evaluates all facts and circumstances when considering a director's tenure in accordance with good governance practices, including (without limitation) to accommodate the transition of a new CEO or new directors or to provide continuity to further strategic objectives or address external factors affecting the Bank.

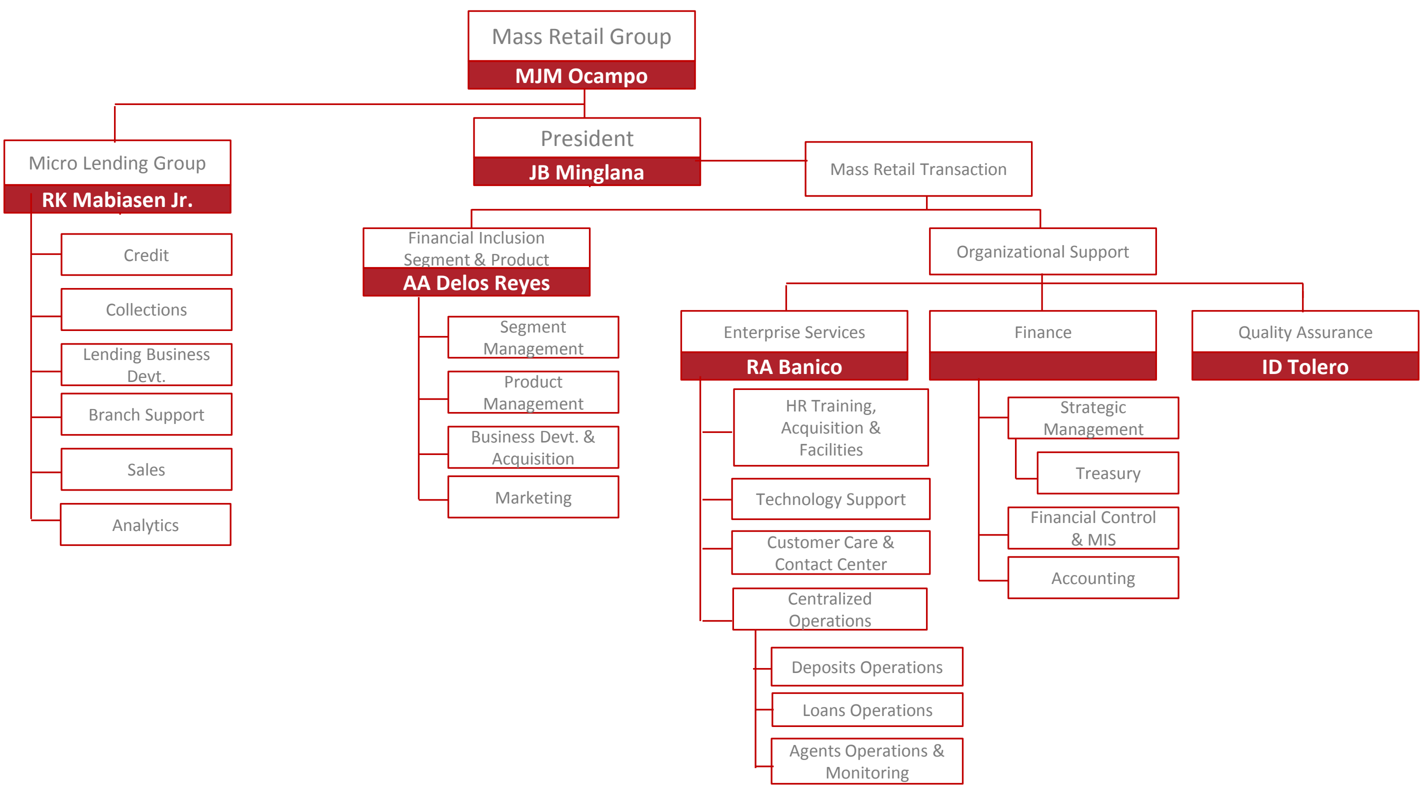
Retirement of senior management is done with the requisite succession planning and in accordance with the Bank's policies and implementing guidelines of its retirement plan for all employees, the Bank's Amended By-Laws, Labor Code and the Corporation Code of the Philippines. Currently, the retirement age for employees of the Bank is set at 60 years of age.

OPERATING MANAGEMENT

The following is an overview of the Bank's principal activities and its functional organization (as of December 31, 2019):

TABLE OF ORGANIZATION





RISK MANAGEMENT

Comprehensive Framework

The Bank adopted an enterprise risk management (ERM) aligned BSP Cir 971 (Guidelines on Risk Governance) which allows a parent bank in a group structures to establish the risk management functions centrally at the parent bank.

Under the centralized risk management framework, the head of the risk management function for the whole BPI Group is the BPI Chief Risk Officer (BPI CRO). The head of BanKo Risk Management Office (BanKo RMO) heads the BanKo RMO administratively and report directly to BPI CRO. Functionally, each department heads of BanKo RMO report directly to counterpart head in BPI Parent.

The bank aligned with the parent bank enterprise risk management ("ERM") and capital management framework that allows the Bank to identify, measure, control, and monitor its significant financial and non-financial risk exposures, ensure adequate liquidity, and set aside sufficient amounts of capital to cover and mitigate such risks. The framework reflects the Bank' s internal standards as guided by the regulatory guidelines and directives issued by the BSP in promoting effective risk management governance, in implementing robust business continuity and resiliency standards that are regularly tested, and in performing the internal capital adequacy assessment and other risk management processes. The Bank's ERM is anchored on the pillars of sound risk management governance, value-enhancing risk methods and processes and risk-intelligent data and technology.

The BanKo's Board of Directors fulfills its risk management function through the Risk Management Committee ("RMC"), which directs risk strategy, defines risk appetite statements, and reviews risk management structures, metrics, limits, and issues.

The Bank's Risk Officer reports directly to the Chief Risk and RMC and is responsible in leading the formulation of risk management policies, methodologies, and metrics consistent with the overall business strategies of the Bank, ensuring that risks are prudently and rationally undertaken, within the Bank's risk appetite, and commensurate to maximize returns on capital.

The Bank's Risk Officer is supported by the Risk Management Office (RMO) and they actively engage the RMC, Management and business units to effectively communicate through various internal channels the Bank's risk culture, risk awareness campaigns and learning programs, and risk management best practices.

The most important risks that the Bank manages are credit risk, liquidity risk, market risk, operational and information technology (IT) risks. Market risk includes currency exchange risk, interest rate risk and other price risks.

Credit Risk

The single largest risk for most local banks, arises from the Bank’s core lending and investing businesses, and involves thorough credit evaluation, appropriate approval, management and continuous monitoring of risk exposures such as borrower (or counterparty) risk, facility risk, concentrations and industry risks relating to each loan account. The Bank’s credit risk management process is governed by established underwriting policies and credit parameters, and lending procedures and standards which are regularly reviewed and updated given regulatory requirements and market developments. The Bank’s loan portfolio is continuously monitored and reviewed as to overall asset quality, concentration, and utilization of limits. The Bank continuously experiences growth in loan volumes, but is able to manage overall low credit risk and maintain asset quality (as evidenced by generally low NPLs and adequate reserves cover), and does so in general compliance with regulatory and prudential requirements relating to credit risk management (e.g., RPT and DOSRI restrictions, single borrower’s limits, credit concentration, and internal and regulatory stress tests, amongst others).

Market, Interest Rate in the Banking Book and Liquidity Risk

Arise from the Bank’s business in managing interest rate and liquidity Gaps. Market and liquidity risks are managed using a set of established policies and metrics guided by the Bank's market, interest rate risk in the banking book (“IRRBB”), and liquidity risk management framework set by the Board-level RMC. Market risk is the risk that the Bank's earnings or capital will decline immediately (or over time) because of volatility in interest rates, foreign exchange rates, or equity prices. The Bank employs various risk metrics such as value-at-risk (“VaR”) and stop loss limits for price risk and balance sheet value-at-risk (“BS VaR”), and earnings at-risk (“EaR”) for interest rate risk, supplemented by quarterly stress tests. Liquidity exposures mainly come from the mismatches of asset, liability, and foreign exchange contract maturities. The Bank manages liquidity risk by employing a minimum cumulative liquidity gap (“MCLG” – smallest net cumulative cash inflow or the largest net cumulative cash outflow) and complying with the liquidity coverage ratio (“LCR”) and net stable funding ratio (“NSFR”) BSP prescribed minimum limit. The Bank also conducts liquidity stress tests which have consistently revealed ample liquidity to meet its financial obligations under both bank-specific and systemic or market-wide crisis scenarios and periodically testing an established liquidity contingency funding plan (“LCFP”). The Bank’s market, IRRBB, and liquidity risk exposures are generally well within the RMC-approved risk limits at the BPI Parent and Consolidated levels.

Operational and Information Technology Risk

Arise from the Bank’s people and processes, its information technology, threats to the security of its facilities, personnel, or data, models, business interruption risk, reputational risk, and compliance obligations to regulatory or taxing authorities, amongst others. Operational and IT risk management in the Bank involves the formulation of policies, setting and monitoring of key risk indicators, overseeing the thoroughness of bank-wide risk and control self-assessments and loss incident management; and in the process, creating and maintaining a sound business operating environment that ensures and protects the integrity of the Bank’s assets, transactions, reputation, records and data of the Bank and its customers, the enforceability of the Bank’s claims, and compliance with all pertinent legal and regulatory parameters. The Bank’s actual operational losses are generally less than 1% of the Bank’s annual gross income, which is well within the Bank’s appetite for operational and IT risks.

Risk management is carried out by Bank’s dedicated team under the oversight of the parent’s risk management office of skilled risk managers and senior officers who have extensive prior operational experience working within the Bank. The Bank’s risk managers regularly monitor key risk indicators and report exposures against carefully-established credit, market, liquidity and operational and IT risk metrics and limits approved by the RMC. Independent reviews are regularly conducted by the Bank’s Internal Audit group, external auditors, and regulatory examiners to ensure that risk controls and mitigants are in place and functioning effectively as intended.

The bank's types and level of risk willing to assume in order to achieve business objectives is conveyed through the risk appetite statements approved by the Risk Management Committee. This covers each important risk identified.

Risk Area	BanKo Risk Appetite Statement
1. Enterprise Risk	The Bank adopts an overall low risk appetite for the Bank's aggregated and total financial and non-financial risk exposures.
2. Credit Risk (portfolio quality)	The Bank shall ensure to maintain a moderate level of non-performing loans (NPLs), and make certain that the amounts of loss reserves as well as the pricing of the credit risks are sufficient to cover the NPL and ROPA levels.
3. Credit Risk	The Bank has a low appetite for non-compliance to regulatory limits and ceilings on credit risk.
4. Market Risk	The Bank has a low appetite for losses from the day-to-day trading activities, which are monitored against the Bank's profit-and-loss (P&L) and comprehensive income levels
5. Interest Rate Risk	The Bank has a low appetite for losses due to adverse movements in the interest rates, measured as impact on the Bank's net interest, operating expenses, and underlying value of assets, liabilities and off-balance sheet documents.
6. Liquidity Risk	The Bank aims to meet regularly and internal requirements in liquidity in terms of stability over profits and ability to cover liquidity shocks
7. Operational Risk	The Bank has zero tolerance for any loss incident of catastrophic proportions.
8. Operational Risk (Run the Bank)	The Bank aims to achieve 99.5% availability of critical customer-facing services
9. Operational Risk (Secure the Bank)	The Bank has zero tolerance for data confidentiality and integrity breaches leading to financial loss, reports to regulators, and/or media reports.
10. Operational Risk (Build the Bank)	The Bank will innovate by adopting and customizing new, market-tested technologies with the key objective of providing its customers with the best banking experience and with minimum security risks.
11. Asset Management and Trust	The Bank shall prioritize customer satisfaction and has low appetite for losses due to investment risk while maximizing returns on clients' investments.
12. Model Risk	The bank has a moderate appetite for financial losses due to the use of risk models that are inaccurate or inherently flawed.
13. Reputational Risk	The Bank has a very low appetite for reputational risk and takes immediate action to resolve clients' complaints, local and overseas regulatory concerns and high risk issues.
14. Conduct Risk	The Bank will not tolerate unethical behavior, including dishonesty and any form of fraud or corruption.
15. Business Strategic Risk	The Bank has a moderate appetite for losses to earnings or capital, whether current or prospective, due to adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes in business conditions.

Capital Adequacy

Capital adequacy ratio, or CAR, is a measure of the Bank's total qualifying capital relative to its risk-weighted assets, and indicates the ability of its capital funds to cover various business risks.

The Bank ensures compliance with regulatory and internal minimum capital adequacy requirements, referred to as the Bank's internal minimum CAR, or IMCAR, and the CAR management action trigger, or CARMAT, which incorporate the Bank's internal capital buffers and limit triggers, and capture risks beyond Pillar 1 (credit, market, and operational).

Furthermore, the Bank is responsible for assessing and raising the strategic capital needs of the Bank, as well as initiating approvals for dividend payments to shareholders.
Effective capital management supports the Bank's assets and absorbs losses that may arise from credit, market and liquidity, operational and IT, and other risk exposures. The Bank's capital management framework ensures that on stand-alone and group bases, there is sufficient capital buffer at all times to support the respective risk profiles of the various businesses of the Bank, as well as changes in the regulatory and accounting standards and other future events.

The Bank submits a comprehensive internal capital adequacy assessment process, or ICAAP, document annually to the Bangko Sentral through Parent Bank, in accordance with the Pillar 2 guidelines of the Basel framework.

As of December 31, 2019, BanKo's CAR stood at 16.05%, higher than the minimum regulatory requirement of 10% and the Bank's internally set IMCAR and CARMAT.

The table below shows the Bank's CAR components for 2019 and 2018:

Risk (Php Mn)	2019	2018
Credit Risk	12,624	9,216
Market Risk	25	14
Operational Risk	2,146	1,298
Total	**14,795**	**10,528**
Capital Adequacy (Php Mn)	2019	2018
CET1/Net Tier1 [1/]	2,247	2,105
T2/Net Tier2 [2/]	128	93
Total QC [3/]	**2,375**	**2,198**
Total CRWA 4/	12,624	9,216
Total MRWA 5/	25	14
Total ORWA 6/	2,146	1,298
TRWA 7/	**14,795**	**10,528**
Ratios (%)		
CAR	**16.05**	**20.88**
CET1	**15.19**	**19.99**

1/ Common Equity Tier 1 Capital/Net Tier 1
2/ Tier 2 Capital/Net Tier 2
3/ Qualifying Capital
4/ Credit risk-weighted assets
5/ Market risk-weighted assets
6/ Operational risk-weighted assets
7/ Total risk-weighted assets

Related Party Transactions

In the ordinary course of business, the Bank has transactions with its directors, officers, stockholders and related interests (DOSRI) and with its Parent Bank such as cash deposit arrangements, purchase of investment securities and outsourcing of certain services, primarily loans operations, branch operations and human resource-related functions.

As part of the Bank's effort to ensure that transactions with related parties are normal banking activities and are done at arm's length, vetting is done either by the Board-level Corporate Governance Committee, defending on materiality, prior to implementation.

In 2019, the Bank made additional purchase of personal loans from BPI Parent aggregating P 5.6B.

Significant related party transactions are also disclosed in the Audited Financial Statements, particularly Note 18 on RPTs.

COMPLIANCE

Regulatory Compliance

The Bank views compliance to mean not only adherence to laws, regulations, and standards but, more importantly, the *consistent conduct of the affairs of the Bank within a culture of high integrity, bounded by conformity to ethical business practice, abiding by the principles of fair dealing, accountability and transparency.* This ensures that in all our areas of activity, the Bank and its stakeholders are protected from business risks as comprehensively as possible. We value most our reputation and the fact that we are trusted by our shareholders, clients, employees, partners, and members of the communities we serve.

Oversight of the management of the Bank's business risk and implementation of its compliance function is the responsibility of our Board of Directors, through the Audit Committee. At the management level, the compliance function is carried out by the Compliance Office, led by our Compliance Officer.

Anti- Money Laundering Compliance

The prevention of financial crimes is a top priority of BanKo, not only because they pose a significant threat to our reputation, but because they weaken the integrity of the global financial system. Hence, our Compliance Office extends its ambit beyond the Bank, its policies, and its employees to ensure that our clients also act within the law and do not use the Bank for illegal activities.

The Compliance Office's Anti-Money Laundering Department is responsible for monitoring customer and counterparty transactions in compliance with the Anti-Money Laundering Law, its implementing rules and regulations, and Bangko Sentral Circular No. 950. Developed under the guidance of the Bangko Sentral's Money Laundering and Terrorist Financing Prevention Program.

Financial Consumer Protection Framework

The Bank establish a financial consumer protection governance structure that aims to establish a business environment that protects the interest of financial consumers and create an institutional culture of fair and responsible treatment of customers through good governance exercised by the Board and governing bodies, and reinforced by the various functions that own, manage, oversee, or provide independent assurance over consumer protection activities.

BanKo Customer Care Office in coordination with other units in BanKo Compliance Office shall be responsible for creating a Consumer Protection Compliance Program aimed at preventing or reducing regulatory violations and protecting customer from harm or loss associated with non-compliance.

Data Privacy

BanKo has a strong Data Privacy Policy in place, which describes to whom the policy applies to, what personal data the Bank collects and how such data is collected, how the Bank may use personal data for core business and marketing purposes, how the Bank may disclose and share such personal data, how such personal data is stored and retained, and how such data can be accessed or corrected. The Data Privacy Policy is posted on the company website and complies with the requirements of the Data Privacy Act and the National Privacy Commission.

Internal Audit and Control

The enterprise Internal Audit Division is an independent body that supports the BPI and its subsidiaries' respective Audit Committees in fulfilling its oversight responsibilities by providing an independent, objective, assessment on the adequacy and effectiveness of the Bank's risk management, internal controls, and governance processes through well- established risk-based audit plans. Internal Audit also ensures that the Bank's operating and business units adhere to internal process and procedures and to regulatory and legal requirements.

It collaborates with other assurance providers such as the Risk Management Office, Compliance Office, external auditors, and other oversight units for a comprehensive review of risks and compliance in the institution, and ensures that business units proactively manage the risk and compliance exposures.
The internal audit function as empowered by the Internal Audit Charter includes free access to all records, properties and personnel. In this respect, the Audit Committee reviews the internal audit function, including its independence and the authority of its reporting relationship. The Internal Audit Division continuously improves the capabilities of its auditors through continuous education on specialized areas knowledge, auditing techniques, regulations, and banking products and services.

The enterprise Internal Audit Division has an established quality assurance and improvement program to ensure that audit activities conform to the International Standards for the Professional Practice of Internal Auditing. The program includes periodic internal and external quality assessment and ongoing monitoring of the performance of the internal audit activity. Periodic internal assessments are conducted annually, while external quality assessments are conducted at least once every five years by a qualified independent validator. This unit maintains its "generally conforms" ratings on both internal and external assessment, which indicate that its activities have continuously conformed to professional standards, code of ethics, and other internal standards.

The Board appoints a Chief Audit Executive who reports functionally to the Board of Directors through the Audit Committee and administrative to the President. This ensures that the Chief Audit Executive is not dependent on any bank executive or operating officer for the security of his or her position. Additionally, it ensures that the Chief Audit Executive has access to the Board, on a confidential basis, and that the Internal Audit Divisions is independent of bank management, approves the external auditor's term of engagement and audit fees. They also oversee the resolution of disagreement and the external auditors in the event that they arise.

Dividend Policy

Stockholders have the right to receive dividends subject to the discretion of the Board. However, the Commission may direct BanKo to declare dividends when its retained earnings is in excess of 100% of its paid-in capital stock, except:

- When justified by definite corporate expansion projects or programs approved by the Board;
- When BanKo is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured;
- When it can be clearly shown that such retention is necessary under special circumstances obtaining, such as when there is a need for a special reserve for probable contingencies.

For 2019, as approved by the Board, the Bank has no dividend declaration as Bank's retained earnings will be used for branch expansion, capital expenditures and loan growth.

Corporate Social Responsibility Initiatives

BanKo's current mission is to provide financial solutions to the wide swathe of the population who are currently financially excluded or underserved with the hope that access to these facilities will ultimately raise their quality of life, and ultimately will redound to nation building.

In 2019, BanKo strengthens its commitment to the SEME market further in times of disasters and natural calamities by providing deferred payment programs for clients in affected areas. This program was implemented in Davao for the victims of the October 2019 earthquake, in Bicol for those affected by Typhoon Tisoy, and more recently, in Batangas for those affected by the Taal Volcano's phreatic eruption.

BanKo's continuous efforts have elevated the lives of everyday micro-entrepreneurs - considered as the backbone of the country's economy. In just three years, the bank has made a considerable impact in the lives of thousands of previously underserved Filipinos by creating an enabling business environment for them, and is poised to make a significant contribution to the country's economic development in the long run.

Financial Consumer Protection Framework

BPI Direct BanKo handles customer inquiries and complaints through its Customer Care Unit, which provides report to BPI Parent's Customer Experience Management Office (CXMO) regularly. This is to ensure that customer feedbacks are captured and address accordingly and aligned with the Bank's Consumer Protection Policies.

For 2019, the bank tracked and monitored customer issues and feedback concerning its products and services action plans were implemented to ensure that the most pressing and important issues raised by customers were resolved within the committed turn-around times.

The BanKo Customer Care Unit implements the following process for handling consumer complaints and concerns.

1. Receive/acknowledge complaint/feedback. Consumers reach out to BanKo through various channels, such as voice calls, email, social media and SMS. The Customer Care Unit receives the feedback.

2. Obtain necessary information. The Customer Care Specialist requests the necessary information from the client.

3. Determine the appropriate type/nature of complaint/feedback. The specialist engages with the client and classifies the feedback according to an established list of complaints/concerns.

   Simple complaints and concerns such as branch/partner agents location, MPIN reset request, account status, account opening process and requirements, account closing request, Negosyoko Loan status, etc. are classified as Level 1.

   On the other hand, complex complaints that are being handled and verified with other BanKo units and dependencies/third-party partners such as Bancnet for the ATM withdrawal, Bankware vendor for System downtime or maintenance, Instapay for fund transfer to other banks and Ibayad for Buyload and PayBills , are classified as Level 2.

4. Analyze and explain the process and resolution, action taken timeline to the customer. The specialist explains the proper process, resolution and action/s taken and advise the turnaround time to the consumer.

5. Close the report status log once completed. When the complaint/concern has been properly addressed, the specialist closes the report status. Otherwise, the concerned unit must send feedback/response within agreed turnaround time.

6. Relay resolution to client. The specialist calls or responds to the client.

7. Document the details of the received complaint/feedback. Specialist closes the report status through the reports portal.

SUPPLEMENTARY SCHEDULES ON CAPITAL AND RISK MANAGEMENT DISCLOSURES PURSUANT TO THE BANKO SENTRAL'S MEMORAMDUM M-2017-011

Capital Structure

The Bank's qualifying capital for the years ended 2019 and 2018 were Php2.40 billion and Php2.10 billion, respectively. The Bank's total qualifying capital for 2019 and 2018 were largely composed of CET1 capital and Tier1 at 95.0% and 96.0%, respectively.

The table below shows the composition of the Bank's capital structure and total qualifying capital.

Capital Structure (Php Mn)	December 31, 2019			December 31, 2018		
	CET1/ Tier1	Tier 2	TOTAL	CET1/ Tier1	Tier 2	TOTA
Core Capital	**2,602**	**128**	**2,462**	**2,369**	**93**	**2,36**
Paid-up common stock	405	-	405	405	-	40
Additional paid-in capital	-	-	-	-	-	-
Retained earnings	1,939	-	1,675	1,675	-	1,675
Undivided profits	276	-	286	286	-	286
Net unrealized gains or losses on AFS securities	-	-	-	0	-	0
Cumulative foreign currency translation	-	-	-	-		-
Remeasurements of Net Defined Benefit Liability (Asset)	-18	-	3	3	-	3
Minority interest 1/	-	-	-	-	-	-
General loan loss provision 2/		128	93	-	93	93
Deductions	**354**	**-**	**264**	**264**	**-**	**264**
Total O/S unsecured credit accommodations 3/	-	-	-	-	-	-
Total O/S unsecured loans 4/	-	-	-	-	-	-
Deferred tax assets	327	-	237	237	-	237
Other intangible assets	9	-	20	20	-	20
Defined benefit pension fund assets	18	-	7	7	-	7
Investments in equity 5/	-	-	-	-	-	-
Significant minority investments 6/	-	-	-	-	-	-
Other equity investments 7/	-	-	-	-	-	-
TOTAL QUALIFYING CAPITAL	**2,248**	**128**	**2,375**	**2,105**	**93**	**2,105**
% to Total	**95%**	**5%**	**100%**	**96%**	**4%**	**100%**

1/ Minority interest in subsidiary banks, which are less than wholly-owned
2/ General loan loss provision, limited to a maximum of 1% of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio
3/ Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)
4/ Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates
5/ Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies), after deducting related goodwill, if any (for solo basis only and as applicable) and Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any (for both solo and consolidated bases and as applicable)
6/ Significant minority investments (10%-50% of voting stock) in securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases)
7/ Other equity investments in non-financial allied undertakings and non-allied undertakings

Credit risk-weighted assets. Using the Basel regulatory standardized approach, our total credit risk-weighted assets as of December 31, 2019 amounted to Php12.62 billion.

The table below provides a summary of the Bank's credit risk-weighted assets for 2019 and 2018:

Credit RWAs (Php Mn)	Amount 2019	Amount 2018
Total RWA (On-balance sheet) 0/	12,797	9,332
Total RWA (Off-balance sheet) 0/	0	0
Total counterparty RWA (banking book) 1/	0	0
Total counterparty RWA (trading book)	0	0
Total RWA credit-linked notes (banking book)	-	-
Total Gross RWA	**12,797**	**9,332**
Deductions: General loan loss provision 2/	-173	-117
Total Credit RWAs	**12,624**	**9,215**

0/ Risk-weighted assets
1/ For derivatives and repo-style transactions
2/ In excess of the amount permitted to be included in upper Tier 2

Schedule A

December 31, 2019 (Php Mn)	Exposure after risk mitigation	Risk Weights 0%	20%	50%	75%	100%	150%	Total CRWA 1/
Cash on hand	215	215	-	-	-	-	-	215
Checks and other cash items	2	-	2	-	-	-	-	-
Due from BSP	2,196	2,196	-	-	-	-	-	2,196
Due from other banks	1,131		-	1,073		58	-	1,131
Available-for-sale (AFS)	0	-	0	-	-	-	-	0
Held-to-maturity (HTM)	-	-	-	-	-	-	-	-
UDSCL 2/	-	-	-	-	-	-	-	-
Loans and receivables	12,494		-	1,693	3,843	6,689	269	12,494
Loans and receivables - Others /	394	394	-	-	-	-	-	394
Sales contract receivables	-	-	-	-	-	-	-	-
ROPA 4/	64	-	-	-	-		64	64
Sub-total	**14,744**	**2,805**	**2**	**2,766**	**3,843**	**6,747**	**332**	**14,744**
Other assets	804	-	-	-	-	804	-	804
Total exposure, plus other assets	**15,548**	**2,805**	**2**	**2,766**	**3,843**	**7,551**	**332**	**15,548**
Total risk-weighted OBSA (no CRM) 0/5 /			328	1,383	2,882	8,034	498	12,797
Total risk-weighted OBSA (with CRM)5 /			-	-	-	-	-	-
Total RWA (On-Balance Sheet)			**328**	**1,383**	**2,882**	**8,034**	**498**	**12,797**

December 31, 2018 (Php Mn)	Exposure after risk mitigation	Risk Weights 0%	20%	50%	75%	100%	150%	Total CRWA 1/
Cash on hand	86	86	-	-	-	-	-	86
Checks and other cash items	-	-	-	-	-	-	-	-
Due from BSP	3,861	3,861	-	-	-	-	-	3,861
Due from other banks	885		-	824		61	-	885
Available-for-sale (AFS)	100	-	100	-	-	-	-	100
Held-to-maturity (HTM)	-	-	-	-	-	-	-	-
UDSCL 2/	-	-	-	-	-	-	-	-
Loans and receivables	9,454		-	2,055	2,043	5,290	66	9,454
Loans and receivables - Others 3/	300	300	-	-	-	-	-	300
Sales contract receivables	-	-	-	-	-	-	-	-
ROPA 4/	57	-	-	-	-		57	57

Sub-total	**14,744**	**4,247**	**100**	**2,879**	**2,043**	**5,351**	**123**	**14,744**
Other assets	804	-	-	-	-	804	-	804
Total exposure, plus other assets	**15,548**	**4,247**	**100**	**2,879**	**2,043**	**6,155**	**123**	**15,548**
Total risk-weighted OBSA (no CRM) 0/5 /			20	1,439	1,532	6,155	185	9,332
Total risk-weighted OBSA (with CRM)5 /			-	-	-	-	-	-
Total RWA (On-Balance Sheet)			**20**	**1,439**	**1,532**	**6,155**	**185**	**9,332**

1/ Credit risk-weighted assets
2/ Unquoted debt securities classified as loans
3/ Loans and receivables arising from repurchase agreements, certificates of assignment/participation with recourse, and securities lending and borrowing transactions
4/ Real and other properties acquired
5/ Not covered by, and covered by credit risk mitigants, respectively

Market risk-weighted assets. In terms of capital usage using the Basel standardized approach, total market risk-weighted assets stood at Php25 million as of end-2019, of which foreign exposures accounted for more than half, followed by interest rate exposures and equity exposures, respectively.

The table below presents the breakdown of the Bank's market risk-weighted assets for 2019 and 2018:

MARKET RWA (Php Mn)	2019	2018
Using standardized approach		
Interest rate exposures	-	-
Foreign exposures	25	9
Equity exposures	-	-
TOTAL MARKET RWA 0/	**25**	**9**

0/ Risk-weighted assets

Operational risk-weighted assets. We currently use the Basel regulatory basic indicator approach to quantify operational risk-weighted assets, by using the historical total annual gross income as the main measure of risk. In 2019, the Bank's total operational risk-weighted assets stood at Php2,146 million.

The table below presents the breakdown of the Bank's market risk-weighted assets for 2019 and 2018:

	AMOUNT	
OPERATIONAL RWA (Php Mn)	**2019**	**2018**
Gross income (a)	2,110	2,077
Capital requirement 1/	317	311
Average capital requirement (b) 2/	171	103
Adjusted capital charge (c) 3/	215	129
TOTAL OPERATIONAL RWA 0/ 4/	**2,146**	**1,298**

0/ Risk-weighted assets
1/ (a) multiplied by 15 percent
2 / Average of 15 percent of (a) for the past (3) years
3 / (b) multiplied by 125 percent
4 / (c) multiplied by factor 10

Corporate Information

The following is an overview of the Bank's major stockholders, including nationality, percentage of stockholdings and voting status (as of December 31, 2019):

AMENDED GENERAL INFORMATION SHEET (GIS)
STOCK CORPORATION

=============================== PLEASE PRINT LEGIBLY ===============================

CORPORATE NAME: BPI DIRECT BANKO, INC., A SAVINGS BANK (formerly BPI Direct Savings Bank, Inc.)

TOTAL NUMBER OF STOCKHOLDERS: 10 | NO. OF STOCKHOLDERS WITH 100 OR MORE SHARES EACH: 1

TOTAL ASSETS BASED ON LATEST AUDITED FINANCIAL STATEMENTS: P 15,596,438,630.00

STOCKHOLDER'S INFORMATION

NAME, NATIONALITY AND CURRENT RESIDENTIAL ADDRESS	SHARES SUBSCRIBED			% OF OWNER-SHIP	AMOUNT PAID (PhP)	TAX IDENTIFICATION NUMBER
	TYPE	NUMBER	AMOUNT (PhP)			
1. BANK OF THE PHILIPPINE ISLANDS Filipino Ayala North Exchange Tower 1, Ayala Avenue cor. Salcedo St., Legaspi Village Makati City, Metro Manila 1229	Common A	3,455,712	345,571,200.00	100.00%	405,571,200.00	000-438-366-000
	Common B	600,000	60,000,000.00			
	TOTAL	4,055,712	405,571,200.00			
2. MARIE JOSEPHINE M. OCAMPO Filipino 596 Colgate St. East Greenhills, Mandaluyong City	Common A	1	100.00	0.00%	100.00	129-453-280
	TOTAL	1	100.00			
3. IGNACIO R. BUNYE Filipino 101 Dr. Alfredo M. Bunye St., Alabang, Muntinlupa City	Common A	1	100.00	0.00%	100.00	130-921-365
	TOTAL	1	100.00			
4. NATIVIDAD N. ALEJO Filipino # 15 Toledo St., Merville Park, Paranaque City	Common A	1	100.00	0.00%	100.00	135-539-388
	TOTAL	1	100.00			
5. JOSE FERDINAND B. DE LUZURIAGA Filipino 3 Basco Street, Las Villas de Manila, Biñan, Laguna	Common A	1	100.00	0.00%	100.00	146-868-956
	TOTAL	1	100.00			
6. RODOLFO K. MABIASEN, JR. Filipino 147 Diplomat Rd., Dominican Hill, Baguio City	Common A	1	100.00	0.00%	100.00	199-784-878
	TOTAL	1	100.00			
7. JEROME B. MINGLANA Filipino #5222 San Lazaro St., San Antonio Valley 5, San Antonio, Parañaque City	Common A	1	100.00	0.00%	100.00	195-409-322
	TOTAL	1	100.00			
8. AURELIO R. MONTINOLA, III Filipino 29 Pili Avenue, South Forbes Park, Makati City	Common A	1	100.00	0.00%	100.00	135-558-086
	TOTAL	1	100.00			
9. SIMON R. PATERNO Filipino 58 McKinley Road, Forbes Park, Makati City	Common A	1	100.00	0.00%	100.00	203-010-472
	TOTAL	1	100.00			
10. JESUS V. RAZON, JR. Filipino 83 Mabolo St., Mapayapa Village I, Capitol Site, Quezon City	Common A	1	100.00	0.00%	100.00	135-562-098
	TOTAL	1	100.00			
TOTAL AMOUNT OF SUBSCRIBED CAPITAL			405,572,100.00	100.00%	405,572,100.00	
TOTAL AMOUNT OF PAID-UP CAPITAL						

INSTRUCTION: SPECIFY THE TOP 20 STOCKHOLDERS AND INDICATE THE REST AS OTHERS

Note: For PDTC Nominee included in the list, please indicate further the beneficial owners owning more than 5% of any class of the company's voting securities. Attach separate sheet, if necessary.

Product and Services

DEPOSITS

Peso

Checking Account

Savings Account

Time Deposits Account

Foreign Currency

Savings Account

LOANS

Consumer

Auto Loans

Housing Loans

Microfinance

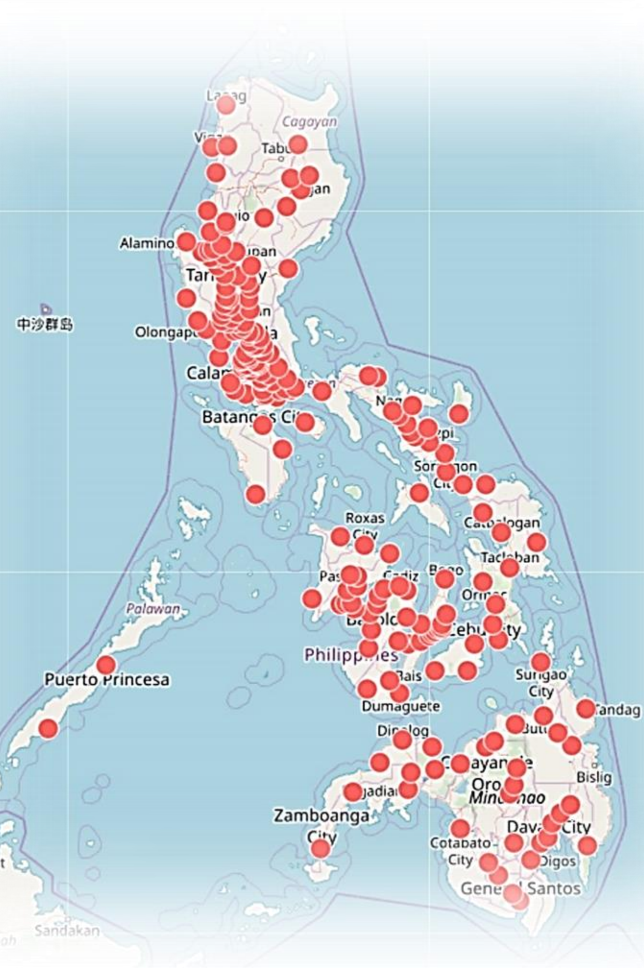
BanKo NegosyoKo Loan

PondoKo

Bank Website

http://www.banko.com.ph

List of Banking Units



NORTH LUZON (60)

1 BALER
2 SOLANO
3 TUGUEGARAO
4 CAUAYAN
5 ILAGAN
6 ROXAS
7 SANTIAGO
8 ANGELES CITY
9 BALANGA
10 CABANATUAN
11 OLONGAPO CITY
12 SAN FERNANDO
13 SANTA MARIA
14 TARLAC CITY
15 APALIT
16 BALIUAG
17 CAPAS
18 CONCEPCION TARLAC
19 FLORIDABLANCA
20 GAPAN
21 GUAGUA
22 GUIMBA
23 HAGONOY
24 IBA
25 MABALACAT
26 MAGALANG
27 MALOLOS
28 MARILAO
29 MARIVELES
30 PANIQUI
31 PLARIDEL
32 PORAC
33 SAN JOSE CITY
34 SAN JOSE DEL MONTE BULACAN
35 SAN MARCELINO
36 SAN MIGUEL
37 STA. ANA
38 TALAVERA
39 URDANETA CITY
40 BAGUIO CITY
41 DAGUPAN CITY
42 LAOAG
43 ROSALES
44 VIGAN
45 AGOO
46 ALAMINOS
47 BANGUED
48 BAYAMBANG
49 CANDON
50 LA TRINIDAD
51 LINGAYEN
52 MALASIQUI
53 MANGALDAN
54 POZORRUBIO
55 SAN CARLOS
56 SAN FERNANDO
57 TAYUG
58 SAN JUAN CITY
59 CALOOCAN
60 QUEZON

SOUTH LUZON (57)

1 DAET
2 LEGAZPI
3 MASBATE CITY
4 NAGA
5 SORSOGON CITY
6 GOA
7 IRIGA
8 IROSIN
9 LABO
10 LIGAO
11 PILI
12 POLANGUI
13 TABACO
14 VIRAC
15 BACOOR
16 CAINTA
17 CALAMBA
18 LIPA (BAUAN)
19 LUCENA
20 RODRIGUEZ
21 ANTIPOLO
22 BALAYAN
23 BATANGAS CITY
24 BINAN
25 BINANGONAN
26 CANDELARIA
27 CAVITE CITY
28 DASMARINAS CAVITE
29 GENERAL TRIAS
30 GMA-GEN MARIANO ALVAREZ
31 GUMACA
32 IMUS
33 LEMERY
34 LOS BANOS
35 LUCBAN QUEZON
36 NASUGBU
37 PAGBILAO
38 ROSARIO
39 ROSARIO
40 SAN JUAN
41 SAN PABLO
42 SAN PEDRO
43 SANTA CRUZ
44 SANTA ROSA
45 SANTO TOMAS
46 SARIAYA
47 SILANG
48 TANAUAN CITY
49 TANAY
50 TANZA
51 TRECE MARTIRES
52 BOAC
53 CALAPAN
54 PUERTO PRINCESA
55 BROOKES POINT
56 PINAMALAYAN
57 SAN JOSE

VISAYAS (50)

1 DUMAGUETE CITY
2 BACOLOD CITY
3 CARCAR
4 CATBALOGAN
5 CEBU
6 ILOILO
7 ROXAS CITY
8 TACLOBAN CITY
9 TAGBILARAN
10 ALLEN
11 BAGO CITY NEGROS OCCIDENTAL
12 BAYAWAN
13 BAYBAY
14 BOGO
15 BORONGAN
16 CABATUAN
17 CADIZ
18 CALBAYOG
19 CALINOG
20 CATARMAN
21 CITY OF NAGA
22 CONSOLACION
23 DANAO
24 DUMANJUG
25 ESTANCIA
26 GUIHULNGAN
27 GUIMARAS
28 HILONGOS
29 HINIGARAN
30 JAGNA
31 KABANKALAN
32 KALIBO
33 LAPU-LAPU CEBU
34 MAASIN
35 MANDAUE CEBU
36 MINGLANILLA
37 ORMOC
38 OTON
39 PASSI
40 POTOTAN
41 SAGAY NEGROS OCCIDENTAL
42 SAN CARLOS
43 SAN JOSE DE BUENAVISTA
44 SILAY
45 TALISAY
46 TANJAY
47 TIGBAUAN ILOILO
48 TOLEDO CITY
49 UBAY
50 VICTORIAS

MINDANAO (33)

1 DAVAO CITY
2 BUTUAN CITY
3 CAGAYAN DE ORO CITY
4 COTABATO
5 GENERAL SANTOS
6 ILIGAN CITY
7 SURIGAO CITY
8 VALENCIA
9 ZAMBOANGA CITY
10 BAYUGAN
11 DIGOS
12 DIPOLOG CITY
13 GINGOOG
14 IPIL
15 KIDAPAWAN
16 KORONADAL
17 MALAYBALAY
18 MARAMAG
19 MATI
20 MOLAVE
21 NABUNTURAN
22 OROQUIETA CITY
23 OZAMIS CITY
24 PAGADIAN CITY
25 PANABO
26 POLOMOLOK
27 SAN FRANCISCO AGUSAN DEL SUR
28 SINDANGAN
29 TACURONG
30 TAGUM
31 TANDAG
32 TORIL
33 VILLANUEVA

List of Banking Units

Count	Branch Name	Branch Type	Address
1	Head Office/Greenhills	Branch	220 Ortigas Avenue, BanKo Center, North Greenhills, San Juan City, Metro Manila
2	Naga	Branch	Unit 302 Level 3, Nagaland E-Mall Elias Angeles St San Francisco Naga city, Camarines Sur
3	Davao	Branch	Door 110 JLF Parkway bldg, Located along Magllanes cor Tomas Claudio St. Davao City
4	Dumaguete	Branch	Unit K-12 Twin Arcade Building Percides St. Dumaguete City, Negros Oriental
5	Angeles City	Branch	San Francisco St. (now Ritchtofen St.), Lourdes NW, Angeles City Pampanga
6	Cainta	Branch	Unit 7 ARDI Bldg. I Ortigas Avenue Extension, Cainta, Rizal
7	Caloocan	Branch	G/F 511 A. Mabini St., Maypajo, Caloocan City
8	Iloilo	Branch	161 Fuentes Street Iloilo City
9	Lipa	Branch	#10 kapitan simeon luz street Brgy 4 Lipa City, Bantangas
10	General Santos	Branch	Laiz Bldg. Santiago Blvd., General Santos City
11	San Fernando City, Pampanga	Branch	G/F EKO Building. Consunji St. Barrio Sto. Rosario, San Fernando City, Pampanga.
12	Legazpi	Branch	2/F Hotel Rex Building, Aguinaldo corner Penaranda Sts. Legaspi City, Albay
13	Tabaco	BLU	VSP Building Riosa Street, Divino Rostro, Tabaco City, Albay
14	Iriga	BLU	Tansylit Commercial Building, Zone 4 Alfelor St., San Roque, Iriga City, Camarines Sur
15	Apalit	BLU	St. Jude Commercial Bldg., along MacArthur Highway, Brgy. San Vicente, Apalit, Pampanga
16	Guagua	BLU	G/F 174 Lapid Bldg., Sto. Nino, Guagua, Pampanga
17	Guihulngan	BLU	Nesto Commercial Space, ML Quezon St., Guihulngan, Negros Oriental
18	Sta. Ana	BLU	Corner Gamboa St., and A. Dizon St., San Joaquin, Sta. Ana, Pampanga
19	Tanjay	BLU	Josephine Building, Lot 642, Opao Barrio Poblacion, Tanjay City, Negros Oriental
20	Panabo	BLU	Asaje Realty Corporation Property, Prk. Tambis, Sto. Nino, Panabo City
21	Digos	BLU	Unit #14 Bello Bldg., Gen. Luna St., Zone III, Digos City
22	Bayawan	BLU	Cor. Bollos and J. P. Rizal St., Brgy. Boyco, Bayawan City
23	Tagum	BLU	DCC Building, Dalisay-Gante Road Prk. Bayanihan, Magugpo West, Tagum City
24	Mati	BLU	Lot 12, Blk 13, Asaje Building, Rizal Ext., Barangay Central City of Mati, Davao Oriental
25	Butuan	Branch	Purok 7, Brgy. Limaha 14, Langihan Road, Butuan City, Agusan Del Norte
26	Iligan	Branch	Door #4 Alco Building, Gregorio T. Lluch, Sr Ave. corner F. B. Laya St. Iligan City, Lanao Del Norte
27	Pili	BLU	Guevarra St., Old San Roque, Pili, Camarines Sur
28	Santa Maria, Bulacan	Branch	J. C. De Jesus St., Poblacion, Santa Maria, Bulacan
29	Ozamis	BLU	132 A Gomez Ext. Cor. Zulueta, Trigold Trade Mindanao Bldg. Sta Cruz, Ozamis City, Misamis Occidental
30	Tanauan	BLU	Almeda Space Rental, Burgos St., Poblacion 7, Tanauan City, Batangas
31	Dagupan	Branch	26-A Rizal Street, Pua's Bldg., Barangay II & III, Dagupan City, Pangasinan
32	Urdaneta	BLU	Lot 357-B Mac Arthur Highway Poblacion, Urdaneta City, Pangasinan
33	Baliuag	BLU	J & U Bldg., 321 B.S Aquino Ave., Bagong Nayon, Baliuag Bulacan
34	Toril	BLU	Purok 8 Vdlr Street, Lower Portion, Brgy. Bayabas Crossing, Toril District, Davao City
35	San Jose de Buenavista	BLU	Bantayan Road, Funda-Dalipe, San Jose De Buenavista, Antique
36	Gingoog	BLU	Princity Bldg., Barangay 19 Gingoog City, Misamis Oriental
37	Kidapawan	BLU	Armando Realty Corp., Padilla St., Brgy. Poblacion, Kidapawan, North Cotabato
38	Marilao	BLU	2nd Floor 208, Poblacion 2, Marilao, Bulacan
39	Iba	BLU	2nd Floor, Camara Bldg., National Road Zone I, Iba, Zambales
40	Silang	BLU	01 Yakal St. Brgy. San Miguel I, Silang, Cavite
41	Tarlac City	Branch	NP Magbag Bldg. F. Tanedo corner Sapiro St. San Nicolas, Tarlac City
42	Baguio	Branch	G/F Kayang Business Center No. 08 Unit L3-G Shagem Street corner Kayang Road, Baguio City
43	Ilagan	BLU	Rizal St., San Vicente, Ilagan City, Isabela
44	Concepcion	BLU	Arthur Go Bldg., L. Cortez St., Brgy. San Jose, Concepcion, Tarlac
45	Binangonan	BLU	GMG Bldg. Blk 1 Lot 1 Blueridge Village, Brgy. Tagpos, Binangonan Rizal
46	Mandaue	BLU	Unit 1B Zion Center, A. Del Rosario St. Brgy. Guizo, Mandaue City Cebu
47	Tuguegarao	Branch	Rizal Street, Centro 08, Tuguegarao City, Cagayan
48	Balanga	Branch	Capinpin Road, Market Site San Jose, Balanga City, Bataan
49	Estancia	BLU	E. Reyes Ave., Poblacion Zone 2, Estancia, Iloilo
50	Santa Rosa	BLU	#94, J.P. Rizal Blvd., Tagapo, Santa Rosa Laguna

List of Banking Units

Count	Branch Name	Branch Type	Address
51	Gumaca	BLU	J. P. Rizal St., Brgy. Penafrancia, Gumaca, Quezon
52	Kalibo	BLU	Door F. Barrios Building Roxas Ave., Ext. Andago, Kalibo, Aklan
53	Puerto Princesa	Branch	GSK Bldg., Lacao St. Puerto Princesa City, Palawan
54	Cagayan de Oro	Branch	Door#2, Anthony Tion Bldg., Hayes St. Nazareth, Cagayan De Oro City
55	Paniqui	BLU	GF Patricia Anne Bldg. M. H. Del Pilar St. Brgy. Estacion, Paniqui Tarlac
56	Kabankalan	BLU	G. Cordova St., Brgy., 3 Kabankalan City, Negros Occidental
57	La Trinidad	BLU	Rose Buan Bldg., KM 4 Balili, La Trinidad, Benguet
58	Tanay Rizal	BLU	Sampaloc Rd., Brgy. Plaza Aldea, Tanay Rizal
59	Cabatuan	BLU	Morales Bldg., Rizal St., Cabatuan Iloilo
60	Malaybalay	BLU	Moreno St., Barangay 05, Malaybalay City , Bukidnon
61	San Francisco	BLU	Unit 4, Romana-Paul Tan Building, Bonifacio Street, Poblacion, Brgy. 4, San Francisco, Agusan Del Sur
62	Bacolod	Branch	Door 5 Ava Arcade San Sebastian Gatuslao St., Brgy. 13, Bacolod City, Negros Occidental
63	Antipolo	BLU	Lot 64-66, Cogeo Trade Hall, Sitio Kasapi, Bagong Nayon, Antipolo City
64	San Carlos	BLU	JL Tourist Inn, S. Carmona St., Brgy. IV, San Carlos City, Negros Occidental
65	Gapan	BLU	Maharlika Hiway, JC Ramirez Bldg., Brgy. San Vicente, Gapan City, Nueva Ecija
66	Malolos	BLU	#31 Tanjeco St., San Vicente, Malolos City, Bulacan
67	Santiago	BLU	A and A Musngi Bldg., City Road Centro East, Santiago City, Isabela
68	Cauayan	BLU	King Street Mall, Rizal Ave., District III, Cauayan City, Isabela
69	San Carlos City	BLU	#38 Rizal Ave., San Carlos City, Pangasinan
70	San Jose City	BLU	#126 Maharlika Highway, Brgy. Malasin, San Jose City, Nueva Ecija
71	Tacurong	BLU	Jose Abad Santos Street, Poblacion, Tacurong City, Sultan Kudarat
72	Balayan	BLU	Lot 356-A #123 Damballelos St. Brgy 4 Balayan, Batangas
73	Candelaria	BLU	Del Valle St., Poblacion, Candelaria Quezon
74	Catarman	BLU	Corner Quirino Street, Barangay Jose P. Rizal, Catarman, Northern Samar
75	Polomolok	BLU	Cannery Road, Sanchez Subd., Brgy. Poblacion, Polomolok, South Cotabato
76	Ormoc	BLU	Gr. Fl Lam Bldg., Cor. Carlos Tan & Mabini St., District 23, Ormoc City, Leyte
77	Ligao	BLU	1 Door 10 Dy - OK Bldg., Legazpi St., Guilid, Ligao City, Albay
78	Bangued	BLU	McKinley St. Zone 2, Bangued, Abra
79	Lapu-Lapu	BLU	Ompad St. Poblacion, Lapu-Lapu City, Cebu
80	Danao	BLU	Rizal St., Poblacion, Danao City, Cebu
81	Maasin	BLU	Oppus St., Tunga Tunga, Maasin City, Southern Leyte
82	Santa Cruz	BLU	1618 J. Falcon St., Poblacion 5, Sta. Cruz Laguna
83	San Jose Del Monte BLU	BLU	MASJ Building (Unit D&E) Carriedo St., Muzon, San Jose, Del Monte, Bulacan
84	Silay	BLU	Prince Hypermart, Cor. Antonio Luna and Rizal St., Brgy. I Silay City, Negros Occidental
85	Sagay	BLU	Avancena St. cor. Osmena St., Poblacion 1, Sagay City, Negros Occidental
86	Binan	BLU	Bonifacio St., Canlalay, Binan, Laguna
87	San Jose, Occidental Mindoro	BLU	Capt. Cooper St., Poblacion, Brgy. IV, San Jose, Occidental Mindoro
88	Polangui	BLU	Sapalicio St., Basud, Polanqui, Albay
89	San Fernando City, La Union MBO	BLU	BHF Bldg., 147 P. Burgos St., Ilocanos Sur, San Fernando City La Union
90	Roxas	Branch	Roxas Avenue, Brgy. VIII, Roxas City, Capiz
91	Tacloban	Branch	Cor. P. Zamora S. P. Paterno Sts., Brgy. 26 Tacloban City, Leyte
92	Surigao	Branch	Borromeo Cor. Magallanes St., Brgy. Washington, Surigao City, Surigao Del Norte
93	Vigan	Branch	Sky 1 Bldg., Del Pilar St., Barangay VIII, Vigan City
94	Masbate	Branch	Good Star Bldg., Corner Cortidor & Zurbito Sts., Bapor, Masbate City
95	Calamba	Branch	106 Commerce Center, Parian, Calamba City, Laguna
96	Laoag Branch	Branch	2nd Floor, Conching Bldg., Rizal St., Brgy 16, Laoag City, Ilocos Norte
97	Tagbilaran	Branch	6R's Bldg. Belderol St., Cogon, Tagbilaran City, Bohol
98	Calapan Branch	Branch	J.P. Rizal St., San Vicente Central, Calapan, Oriental Mindoro
99	Lucena	Branch	29A Quezon Avenue cor. Ravanzo St., Brgy. I, Lucena City, Quezon
100	Cebu City	Branch	Unit 6, The Eden, Colon St., Kalubihan, Cebu City

List of Banking Units

Count	Branch Name	Branch Type	Address
101	Solano Branch	Branch	1 De Luna Bldg. Espino St., Brgy. Quirino, Solano, Nueva Vizcaya
102	Baler Branch	Branch	Purok 2, Sitio Kinalapan, Brgy. Pingit, Baler, Aurora
103	Cabanatuan City Branch	Branch	Cor. Burgos and Sanciangco Sts., Brgy. Fatima, Cabanatuan City Nueva Ecija
104	Valencia	Branch	NVM Mall, Guinoyan Road, P-4, Poblacion, Valencia City, Bukidnon
105	Olongapo City Branch	Branch	GF 1995 Ave., West Bajac Bajac, Olongapo City, Zambales
106	Batangas City	BLU	H. C. Tomson Commercial Bldg., D. Silang St. Poblacion 015, Batangas City
107	Virac	BLU	Brgy. Concepcion, Virac, Catanduanes
108	Koronadal	BLU	Salanga Bldg., Morales Ave., Brgy. Gen. P. Santos, Koronadal City, South Cotabato
109	Roxas, Isabela	BLU	Bethany Hotel Bldg., Osmena St., Brgy. Bantug, Roxas, Isabela
110	Tigbauan	BLU	Tupas St., Brgy. 7 Poblacion, Tigbauan, Iloilo
111	Brooke's Point	BLU	NT Bldg., Poblacion District II, National Highway, Brooke's Point, Palawan
112	Cadiz	BLU	Magsaysay Ext., Andrea Village, Poblacion 3, Cadiz City, Negros Occidental
113	Pinamalayan	BLU	Amando Marciano Bldg., cor. Mabini and Quezon St., Zone III, Pinamalayan, Oriental Mindoro
114	Sorsogon	Branch	Quezon St., Polvorista, Sorsogon City, Sorsogon
115	Bacoor	Branch	No. 369 Gen. E. Aguinaldo Hi-way, Talaba IV, Bacoor Cavite
116	Rodriguez	Branch	#50 E. Rodriguez Hi-way corner Kalantas St., Brgy. San Jose, Rodriguez, Rizal
117	Boac	Branch	Del Mundo St. Cor. Madrigal St., Brgy. Malusak, Boac, Marinduque
118	Rosales	Branch	CSC Bldg., General Luna St., Zone III, Poblacion, Rosales, Pangasinan
119	Cubao	Branch	St. Anthony Bldg., Aurora Blvd., Brgy. E. Rodriguez, Cubao, Quezon City
120	Trece Martires	BLU	13 Martyrs St., Mariden Bldg. Brgy. San Agustin, Trece Martires, Cavite
121	Consolacion	BLU	Westside Properties, 803 V & G Subdivision, Brgy. Nangka, Consolacion, Cebu
122	Lingayen	BLU	41 C. Avenida Rizal, East Poblacion, Lingayen, Pangasinan
123	Minglanilla	BLU	1316 Natalio B. Bacalso, South National Highway, Poblacion Ward I, Minglanilla, Cebu
124	Dasmarinas	BLU	Unit 6 Ground Floor AVM Building, Isidro Mangubat St., Brgy. Zone IV, Dasmarinas, Cavite
125	Pototan	BLU	#5008 SRG Bldg., Villa Cecilia Subd., Brgy. Malusgod, Pototan, Iloilo
126	Rosario	BLU	#248 Abutin Bldg., Gen. Trias Drive, Tejeros Convention Bgy. Tejeros, Rosario Cavite
127	Talisay	BLU	Talisay Town Center Unit 12, Victoria St., Bgy. Tabunok, Talisay City, Cebu
128	GMA	BLU	Door 4 Umerez Properties Bldg., Bry. San gabriel, GMA (formerly Corona), Cavite
129	Cavite City	BLU	P. Burgos Avenue, Caridad, Cavite City, Cavite
130	Sariaya	BLU	Maharlika Highway, cor. Pablo St., Sariaya, Quezon
131	Lemery	BLU	Miranda Building, Ilustre Avenue, District 3, Lemery, Batangas
132	Guimaras	BLU	Zemkamps Chalet Bldg. Stall 5 & 6, New Site, San Miguel, Jordan, Guimaras
133	Plaridel, Bulacan	BLU	JMET's Building 215 J. Garcia St., Banga 1st, Plaridel, Bulacan
134	General Trias	BLU	9026 C.M. Delos Reyes St., Bgy. Manggahan, General Trias City, Cavite
135	Bayambang, Pangasinan	BLU	Rizal Avenue, Poblacion Sur, Bayambang, Pangasinan
136	Bago	BLU	2nd St., Marhil Subdivision, Poblacion, Bago City, Negros Occidental
137	Talavera, Nueva Ecja	BLU	Marcos District, Maharlika Highway, Talavera, Nueva Ecija
138	Imus	BLU	R. Nuguid & Sons, Inc., Building, Emilio Aguinaldo Highway, Brgy. Tanzang Luma 3, Imus, Cavite
139	Lucban	BLU	Quezon Avenue, Lucban, Quezon
140	Mangaldan, Pangasinan	BLU	602 Rizal St., Brgy. Poblacion, Mangaldan, Pangasinan
141	Floridablanca, Pampanga	BLU	Sta. Maria St., Poblacion, Floridablanca, Pampanga
142	San Juan	BLU	Gen. Luna St., Poblacion, San Juan, Batangas
143	Nasugbu	BLU	Brias St., Barangay 9, Nasugbu, Batangas
144	Bogo	BLU	J. Almerante St., Brgy. San Vicente, Bogo City, Cebu
145	Baybay	BLU	Prince Town Baybay Unit N-24 A. Bonifacio St., Baybay City, Leyte
146	Ubay	BLU	Tan Nene St., Poblacion, Ubay, Bohol
147	Pagadian City, Zamboanga del Sur	BLU	J. Ariosa St., San Francisco District, Pagadian City, Zamboanga del Sur
148	Calinog	BLU	Cor. Rizal-Osmena St., Poblacion Centro, Calinog, Iloilo
149	Mariveles, Bataan	BLU	Lot 1B, Jonalyn's Bldg., Paguio St., Poblacion, Mariveles, Bataan
150	Dipolog, Zamboanga del Norte	BLU	Quezon Avenue, Brgy. Central, Dipolog City, Zamboanga del Norte

List of Banking Units

Count	Branch Name	Branch Type	Address
151	Magalang, Pampanga	BLU	Acejo, Arnel B. Bldg., Sta. Cruz, Magalang, Pampanga
152	Bayugan	BLU	Libres St., Taglatawan, Bayugan, Agusan del Sur
153	Maramag	BLU	Jacob, Juanity Bldg. P-2 South Poblacion, Maramag, Bukidnon
154	Guimba, Nueva Ecija	BLU	Onjianco St., Brgy. Sta. Veronica, Guimba, Nueva Ecija
155	Labo	BLU	Don Juan Building 2, Brgy. Masalong, Labo, Camarines Norte
156	Candon, Ilocos Sur	BLU	De Guia Building, Brgy. San Juan, Candon City, Ilocos Sur
157	Sto. Tomas	BLU	Sierra Makiling Bldg., Maharlika Highway, Brgy. San Antonio, Sto. Tomas, Batangas
158	Daet	Branch	Bagasbas Road cor. Diego Linan St., Bgy. 6, Daet, Camarines Norte
159	Carcar	Branch	San Vicente St., Poblacion 1, Carcar City, Cebu
160	Pagbilao	BLU	Corner Alvarez, Bonifacio St., Bgy. Del Carmen, Pagbilao, Quezon
161	Nabunturan	BLU	Arellano St., Puro 5, Poblacion, Nabunturan, Compostela Valley
162	Mabalacat, Pampanga	BLU	Clark Gateway Commercial Complex, L 290 & 292 Velasquez St., San Francisco, Mabalacat, Pampanga
163	Jagna	BLU	75 Shopping Center, Looc, Jagna, Bohol
164	Toledo	BLU	V & U Bldg., corner Rafols and Poloyapoy St., Toledo City, Cebu
165	Tandag	BLU	Cabrera St., Purok Maligaya, Bag-ong Lungsod, Tandag City, Surigao del Sur
166	Irosin	BLU	St. Vincent Building, Bgy. San Julian, Irosin, Sorsogon
167	Agoo, La Union	BLU	56 National Highway, San Miguel, Agoo, La Union
168	Hilongos	BLU	C.V Alcuino St., Brgy. Central Pob. Hilongos, Leyte
169	Capas, Tarlac	BLU	Sto. Cristo St., Brgy. Sto. Rosario, Capas, Tarlac
170	Hinigaran	BLU	Rizal B St., Bgy. 4, Poblacion, Hinigaran, Negros Occidental
171	Villanueva	BLU	NVCDC Building 1, National Highway, Katipunan, Villanueva, Misamis Oriental
172	Alaminos, Pangasinan	BLU	BHF Blue Horizon Building, Quezon Avenue, Poblacion, Alaminos, Pangasinan
173	Oroquieta	BLU	John Paul Co. Bldg., Barrientos St., Poblacion 2, Oroquieta City, Misamis Occidental
174	Allen	BLU	Rizal St., Brgy. Sabang 1, Allen, Northern Samar
175	Ipil, Zamboanga del Sur	BLU	Ipil Citi Suites Hotel Building Purok San Francisco, Poblacion, Ipil, Zamboanga Sibugay
176	Molave, Zamboanga del Sur	BLU	Rizal Ave., cor Quezon St., Purok Bulawanon, Bgy. Madasigon, Molave, Zamboanga del Sur
177	Rosario	BLU	26 Carandang St. Brgy. C, Rosario, Batangas
178	Calbayog	BLU	Rosales Blvd., Bgy. Central, Calbayog City, Eastern Samar
179	Borongan	BLU	Brgy. Songco, Borongan City, Eastern Samar
180	Sindangan, Zamboanga del Norte	BLU	Gov. Lim St., cor. Mabini St., Poblacion, Sindangan, Zamboanga del Norte
181	Dumanjug	BLU	Gaisano Grand Mall Dumanjug Unit DMG-ARS-03 (G/F Arcade) Villa St., cor. G. Gica St., Poblacion, Dumanjug, Cebu
182	Porac, Pampanga	BLU	General Luna St., Bgy. Cangatba, Porac, Pampanga
183	Goa	BLU	Rizal St. Brgy. Panday, Goa, Camarines Sur
184	Malasiqui, Pangasinan	BLU	JB Realty Calle Montemayor, Bgy. Poblacion, Malasiqui, Pangasinan
185	San Pedro	BLU	14-E Luna St., Poblacion, San Pedro, Laguna
186	Oton	BLU	J.C. Zulueta St., Poblacion South, Oton, Iloilo
187	San Marcelino, Zambales	BLU	Delta Building, National Highway, Bgy. Consuelo Sur, San Marcelino, Zambales
188	Hagonoy, Bulacan	BLU	#2 Emilio Perez St., Purok 4, Bgy. Sto. Nino, Hagonoy, Bulacan
189	Pozorrubio, Pangasinan	BLU	Poblacion, District IV, Pozorrubio, Pangasinan
190	Tayug, Pangasinan	BLU	Corner Magtali St. and Bonifacio St., Bgy. Poblacion B, Tayug, Pangasinan
191	Passi	BLU	Padernilla St., Poblacion, Passi City, Iloilo
192	Victorias	BLU	Lot 51-54 Blk 1 Osmena Avenue, Brgy. 13, Victorias City, Negros Occidental
193	Tanza	BLU	Antero Soriano Highway, Poblacion 4, Tanza, Cavite
194	San Pablo	BLU	A. Flores St., Bgy. 7-C, San Pablo City, Laguna
195	San Miguel, Bulacan	BLU	Tecson St., Bgy. San Jose, San Miguel, Bulacan
196	City of Naga	BLU	National Highway, South Poblacion, City of Naga, Cebu
197	Los Banos	BLU	Ocho Miembros Bldg., Brgy. Maahas, National Highway, Los Banos, Laguna
198	Cotabato	Branch	Ground Floor, Happy King Hotel and Restaurant, Jose Lim Sr. Street., Cotabato City
199	Catbalogan	Branch	2nd Floor, Casa Cristina Hotel Building, 152 San Roque St., Bgy. Poblacion 11, Catbalogan City, Samar
200	Zamboanga City	Branch	Jilron Bldg., La Purusima St. Zone II, Zamboanga City, Zamboanga del Sur

List of Banking Units

Count	Branch Name	Branch Type	Address
201	Arayat	BLU	Pistahan Building, Bgy. Plazang Luma, Arayat, Pampanga
202	Tumauini	BLU	#49 National Highway, Bgy. San Pedro, Tumauini, Isabela
203	Norzagaray	BLU	Roadside View Subdivision, Bgy. Partida, Norzagaray, Bulacan
204	Alicia	BLU	LM Building, Magsaysay, Alicia, Isabela
205	M'lang	BLU	M.H. Del Pilar St., Poblacion, M'lang, North Cotabato
206	Compostela	BLU	Purok 9 Magsaysay St., Poblacion, Compostela, Compostela Valley
207	Cabadbaran	BLU	A. Curato St., Corner Garame St., Bgy. 4, Poblacion, Cabadbaran City, Agusan del Norte
208	Zaragoza	BLU	Biak na Bato, Del Pilar East, Zaragoza, Nueva Ecija
209	Sipalay	BLU	Corner Lacson, Alvarez St., Bgy. 1, Poblacion, Sipalay, Negros Occidental
210	Lubao	BLU	#31 JP Rizal St., Sta. Cruz, Lubao, Pampanga
211	Rizal	BLU	Aglipay St., Poblacion Sur, Rizal, Nueva Ecija
212	Manolo Fortich	BLU	Prince Hypermart Bgy. Tankulan, Manolo Fortich, Bukidnon
213	Cuyapo	BLU	Aguila St., District 1, Cuyapo, Nueva Ecija
214	Aparri, Cagayan	BLU	EH Chua Bldg., 68 De Rivera St., Centro 14, Aparri, Cagayan
215	Bambang, Nueva Vizcaya	BLU	Maharlika Highway, Brgy. Banggot, Bambang, Nueva Vizcaya
216	Aritao, Nueva Vizcaya	BLU	Purok Payao, Poblacion, Aritao, Nueva Vizcaya
217	Naic	BLU	Corner Oublic Market Road, Poblete St., Ibayo, Silangan, Naic, Cavite
218	Daan Bantayan	BLU	Osmena St., Poblacion, Daanbantayan, Cebu
219	Bantayan	BLU	Ticad, Bantayan, Cebu
220	Siquijor	BLU	St. Francis Assisi Convent New Building, Poblacion, Siquijor, Siquijor
221	Bauan	BLU	Sta. Cruz St. Poblacion IV, Bauan, Batangas
222	Midsayap	BLU	Corner Quezon Ave., National Highway, Poblacion 3, Midsayap, Cotabato
223	Surallah	BLU	Poblacion, Surallah, South Cotabato
224	San Jose	BLU	Macalintal Ave., Brgy. Sto. Cristo, San Jose, Batangas
225	Bauang, La Union	BLU	Blade Building, National Highway, Qinavite, Bauang, La Union
226	Cabagan. Isabela	BLU	Ugad, Cabagan, Isabela
227	Manaoag, Pangasinan	BLU	Ground Floor JCJ Bldg. Soriano St., Poblacion, Manaoag, Pangasinan
228	San Ildefonso , Bulacan	BLU	National Highway, Sapang Putol, San Ildefonso, Bulacan
229	Guiguinto, Bulacan	BLU	GD Plaza, Mc Arthur Hiway, Ilang-ilang, Guiguinto, Bulacan
230	Cabarroguis, Quirino	BLU	Purok 2, Gundaway, Cabarroguis, Quirino
231	Buug	BLU	National Highway, Buug, Zamboanga Sibugay
232	Balagtas	BLU	National Highway, Balagtas, Bulacan
233	Bansalan	BLU	R. Delos Cientos St., Poblacion Dos, Bansalan, Davao Del Sur
234	Calumpit	BLU	St. Peter Commercial Bldg. Mc Arthur Hi-way, Corazon, Calumpit, Bulacan
235	Meycauayan	BLU	Meycauayan College Mc Arthur Highway, Calvario, Meycauayan, Bulacan
236	Murcia	BLU	Corner Dinsay, Arimas St., Bgy. Zone IV, Murcia, Negros Occidental
237	Narvacan	BLU	Old National Highway St., San Jose, Narvacan, Ilocos Sur
238	Samal	BLU	P-1 Sitio Pantalan, Brgy. Miranda-Pichon, Island Garden City of Samal, Davao del Norte
239	Santa Cruz, Ilocos Sur	BLU	Gabor Norte, Sta. Cruz, Ilocos Sur
240	Santo Tomas	BLU	FDR District 3, National Highway, Sto. Tomas, Davao del Norte
241	Bislig	BLU	Door 2 Sia Bldg., RB Castillo St., Mangagoy, District II, Bislig, Surigao del Sur
242	Kabacan	BLU	Rizal Avenue, Poblacion, Kabacan, Cotabato
243	Solana, Cagayan	BLU	#054 Rizal St., Bgy. Centro Southeast, Solana, Cagayan
244	Lopez	BLU	10 Rosario Corner Judge Olega St. Brgy. Gomez, Lopez, Quezon
245	Carmen	BLU	Poblacion Sur, Carmen, Bohol
246	Bongabon, Nueva Ecija	BLU	#5 Bgy. Mantile, Bongabon, Nueva Ecija
247	Calabanga	BLU	San Antonio, Poblacion, Calabanga, Camarines Sur
248	Munoz, Nueva Ecija	BLU	Poblacion East, City of Science of Munoz, Nueva Ecija
249	Gerona, Tarlac	BLU	Poblacion 1, Gerona, Tarlac
250	Zarraga	BLU	Gomez St., Barangay Poblacion, Ilaud, Zarraga, Iloilo

List of Banking Units

Count	Branch Name	Branch Type	Address
251	San Mateo, Isabela	BLU	Barangay 1, Purok 3, National Highway, San Mateo, Isabela
252	Mambajao	BLU	J.P. Rizal St., Poblacion, Mambajao, Camiguin
253	Liloy, Zamboanga del Norte	BLU	Baybay, Liloy, Zamboanga del Norte
254	San Miguel, Zamboanga del Sur	BLU	Purok Meliton, Poblacion, San Miguel, Zamboanga del Sur
255	Calamba	BLU	Matunog St., Southwestern Poblacion, Calamba, Misamis Occidental
256	Kapatagan	BLU	Prince Hypermart, Poblacion, Kapatagan, Lanao del Norte
257	Lebak	BLU	Door #7 Dimar's Building, Poblacion 1, Lebak, Sultan Kudarat
258	Infanta	BLU	Rizal Street, Poblacion 1, Infanta, Quezon
259	Pilar	BLU	Cor. Milleza St., (Main Road) and Prieto St., Poblacion, Dao, Pilar, Sorsogon
260	Carigara	BLU	Real St., Brgy. Baybay, Carigara, Leyte
261	Sablayan	BLU	National Highway, Brgy. Buenavista, Sablayan, Occidental Mindoro
262	Roxas, Oriental Mindoro	BLU	SMH Bldg., Morente Ave., Bagumbayan, Roxas, Oriental Mindoro
263	Lala	BLU	1 TMD Commercial Bldg., Purok Apitong, Villanueva, Lala, Lanao del Norte
264	Libmanan	BLU	Nik Nok Farm Realty Corp. Palo St., Poblacion, Libmanan, Camarines Sur
265	Batac	BLU	Washington St., Brgy. 2 Ablan, Batac City, Ilocos Norte
266	Tubigon	BLU	Centro, Tubigon, Bohol
267	Narra	BLU	National Highway, Panacan 2, Narra, Palawan
268	Guiuan	BLU	Concepcion St., Brgy. 7, Guiuan, Eastern Samar
269	Montevista	BLU	1022 Valderama St., Purok 6A, Poblacion, Montevista, Compostela Valley
270	Banate	BLU	Union St., Brgy. Bularan, Banate, Iloilo
271	Alubijid	BLU	National Highway, Purok 2, Poblacion, Alubijid, Misamis Oriental
272	Moncada	BLU	Poblacion 1, Moncada, Tarlac
273	Talibon	BLU	CPG Avenue, Poblacion, Talibon, Bohol
274	Taytay	BLU	Unit 9 & 10 Leoncio Commercial, National Road, Brgy. San Juan, Taytay, Rizal
275	Bolinao	BLU	Don Agustin Cacho St., Concordia Poblacion, Bolinao, Pangasinan
276	Mangatarem	BLU	#30 Burgos St., Poblacion, Mangatarem, Pangasinan
277	Camiling	BLU	Quezon Ave., Poblacion I, Camiling, Tarlac
278	Sogod	BLU	L. Regis St., Zone 5, Sogod, Southern Leyte
279	Mambusao	BLU	Villareal Highway, Poblacion, Mambusao, Capiz
280	Odiongan	BLU	J.P. Laurel St., Cocoville, Dapawan, Odiongan, Romblon
281	Santa Maria, Ilocos Sur	BLU	Poblacion Sur, Sta. Maria, Ilocos Sur
282	Bayombong	BLU	Galamay Bldg., National Road, Poblacion, District IV, Bayombong, Nueva Vizcaya
283	Tuburan	BLU	National Highway, Brgy. 3 Tuburan, Cebu
284	Pontevedra	BLU	Isagani St., Poblacion, Ilawod, Pontevedra, Capiz
285	Culasi	BLU	National Highway, Centro Poblacion, Culasi, Antique
286	Orani,	BLU	National Higway, Bgy. Mulawin, Orani, Bataan
287	Cabiao	BLU	#15 San Juan South, Cabiao, Nueva Ecija
288	Naval	BLU	BZL Building, Vicentillo St., Smo, Rosario, Naval, Biliran
289	Isulan	BLU	National Highway, Kalawag 3, Isulan, Sultan Kudarat
290	Santa Rosa, Nueva Ecija	BLU	328 Bgy. Cojuangco. Sta. Rosa, Nueva Ecija
291	Malungon	BLU	Purok Waling Waling, National Highway, Malandag, Malungon, Sarangani Province
292	Argao	BLU	Natalio B. Bacalso Highway, Poblacion, Argao, Cebu
293	Nagcarlan	BLU	General Luna St., Bgy. 1, Nagcarlan, Laguna
294	Mamburao	BLU	Rizal St. Corner Mercene St. Bgy. 3, Mamburao, Occidental Mindoro
295	Moalboal	BLU	2nd Floor Gaisano Grand Mall, Poblacion East, Moalboal, Cebu
296	Victoria	BLU	National Highway, Poblacion 1, Victoria, Oriental Mindoro
297	Malay	BLU	National Road, Caticlan, Malay, Aklan
298	Cataingan	BLU	Quezon Extension, Poblacion, Cataingan, Masbate
299	Indang	BLU	A. Mabini St., Poblacion 1, Indang, Cavite
300	Cabuyao	BLU	Unit 1112 Sala Commercial Bldg., National Highway, Brgy. Sala, Cabuyao, Laguna

BPI Direct BanKo, Inc., A Savings Bank

(Formerly BPI Direct Savings Bank, Inc.)

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

pwc

Isla Lipana & Co.

Independent Auditor's Report

To the Board of Directors and Shareholder of
BPI Direct BanKo, Inc., A Savings Bank
(Formerly BPI Direct Savings Bank, Inc.)
G/F BanKo Center Building
Ortigas Avenue, North Greenhills
San Juan, Metro Manila

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of BPI Direct BanKo, Inc., A Savings Bank (formerly BPI Direct Savings Bank, Inc.) (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 (PFRSs).

What we have audited

The financial statements of the Bank comprise:

- the statements of condition as at December 31, 2019 and 2018;
- the statements of income for the years ended December 31, 2019 and 2018;
- the statements of comprehensive income for the years ended December 31, 2019 and 2018;
- the statements of changes in capital funds for the years ended December 31, 2019 and 2018;
- the statements of cash flows for the years ended December 31, 2019 and 2018; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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 Code of Ethics.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Isla Lipana & Co.

Report on the Supplementary Information Required by the Bangko Sentral ng Pilipinas (BSP) and the Bureau of Internal Revenue (BIR)

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 23 and BIR Revenue Regulations No. 15-2010 in Note 24 to the financial statements is presented for purposes of filing with the BSP and the BIR, respectively, and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

Ruth B. Blasco
Partner
CPA Cert. No. 112595
P.T.R. No. 0018519, issued on January 7, 2020, Makati City
SEC A.N. (individual) as general auditors 1653-A, Category A; effective until August 23, 2020
SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021
TIN 235-725-236
BIR A.N. 08-000745-133-2017, issued on June 8, 2017; effective until June 7, 2020
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
March 25, 2020

BPI Direct BanKo, Inc., A Savings Bank
(Formerly BPI Direct Savings Bank, Inc.)

Statements of Condition
December 31, 2019 and 2018
(All amounts in Philippine Peso)

	Notes	2019	2018
RESOURCES			
Cash and other cash items	2	216,587,760	86,383,976
Due from other banks	2	830,391,583	884,795,667
Interbank loans receivable	2,3	393,634,185	300,158,333
Due from Bangko Sentral ng Pilipinas	2,4	2,491,887,897	3,853,846,029
Investment securities at fair value through other comprehensive income	5	5,560	100,065,545
Loans and advances, net	6	12,193,544,153	9,245,194,688
Assets held for sale		82,358,184	75,446,961
Bank premises, furniture, fixtures and equipment, net	7	1,002,078,934	460,599,271
Deferred income tax assets, net	8	327,038,301	237,456,216
Other resources, net	9	333,752,015	352,491,944
Total resources		17,871,278,572	15,596,438,630
LIABILITIES AND CAPITAL FUNDS			
Deposit liabilities	10	13,961,113,446	12,560,640,302
Accrued taxes, interest and other expenses	11	196,940,611	110,198,851
Other liabilities	12	1,096,242,025	560,122,334
Total liabilities		15,254,296,082	13,230,961,487
CAPITAL FUNDS	13		
Share capital		405,572,100	405,572,100
Accumulated other comprehensive income		(18,191,065)	2,959,183
Other reserves	1.2	(269,815,403)	(269,815,403)
Surplus		2,499,416,858	2,226,761,263
Total capital funds		2,616,982,490	2,365,477,143
		17,871,278,572	15,596,438,630

(The notes on pages 1 to 55 are an integral part of these financial statements.)

BPI Direct BanKo, Inc., A Savings Bank
(Formerly BPI Direct Savings Bank, Inc.)

Statements of Income
For the years ended December 31, 2019 and 2018
(All amounts in Philippine Peso)

	Notes	2019	2018
INTEREST INCOME			
Loans and advances	6	2,828,710,528	1,652,444,541
Deposits with BSP and other banks	2,4	65,592,132	126,588,155
Interbank loans receivable	3	18,952,187	37,118,508
Investment securities	5	2,691,160	6,210,369
		2,915,946,007	1,822,361,573
INTEREST EXPENSE ON DEPOSITS	10	134,349,991	103,622,893
NET INTEREST INCOME		2,781,596,016	1,718,738,680
PROVISION FOR IMPAIRMENT	6,9,20	575,510,838	402,811,564
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT		2,206,085,178	1,315,927,116
OTHER INCOME			
Service fee income		327,326,094	209,618,152
Profit on assets sold		19,357,796	13,193,833
Miscellaneous income	14	43,492,737	41,018,341
		390,176,627	263,830,326
OTHER EXPENSES			
Compensation and fringe benefits	17,18	761,972,587	433,626,042
Occupancy and equipment-related expenses	18	801,620,928	372,420,864
Other operating expenses	15	606,563,073	417,257,446
		2,170,156,588	1,223,304,352
INCOME BEFORE PROVISION FOR INCOME TAX		426,105,217	356,453,090
PROVISION FOR INCOME TAX	16		
Current		242,461,125	82,470,244
Deferred	8	(89,011,503)	4,992,461
		153,449,622	87,462,705
NET INCOME FOR THE YEAR		272,655,595	268,990,385

(The notes on pages 1 to 55 are an integral part of these financial statements.)

BPI Direct BanKo, Inc., A Savings Bank
(Formerly BPI Direct Savings Bank, Inc.)

Statements of Comprehensive Income
For the years ended December 31, 2019 and 2018
(All amounts in Philippine Peso)

	Note	2019	2018
NET INCOME FOR THE YEAR		272,655,595	268,990,385
OTHER COMPREHENSIVE (LOSS) INCOME	13		
Item that will be subsequently reclassified to profit or loss			
Change in fair value reserve on debt security at fair value through other comprehensive income, net of tax		288,000	(2,312,000)
Items that will not be subsequently reclassified to profit or loss			
Change in fair value reserve on equity security at fair value through other comprehensive income, net of tax		(1,778)	(4,971)
Remeasurement loss on retirement benefit obligation, net of tax		(21,436,470)	(822,742)
Total other comprehensive loss		(21,150,248)	(3,139,713)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		251,505,347	265,850,672

(The notes on pages 1 to 55 are an integral part of the financial statements.)

BPI Direct BanKo, Inc., A Savings Bank
(Formerly BPI Direct Savings Bank, Inc.)

Statements of Changes in Capital Funds
For the years ended December 31, 2019 and 2018
(All amounts in Philippine Peso)

	Share capital (Note 13)	Accumulated other comprehensive income (loss) (Note 13)	Other reserves	Surplus (Note 13)	Total
BALANCE, JANUARY 1, 2018	405,572,100	6,098,896	(269,815,403)	1,957,770,878	2,099,626,471
COMPREHENSIVE INCOME					
Net income for the year	-	-	-	268,990,385	268,990,385
Other comprehensive loss	-	(3,139,713)	-	-	(3,139,713)
Total comprehensive income (loss) for the year	-	(3,139,713)	-	268,990,385	265,850,672
BALANCE, DECEMBER 31, 2018	405,572,100	2,959,183	(269,815,403)	2,226,761,263	2,365,477,143
COMPREHENSIVE INCOME					
Net income for the year	-	-	-	272,655,595	272,655,595
Other comprehensive loss	-	(21,150,248)	-	-	(21,150,248)
Total comprehensive income (loss) for the year	-	(21,150,248)	-	272,655,595	251,505,347
BALANCE, DECEMBER 31, 2019	405,572,100	(18,191,065)	(269,815,403)	2,499,416,858	2,616,982,490

(The notes on pages 1 to 55 are an integral part of the financial statements.)

BPI Direct BanKo, Inc., A Savings Bank
(Formerly BPI Direct Savings Bank, Inc.)

Statements of Cash Flows
For the years ended December 31, 2019 and 2018
(All amounts in Philippine Peso)

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before provision for income tax		426,105,217	356,453,090
Adjustments for:			
Interest income		(2,915,946,007)	(1,822,361,573)
Interest expense	10,19	164,002,549	103,622,893
Depreciation and amortization	7	294,085,272	106,546,180
Profit on assets sold		(20,826,039)	(14,160,636)
Retirement benefit expense	17	18,824,255	19,921,446
Provision for impairment	6,9,20	575,510,838	402,811,564
Interest received		2,779,909,167	1,709,848,163
Interest paid		(68,212,753)	(84,227,336)
Operating income before changes in operating resources and liabilities		1,253,452,499	778,453,791
Changes in operating resources and liabilities			
(Increase) decrease in:			
Loans and advances		(3,337,274,833)	(5,273,631,051)
Assets held for sale		13,914,816	28,400,142
Other resources		(273,900,748)	(215,392,266)
Increase (decrease) in:			
Deposit liabilities		1,400,473,144	(277,389,887)
Accrued taxes, interest and other expenses		24,268,135	22,485,518
Other liabilities		131,665,081	504,970,334
Net cash used in operations		(787,401,906)	(4,432,103,419)
Retirement plan contributions	17	(33,951,618)	(755,645)
Income tax paid		(49,633,271)	(35,375,511)
Net cash used in operating activities		(870,986,795)	(4,468,234,575)
CASH FLOWS FROM INVESTING ACTIVITIES			
(Increase) decrease in:			
Bank premises, furniture, fixture, and equipment	7	(334,376,377)	(358,988,831)
Investment securities at FVOCI	5	100,468,874	-
Net cash used in investing activities		(233,907,503)	(358,988,831)
CASH FLOWS USED IN FINANCING ACTIVITY			
Payment of principal portion of lease liabilities	19	(87,788,282)	-
NET DECREASE IN CASH AND CASH EQUIVALENTS		(1,192,682,580)	(4,827,223,406)
CASH AND CASH EQUIVALENTS			
January 1		5,125,184,005	9,952,407,411
December 31	2	3,932,501,425	5,125,184,005

(The notes on pages 1 to 55 are an integral part of these financial statements.)

BPI Direct BanKo, Inc., A Savings Bank
(Formerly BPI Direct Savings Bank, Inc.)

Notes to the Financial Statements
As at and for the years ended December 31, 2019 and 2018
(In the notes, all amounts are shown in Philippine Peso unless otherwise stated)

Note 1 - General information

1.1 Business information

BPI Direct BanKo, Inc., A Savings Bank (the "Bank"), formerly known as BPI Direct Savings, Inc., was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on September 26, 1986 primarily to engage in and carry on the general business of savings and mortgage banking.

The Bank is a wholly-owned subsidiary of Bank of the Philippine Islands ("BPI" or the "Parent Bank"), a domestic commercial bank with an expanded banking license, which is also its ultimate parent.

The Bank's registered office address, which is also its principal place of business, is BanKo Center Building, Ortigas Avenue, North Greenhills, San Juan, Metro Manila. The Bank has 2,823 regular employees as at December 31, 2019 (2018 - 1,851).

On March 16, 2020, the Philippine Government declared the entire island of Luzon under an Enhanced Community Quarantine (ECQ) due to the increasing coronavirus disease (COVID-19) cases in the country. The ECQ mandated the closure of non-essential businesses and strict home quarantine which resulted in the slowdown of the economy. Measures are implemented to protect the health and safety of the Bank's employees, clients and partners, to support business continuity and to manage financial impact to a minimum. While the financial impact to the Bank is considered a non-adjusting subsequent event as at December 31, 2019, the Bank continues to monitor subsequent developments on COVID-19 pandemic as continued spread and prolonged isolation may have an impact on the Bank's forward business strategies, continuing operations and financial performance which cannot be reasonably determined as yet at the audit report date. However, given the Capital Adequacy Ratio (CAR) and liquidity status of the Bank, management assessed that the Bank is not adversely affected as at the audit report date and is still compliant with the regulatory requirements.

1.2 Common control business combination

On February 24, 2016, the Board of Directors (BOD) of the Bank approved the merger with BPI Globe BanKo, Inc. ("BanKo"), a fellow subsidiary, with the Bank as the surviving entity. BanKo was incorporated in the Philippines and registered with the SEC on June 26, 1998 primarily to engage in, and carry on, the general business of savings and mortgage banking. BanKo was a wholly-owned subsidiary of BPI effective September 20, 2016.

The merger is aimed at integrating the banking operations of Banko into the Bank and at bringing efficiency and scale to the surviving entity. The merged business is expected to leverage on a bigger customer base and will benefit from cost-savings and operational synergies.

The plan of merger was cleared by the Bangko Sentral ng Pilipinas (BSP) on December 15, 2016. On December 29, 2016, the SEC likewise approved the merger including the amendment to the Bank's articles of incorporation changing the name of the Bank from BPI Direct Savings Bank, Inc. to BPI Direct BanKo, Inc., A Savings Bank.

As the transaction is outside the scope of Philippine Financial Reporting Standard (PFRS) 3, *Business Combinations*, the merger was accounted for using the pooling of interests method following the guidance under the PIC Q&A No. 2011-02 and PIC Q&A 2012-01. In applying the pooling of interests method, all resources and liabilities of BanKo are taken into the merged business at their carrying values with no restatement of comparative 2015 figures. Likewise, no goodwill was recognized in the business combination.

Details of BanKo's assets and liabilities as at December 28, 2016 are as follows:

	Amount
Resources acquired	
Cash and other cash items	5,250,717
Due from other banks	22,449,138
Due from Bangko Sentral ng Pilipinas	73,483,568
Loans and advances, net	102,699,171
Bank premises, furniture, fixtures and equipment, net	21,955,667
Other resources	82,585,931
	308,424,192
Liabilities assumed	
Deposit liabilities	441,251,566
Accrued taxes, interest and other expenses	66,669,507
Other liabilities	39,279,722
	547,200,795
Excess of total liabilities over total resources	(238,776,603)

The plan of merger provides that the Bank shall issue 0.02351 of its own common share for every common share held by BanKo shareholders. Accordingly, the Bank issued a total of 310,388 common shares in exchange for BanKo's resources and liabilities at December 28, 2016 giving rise to Other reserves (with debit balance) which is presented as a deduction in the total equity of the Bank as follows:

	Note	Amount
Equity instruments issued (13,200,000 BanKo shares x 0.02351)	13	310,388
Par value per share		100
Total value of common shares issued		31,038,800
Net liabilities assumed		238,776,603
Other reserves (deduction in equity)		269,815,403

Had the business combination occurred on January 1, 2016, total interest income and net income of the Bank for the year ended December 31, 2016 still would have been P652,421,959 and P267,827,753, respectively.

The acquisition of BanKo's operations contributed interest income of P198,821 and net loss of P1,158,211 to the Bank for the period from December 29 to 31, 2016. Acquisition-related costs of P155,194 that were not directly attributable to the issue of shares were included in other operating expenses in the statement of income.

1.3 Approval of the Bank's financial statements

These financial statements have been approved and authorized for issuance by the BOD on March 25, 2020.

Note 2 - Cash and cash equivalents

The account as at December 31 consists of:

	Notes	2019	2018
Cash and other cash items		216,587,760	86,383,976
Due from other banks		830,391,583	884,795,667
Interbank loans receivable	3	393,634,185	300,158,333
Due from BSP	4	2,491,887,897	3,853,846,029
		3,932,501,425	5,125,184,005

For the year ended December 31, 2019, interest income earned on Due from other banks amounts to P2,955,443 (2018 - P2,879,215).

Cash and cash equivalents are classified as current as at December 31, 2019 and 2018.

Note 3 - Interbank loans receivable

The account at December 31 consists of transactions with:

	2019	2018
BSP	393,415,621	300,000,000
Accrued interest receivable	218,564	158,333
	393,634,185	300,158,333

Interbank loans receivable maturing within 90 days from the date of acquisition are classified as cash equivalents in the statement of cash flows (Note 2).

Government bonds are pledged by the BSP as collaterals under reverse repurchase agreements. The face value of securities pledged is equivalent to the total balance of outstanding placements as at reporting date. All collateral agreements mature within 12 months.

Average interest rate on interbank loans receivable as at December 31, 2019 is 3.95% (2018 - 3.26%). Total interest earned on interbank loans receivable amounts to P18,952,187 for the year ended December 31, 2019 (2018 - P37,118,508).

Interbank loans receivable are classified as current as at December 31, 2019 and 2018.

Note 4 - Due from BSP

The account as at December 31 consists of:

	2019	2018
Special deposit accounts	1,564,000,000	2,800,000,000
Clearing accounts	927,887,897	1,053,846,029
	2,491,887,897	3,853,846,029

Special deposit accounts classified as cash equivalents are fixed-term demand Philippine Peso deposits maintained in compliance with the simplified minimum reserve requirements of the BSP (Note 10).

Clearing accounts represent temporary deposit accounts wherein funds flow from cleared checks are credited against or debited for.

As at December 31, 2019, Due from BSP in 2019 includes special deposit placements of P1.56 billion (2018 - P2.80 billion) with maturities of not more than 28 days. Average interest rate on due from BSP at December 31, 2019 is 3.63% (2018 - 2.89%). Total interest earned on due from BSP amounts to P62,636,689 for the year ended December 31, 2019 (2018 - P123,708,940).

Due from BSP is classified as current as at December 31, 2019 and 2018.

Note 5 - Investment securities at fair value through other comprehensive income (FVOCI)

The account at December 31 consists of:

	2019	2018
Corporate bond	-	99,640,000
Listed equity security	5,560	7,338
	5,560	99,647,338
Accrued interest receivable on corporate bond	-	418,207
	5,560	100,065,545

On June 8, 2019, the corporate bond has matured. The Bank has not made any additional purchase of investments as at December 31, 2019.

For the years ended December 31, 2019 and 2018, interest rate on corporate bond is 6.27%. Interest income on corporate bond amounts to P2,691,160 for the year ended December 31, 2019 (2018 - P6,210,369).

Movements in investment securities for the years ended December 31 are as follows:

	2019	2018
At January 1	100,065,545	102,960,515
Fair value adjustment	(2,540)	(2,894,970)
Maturity	(100,057,445)	-
At December 31	5,560	100,065,545

Investment securities at FVOCI at December 31, 2019 and 2018 are classified as current.

Note 6 - Loans and advances, net

The account as at December 31 consists of:

	2019	2018
Corporate entities		
Large corporate customers	180,725,544	206,567,033
Small and medium enterprises	13,185,240	18,512,754
Retail customers		
Real estate mortgages	2,239,232,875	2,947,854,716
Auto loans	336,859	864,427
Others	10,476,581,268	6,594,079,926
	12,910,061,786	9,767,878,856
Accrued interest receivable	287,291,416	147,797,691
Unearned discount	(54,475)	(115,397)
	13,197,298,727	9,915,561,150
Allowance for impairment	(1,003,754,574)	(670,366,462)
	12,193,544,153	9,245,194,688

Average effective interest rate on loans and advances is 29.04% at December 31, 2019 (2018 - 23.62%). Interest income from loans and advances amounts to P2,828,710,528 for the year ended December 31, 2019 (2018 - P1,652,444,541).

Maturity profile of the loss and advances, net of accrued interest receivable and unearned discount as at December 31 follows:

	2019	2018
Current (within 12 months)	5,530,068,659	9,043,912,244
Non-current (over 12 months)	7,667,230,068	871,648,906
	13,197,298,727	9,915,561,150

Movements in allowance for impairment for the years ended December 31 are as follows:

	2019	2018
Balance, January 1	670,366,462	214,095,295
Provision for loan impairment	573,300,328	401,046,050
Write-offs	(218,908,836)	(146,928,273)
Transfers/other movements	(21,003,380)	202,153,390
Balance, December 31	1,003,754,574	670,366,462

In 2019, the Bank purchased the personal loan portfolio of its Parent Bank amounting to P5,667,482,100 (2018 - P7,837,684,431).

Note 7 - Bank premises, furniture, fixtures and equipment, net

The movements in the account for the years ended December 31 are summarized as follows:

	2019					
	Furniture, fixtures, and equipment	Leasehold rights and improvement	Computer equipment	Leasehold rights and improvements in progress	Buildings	Total
Cost						
January 1, 2019, as previously reported	245,273,533	373,079,907	32,768,389	458,540	-	651,580,369
Effect of adoption of PFRS 16 (Note 19)	-	-	-	-	472,027,176	472,027,176
January 1, 2019, as restated	245,273,533	373,079,907	32,768,389	458,540	472,027,176	1,123,607,545
Additions	80,253,110	243,724,491	9,020,261	1,378,516	14,929,226	349,305,603
Transfers	-	40,000	-	(40,000)	-	-
December 31, 2019	325,526,643	616,844,398	41,788,650	1,797,056	486,956,402	1,472,913,148
Accumulated depreciation						
January 1, 2019	77,493,710	90,574,898	22,912,490	-	-	190,981,098
Depreciation	75,477,353	93,952,687	7,929,698	-	102,493,378	279,853,116
December 31, 2019	152,971,063	184,527,585	30,842,188	-	102,493,378	470,834,214
Net book value, December 31, 2019	172,555,580	432,316,813	10,946,461	1,797,056	384,463,024	1,002,078,934

	2018					
	Furniture, fixtures, and equipment	Leasehold rights and improvement	Computer equipment	Leasehold rights and improvements in progress	Buildings	Total
Cost						
January 1, 2018	70,315,913	199,771,210	19,689,868	2,814,547		292,591,538
Additions	174,957,620	170,952,690	13,078,521	-	-	358,988,831
Transfers	-	2,356,007	-	(2,356,007)	-	-
December 31, 2018	245,273,533	373,079,907	32,768,389	458,540	-	651,580,369
Accumulated depreciation						
January 1, 2018	26,965,658	39,048,787	18,420,473	-	-	84,434,918
Depreciation	50,528,052	51,526,111	4,492,017	-	-	106,546,180
December 31, 2018	77,493,710	90,574,898	22,912,490	-	-	190,981,098
Net book value, December 31, 2018	167,779,823	282,505,009	9,855,899	458,540	-	460,599,271

Following the Branch's adoption of PFRS 16, *Leases*, on January 1, 2019, it has recognized a right-of-use assets from the long-term lease of spaces for its main office and branches (Note 19).

Depreciation is included in Occupancy and equipment-related expenses in the statement of income.

Bank premises, furniture, fixtures and equipment are all considered non-current assets.

Note 8 - Deferred income tax assets, net

Deferred income tax assets and liabilities at December 31 consist of:

	2019	2018
Deferred income tax assets		
Allowance for impairment	312,292,507	230,053,121
Expense accruals and provisions	5,727,420	3,745,360
Amortization of past service cost	14,530,358	5,539,913
Fair value loss on investment securities at FVOCI	-	72,000
	332,550,285	239,410,394
Deferred income tax liabilities		
Retirement benefit asset	5,511,984	1,954,178
Deferred income tax assets, net	327,038,301	237,456,216

Movements in the net deferred income tax assets for the years ended December 31 are summarized below:

	Note	2019	2018
At January 1		237,456,216	241,518,073
Amounts credited (charged) to statement of income		89,011,503	(4,992,461)
Amounts credited to other comprehensive income	13	570,582	930,604
At December 31		327,038,301	237,456,216

The deferred tax (credit) charge in the statement of income for the years ended December 31 comprises the following temporary differences:

	2019	2018
Allowance for impairment	(82,239,386)	(119,816,332)
Net operating loss carry over (NOLCO)	-	129,395,042
Others	(6,772,117)	(4,586,249)
	(89,011,503)	4,992,461

NOLCO utilized for the year ended December 31, 2018 consists of:

Year of Incurrence	Year of Expiration	Amount
2018	2020	61,687,251
2017	2019	181,386,859
2015	2018	188,242,698
		431,316,808
Total NOLCO utilized		(431,316,808)
		-

Note 9 - Other resources, net

The account at December 31 consists of:

	Notes	2019	2018
E-money		63,652,791	162,498,012
Prepaid expenses		32,210,111	15,611,386
Rental deposits	18,19	29,460,675	20,775,526
Accounts receivable		20,263,513	4,503,121
Pension asset	17	18,373,278	6,513,922
Computer software		9,514,675	20,169,133
Accrued interest receivable		3,832,005	7,295,512
Membership shares		2,500,000	2,500,000
Injunction bond		1,834,660	5,029,573
Tax credits		-	7,320,626
Miscellaneous		156,629,335	102,734,450
		338,271,043	354,951,261
Allowance for impairment		(4,519,028)	(2,459,317)
		333,752,015	352,491,944

	2019	2018
Current	30,518,451	34,110,102
Non-current	307,752,592	320,841,159
	338,271,043	354,951,261

E-money represents cash deposited in G-Cash facility, which is used to finance accounts of the Bank's clients accessible through mobile phones, stored value cards and other access devices.

Accounts receivables include employee cash advances, commissions and receivables from ATM cards.

Miscellaneous assets include returned checks and float items which are expected to clear in one to two days.

Allowance for impairment pertains to accounts receivables that are doubtful of collection.

The changes in the allowance for impairment as at December 31 are as follows:

	2019	2018
At January 1	2,459,317	1,451,329
Provision for impairment	2,059,711	1,007,988
At December 31	4,519,028	2,459,317

Note 10 - Deposit liabilities

The account as at December 31 consists of:

	2019	2018
Demand	388,193,759	673,700,533
Savings	10,095,687,526	11,085,518,055
Time	3,477,232,161	801,421,714
	13,961,113,446	12,560,640,302

Deposit liabilities are expected to be settled as follows:

	2019	2018
Current	5,434,571,008	1,129,951,718
Non-current	8,526,542,438	11,430,688,584
	13,961,113,446	12,560,640,302

Related interest expense on deposit liabilities for the years ended December 31 is broken down as follows:

	2019	2018
Demand	2,000,213	2,390,297
Savings	96,417,837	90,951,678
Time	35,931,941	10,280,918
	134,349,991	103,622,893

Under current and existing BSP regulations, the Bank should comply with a minimum reserve requirement. Further, BSP requires all reserves be kept at the central bank. The Bank is in full compliance with the reserve requirement as at December 31, 2019 and 2018.

The required reserve as reported to BSP as at December 31, 2019 amounts to P552,433,944 (2018 - P991,255,096), which is included in Due from BSP (Note 4).

Note 11 - Accrued taxes, interest and other expenses

The account as at December 31 consists of:

	2019	2018
Accrued expenses	79,515,302	66,751,098
Accrued taxes and licenses	54,095,077	36,000,229
Accrued interest	36,399,472	7,447,214
Accrued income tax	26,930,760	310
	196,940,611	110,198,851

Accrued expenses mainly pertain to accruals for utilities, penalties and outsourced services by the Bank.

The above accrued expenses are all considered current.

Note 12 - Other liabilities

The account at December 31 consists of:

	Note	2019	2018
Accounts payable		602,569,628	528,142,261
Lease liabilities	19	401,466,789	-
Withholding taxes payable		12,616,529	7,611,306
Miscellaneous		79,589,079	24,368,767
Total		1,096,242,025	560,122,334

Miscellaneous liabilities mainly include mandatory contributions payable to SSS, Medicare and Philhealth, and float items which are expected to clear in one to two days.

Following the adoption of PFRS 16 on January 1, 2019, the Bank recognized lease liabilities which have been measured at the present value of the remaining lease payments using an incremental borrowing rate applied by the Bank (Note 19).

Other liabilities are considered current, except for the non-current portion of the lease liabilities disclosed in Note 19.

Note 13 - Capital funds

Details of share capital at December 31, 2019 and 2018 are as follows:

	Authorized		Issued and Outstanding	
	Number of Shares	Amount	Number of Shares	Amount
Common shares, at P100 par value per share				
Class A	3,500,000	350,000,000	3,455,721	345,572,100
Class B	600,000	60,000,000	600,000	60,000,000
	4,100,000	410,000,000	4,055,721	405,572,100
Preferred shares, at P100 par value per share, 12% cumulative, participating and redeemable				
Class A	200,000	20,000,000	-	-
Class B	400,000	40,000,000	-	-
	600,000	60,000,000	-	-
	4,700,000	470,000,000	4,055,721	405,572,100

On September 14, 2016, in preparation for the merger, the BOD approved the change in authorized capital structure of the Bank as follows:

- Increase in authorized Class A common shares from P330 million consisting of 3.3 million common shares at P100 par value per share to P350 million consisting of 3.5 million shares at P100 par value per share; and
- Decrease in authorized Preferred Class A common shares from P40 million consisting of 400 thousand shares at P100 par value per share to P20 million consisting of 20 thousand shares at P100 par value per share

The above changes, which were approved by the SEC on December 29, 2016, did not affect the total authorized capital stock of the Bank which remained at P470 million.

The Class A (common and preferred) shares are available only to Philippine nationals while the Class B (common and preferred) shares may be issued to non-Filipinos. The Bank, at its option, may redeem the preferred shares after ten years from issue date.

Surplus

As at December 31, 2019, the Bank has surplus in excess of its paid-up capital amounting to P2,093,844,758 (2018 - P1,821,189,163). The Bank intends to use its excess surplus for future branch expansions which are expected to materialize within the next twelve months after year end.

Other comprehensive income

The movements in the account for the years ended December 31 are summarized below:

	2019	2018
Fair value reserve on investment securities at FVOCI		
At January 1	(297,074)	2,019,897
Unrealized fair value loss before tax	(2,540)	(2,894,970)
Deferred income tax effect	762	577,999
Transferred to profit or loss	288,000	-
At December 31	(10,852)	(297,074)
Remeasurement loss on defined benefit plan, net		
At January 1	3,256,257	4,078,999
Remeasurement loss before tax	(22,006,289)	(1,175,346)
Deferred income tax effect	569,820	352,604
At December 31	(18,180,212)	3,256,257
	(18,191,064)	2,959,183

Note 14 - Miscellaneous income

The account for the years ended December 31 consists of:

	2019	2018
Recoveries	40,917,632	32,201,344
Foreign exchange gains	5,873,926	9,686,739
Other income	-	2,240,845
Gross receipts tax	(3,298,821)	(3,110,587)
	43,492,737	41,018,341

The Bank was able to recover collections on personal loans purchased from the Parent Bank and the amounts received were recognized as income for the years ended December 31, 2019 and 2018.

Note 15 - Other operating expenses

The account for the years ended December 31 consists of:

	Note	2019	2018
Shared operating costs	18	277,491,274	212,788,850
Travel and communications		111,016,367	68,602,146
Insurance		57,198,509	47,040,398
Advertising and publicity		48,319,216	22,703,247
Stationery and supplies used		29,019,076	20,540,260
Taxes and licenses		16,322,026	5,990,859
Fines, penalties, and other charges		7,197,934	8,041,093
Litigation expenses		6,919,228	7,287,859
Membership fees		4,458,364	4,118,163
Regulatory examination fees		3,378,204	2,244,893
Others		45,242,875	17,899,678
		606,563,073	417,257,446

Other operating expenses pertain mainly to professional fees, representation and entertainment, freight expenses and other outsourced service costs.

Note 16 - Income taxes

A reconciliation between the provision for income tax at the statutory income tax rate to the actual provision for income tax for the years ended December 31 is presented below:

	2019		2018	
	Amount	%	Amount	%
Statutory income tax	127,831,565	30.00	106,935,927	30.00
Effect of items not subject to statutory tax rate				
Income subject to lower tax rates	(8,527,654)	(2.00)	(19,735,973)	(5.53)
Others	34,145,711	8.01	262,751	0.07
Actual provision for income tax	153,449,622	36.01	87,462,705	24.54

Others mainly consist of permanent non-deductible expenses such as fines, penalties and interest expense above the allowed ceiling.

Note 17 - Retirement plan

BPI and its subsidiaries, which include the Bank, have a trustee, non-contributory retirement benefit plans covering all qualified officers and employees.

Effective January 1, 2016, the Bank implemented a defined contribution plan which is accounted for as a defined benefit plan with minimum guarantee. The description of the plans follows:

Under the BPI plan, the normal retirement age is 60 years. Normal retirement benefit consists of a lump sum benefit equivalent to 200% of the basic monthly salary of the employee at the time of his retirement for each year of service, if he has rendered at least 10 years of service, or up to 150% of his basic monthly salary, if he has rendered less than 10 years of service. For voluntary retirement, the benefit is equivalent to 112.50% of the employee's basic monthly salary for a minimum of 10 years of service with the rate factor progressing to a maximum of 200% of basic monthly salary for service years of 25 or more. Death or disability benefit, on the other hand, shall be determined on the same basis as in voluntary retirement.

For the defined contribution plan, the defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of Republic Act (RA) No. 7641. All non-unionized employees hired on or after October 1, 2016 are automatically under the new defined contribution (DC) plan. Employees hired prior to October 1, 2016 shall have the option to elect to become members of the new DC plan.

The net defined benefit cost and contributions to be paid by the Bank are determined by an independent actuary.

Plan assets are held in trusts, governed by local regulations and practice in the Philippines.

Following are the amounts recognized that relate to the Bank based on the recent actuarial valuation reports:

Defined benefit retirement plan

(a) Pension asset as at December 31 recognized under Other resources in the statement of condition follows:

	2019	2018
Fair value of plan assets	58,377,552	38,953,726
Present value of defined benefit obligation	(11,972,097)	(9,614,795)
Surplus	46,405,455	29,338,931
Effect of the asset ceiling	(28,032,177)	(22,825,009)
Pension asset recognized in the statement of condition	18,373,278	6,513,922

The movements in plan assets for the years ended December 31 are summarized as follows:

	2019	2018
At January 1	38,953,726	39,715,739
Asset return at net interest cost	3,260,427	2,265,545
Contributions	7,091,443	623,114
Remeasurement gain (loss)	9,071,956	(3,650,672)
At December 31	58,377,552	38,953,726

The carrying value of the plan assets as at December 31, 2019 is equivalent to its fair value of P58 million (2018 - P39 million).

The plan assets at December 31 are comprised of the following:

	2019		2018	
	Amount	%	Amount	%
Debt securities	22,767,245	39	16,360,565	42
Equity securities	27,437,449	47	17,139,639	44
Others	8,172,858	14	5,453,522	14
	58,377,552	100	38,953,726	100

The plan assets of the unified retirement plan include investment in BPI's common share with aggregate fair value of P421 million at December 31, 2019 (2018 - P451 million). An officer of the Parent Bank exercises the voting rights over the plan's investment in BPI's common shares.

The movements in the present value of defined benefit obligation for the years ended December 31 are summarized as follows:

	2019	2018
At January 1	9,614,795	10,766,182
Current service cost	549,961	647,651
Interest cost	804,758	609,366
Remeasurement gain		
Changes in financial assumptions	3,482,234	(4,005,441)
Experience adjustments	(2,479,651)	1,597,037
At December 31	11,972,097	9,614,795

The Bank has no further transactions with the plan other than the contributions for the years ended December 31, 2019 and 2018.

(b) Retirement benefit income recognized in the statement of income for the years ended December 31:

	2019	2018
Current service cost	549,961	647,651
Net interest income	(776,887)	(794,942)
Total	(226,926)	(147,291)

The principal assumptions used for the actuarial valuations of the defined benefit plan of the Bank at December 31 are as follows:

	2019	2018
Discount rate	5.51%	8.37%
Salary increase rate	5.00%	5.00%

Discount rate

The discount rate is determined by reference to PHP Bloomberg Valuation (BVAL) rates and adjusted to reflect the term similar to the estimated term of the benefit obligation as determined by the actuary as at the end of the reporting period as there is no deep market in high quality corporate bonds in the Philippines.

Future salary rate increases

This is the expected long-term average rate of salary increase taking into account inflation, seniority, promotion and other market factors. Salary increases comprise of the general inflationary increases plus a further increase for individual productivity, merit and promotion. The future salary increase rates are set by reference over the period over which benefits are expected to be paid.

Demographic assumptions

Assumptions regarding future mortality and disability experience are based on published statistics generally used for local actuarial valuation purposes.

The defined benefit plan typically exposes the Bank to a number of risks such as investment risk, interest rate risk and salary risk. The most significant of which relate to investment and interest rate risks. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. A decrease in government bond yields will increase the defined benefit obligation although this will also be partially offset by an increase in the value of the plan's fixed income holdings. Hence, the present value of defined benefit obligation is directly affected by the discount rate to be applied by the Bank. However, the Bank believes that due to the long-term nature of the pension liability and the strength of the Bank itself, the mix of debt and equity securities holdings of the plan is an appropriate element of the Bank's long term strategy to manage the plan efficiently.

The Bank ensures that the investment positions are managed within an asset-liability matching framework that has been developed to achieve long-term investments that are in line with the obligations under the plan. The Bank's main objective is to match assets to the defined benefit obligation by investing primarily in long-term debt securities with maturities that match the benefit payments as they fall due. The asset-liability matching is being monitored on a regular basis and potential change in investment mix is being discussed with the trustor, as necessary, to better ensure the appropriate asset-liability matching.

The average remaining service life of employees under the BPI unified retirement plan as at December 31, 2019 is 19 years (2018 - 21 years). The Bank contributes to the plan depending on the suggested funding contribution as calculated by an independent actuary. The expected contribution for the year ending December 31, 2020 for the Bank amounts to P0.6 million.

The weighted average duration of the defined benefit obligation as at December 31, 2019 is 12.78 years (2018 - 12.3 years).

The projected maturity analysis of retirement benefit payments as at December 31 is as follows:

	2019	2018
Between 1 to 5 years	1,043,337	1,056,732
Between 5 to 10 years	10,065,480	10,137,381
Between 10 to 15 years	5,659,273	6,293,538
Between 15 to 20 years	10,955,197	12,197,989
Over 20 years	28,841,629	38,838,543

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions follows:

		Impact on defined benefit obligation	
December 31, 2019	Change in assumption	Increase in assumption	Decrease in Assumption
Discount rate	0.5%	Decrease by 6.1%	Increase by 6.7%
Salary growth rate	1.0%	Increase by 13.9%	Decrease by 11.9%

		Impact on defined benefit obligation	
December 31, 2018	Change in assumption	Increase in assumption	Decrease in Assumption
Discount rate	0.5%	Decrease by 5.9%	Increase by 6.4%
Salary growth rate	1.0%	Increase by 13.6%	Decrease by 11.8%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement benefit obligation recognized within the statement of condition.

Defined contribution retirement plan subject to the requirements of RA No. 7641

	2019	2018
Fair value of plan assets	31,607,227	1,694,050
Present value of defined benefit obligation under RA No. 7641	(40,484,631)	(18,279,619)
Deficit	(8,877,404)	(16,585,569)
Effect of asset ceiling	-	-
Pension liability recognized in the statement of condition	(8,877,404)	(16,585,569)

The movements in the present value of the defined benefit obligation for the years ended December 31 follow:

	2019	2018
At January 1	18,279,619	4,775,597
Current service cost	18,299,076	19,858,115
Interest cost	904,739	296,565
Remeasurement gain		
Changes in financial assumptions	518,810	(7,855,201)
Experience adjustments	2,482,387	1,204,543
At December 31	40,484,631	18,279,619

The movements in the fair value of plan assets for the years ended December 31 follow:

	2019	2018
At January 1	1,694,050	1,317,686
Asset return at net interest cost	152,634	85,943
Contributions	26,860,175	132,531
Remeasurement loss - return on plan assets	2,900,368	157,890
At December 31	31,607,227	1,694,050

Total retirement benefit expense for the year ended December 31, 2019 under the defined contribution plan amounts to P19,051,181 (2018 - P20,068,737).

The principal assumptions used for the actuarial valuation of the defined contribution plan of the Bank at December 31 are as follows:

	2019	2018
Discount rate	5.57%	9.01%
Salary increase rate	5.00%	5.00%

The major categories of plan assets as a percentage of the fair value of total plan assets at December 31 follow:

	2019		2018	
	Amount	%	Amount	%
Debt securities	6,005,373	19	423,512	25
Equity securities	23,389,348	74	1,236,657	73
Others	2,212,506	7	33,881	2
	31,607,227	100	1,694,050	100

The asset allocation of the plan is set and reviewed from time to time by the plan trustees taking into account the membership profile, the liquidity requirements of the plan and risk appetite of the plan sponsor.

Contributions are determined on the plan provisions. The expected contribution of the Bank for the year ending December 31, 2020 amounts to P35,269,356.

Note 18 - Related party transactions

In the ordinary course of business, the Bank has transactions with its directors, officers, stockholders and related interests (DOSRI) and with its Parent Bank such as cash deposit arrangements, purchase of investment securities and outsourcing of certain services, primarily loans operations, branch operations and human resource-related functions.

Significant related party transactions are summarized below:

As at and for the year ended December 31, 2019:

	Transactions for the year	Outstanding balance	Terms and conditions
Deposits to:			
Parent Bank	(67,573,736)	742,206,182	- These are demand, savings and time deposits bearing the following average interest rates: Savings - 0.66% to 1.11% Time - 1.68% to 2.83%
Fellow subsidiary	(3,297,050)	57,515,882	
	(70,870,786)	799,722,064	
Deposits from:			
Fellow subsidiary	(1,700,000)	-	- These are time deposits bearing average interest rates of 1.13% to 1.14%
	(1,700,000)	-	
Accounts receivable:			
Parent Bank	9,000,000	9,000,000	- Unsecured, unguaranteed and non-interest bearing advances - Collectible in cash at gross amount and on demand but not later than 12 months from reporting period
	9,000,000	9,000,000	-
Accounts payable:			
Parent Bank	170,352,312	529,399,203	- Shared operating costs, occupancy and equipment related costs and office rental - Unsecured, unguaranteed and non-interest bearing - Payable in cash at gross amount and on demand but not later than 12 months from reporting period Refer to Notes (a), (b) and (c) below
	170,352,312	529,399,203	

As at and for the year ended December 31, 2018:

	Transactions for the year	Outstanding Balance	Terms and conditions
Deposits to:			
Parent Bank	(98,576,672)	809,779,918	- These are demand, savings and time deposits bearing the following average interest rates: Savings - 0.66% to 1.11% Time - 1.68% to 2.83%
Fellow subsidiary	28,466,832	60,812,932	
	(70,109,840)	870,592,850	
Deposits from:			
Fellow subsidiary	(26,600,000)	1,700,000	- These are time deposits bearing average interest rates of 1.13% to 1.14%
	(26,600,000)	1,700,000	
Accounts receivable:			
Parent Bank	(12,589)	-	- Unsecured, unguaranteed and non-interest bearing advances - Collectible in cash at gross amount and on demand but not later than 12 months from reporting period
	(12,589)	-	
Accounts payable:			
Parent Bank	335,231,306	359,046,891	- Shared operating costs, occupancy and equipment related costs and office rental - Unsecured, unguaranteed and non-interest bearing - Payable in cash at gross amount and on demand but not later than 12 months from reporting period - Refer to Notes (a), (b) and (c) below
	335,231,306	359,046,891	

The aggregate amounts included in the determination of income before income tax for the years ended December 31 that resulted from transactions with each class of related parties are as follows:

	Notes	2019	2018
Interest income	2		
Parent Bank		2,597,070	2,598,898
Fellow subsidiaries		252,757	268,066
		2,849,827	2,866,964
Interest expense			
Fellow subsidiaries		138,226	439,437
Shared operating costs [Refer to Note (a) below]			
Parent Bank	15	277,491,274	212,788,850
Occupancy and equipment related costs [Refer to Note (b) below]			
Parent Bank		196,375,614	69,682,991
Office rental [Refer to Note (c) below]			
Parent Bank		5,910,910	5,556,411
Retirement benefits		799,511	1,238,784
Salaries, allowances and other short-term benefits			
Key management personnel		6,662,588	6,898,645
Directors' remuneration		2,035,000	1,460,000

(a) Shared operating costs

These pertain to the Parent Bank's outsourcing of services relating to anti-money laundering services, accounting and securities administration services, loan operations, treasury operations, human resource-related functions and information systems. Shared operating costs are billed based on rate and terms agreed by the parties. The agreement remains in force unless terminated by the parties.

(b) Occupancy and equipment related costs

These pertain to the Parent Bank's services relating to shared technology costs. It is billed based on rate and terms agreed by the parties. The agreement remains in force unless terminated by the parties.

(c) Office rental

In 2017, the Bank transferred its office premise at BPI Greentop Condominium building, a property of the Parent Bank, for a lease period of 5 years from December 1, 2014 to November 30, 2019. The rent shall increase by 5% yearly starting on the second year and by 7% on the fourth year thereafter. The security deposit in relation to the lease is presented as part of Other resources, net in the statement of condition. The lease is currently being renewed for another 5 years with the same terms and conditions.

The Bank has no DOSRI loans at December 31, 2019 and 2018.

The Bank is in full compliance with the General Banking Act as at December 31, 2019 and 2018.

Note 19 - Other commitments and contingent liabilities

As a result of the merger, the existing lease agreements by BanKo was assumed by the Bank effective December 29, 2016. The lease term of the Bank's main office space commenced on December 1, 2014 and will end on November 30, 2019, and was renewed thereafter. Likewise, the branch office spaces have various lease agreements that are renewable under certain terms and conditions. The rent is subject to 5% to 10% escalation rate. This agreement requires the Bank to pay security deposit which is presented at Other resources, net in the statement of condition.

Lease terms are negotiated either on a collective or individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets cannot be used as security for borrowing purposes.

The balances arising from these leases are presented below:

a) Right-of-use assets and lease liabilities (PFRS 16)

On January 1, 2019, the Bank adopted PFRS 16 which requires recognition of both right-of-use assets and lease liabilities arising from long-term leases. The impact of initial adoption of PFRS 16 are summarized in Note 22.

Details of right-of-use assets and lease liabilities at December 31, 2019 are as follows:

	Notes	Amount
Right-of-use assets (included in Bank premises, furniture and equipment, net)	7	
Building		384,463,024
Lease liabilities (included in Other liabilities)	12	
Current		104,118,385
Non-current		297,348,404
		401,466,789

Additions to the right-of-use assets (Note 7) in 2019 aggregated P14.93 million.

Movements in lease liabilities at December 31, 2019 are as follows:

	Amount
January 1, 2019	472,027,176
Additions during the year	
Lease liabilities on contracts entered in 2019	11,941,404
Interest accretion on lease liabilities	29,652,558
Payments during the year	
Principal portion of lease liabilities	(87,788,282)
Interest on lease liabilities	(24,366,067)
December 31, 2019	401,466,789

Total cash outflow for leases in 2019 amounted to P112.15 million.

Amounts recognized under Occupancy and equipment-related expenses in the statement of income for the year ended December 31, 2019 relating to leases:

	Amount
Depreciation expense	
Building (Note 7)	102,493,377
Interest expense on lease liabilities	29,652,558
Expenses relating to low-value leases	4,280,100
	136,426,035

b) Operating leases (PAS 17)

Prior to January 1, 2019, the Bank's lease contracts were accounted for as operating leases following the provisions of PAS 17. The rental expense arising from these lease contracts (included in Occupancy and equipment-related expenses) for the year ended December 31, 2018 amounted to P65,644,035.

The future minimum lease payments at December 31, 2018 are as follows:

	Amount
Within one year	80,365,486
After one year but not more than five years	233,096,157
	313,461,643

The reconciliation between the operating lease commitments under PAS 17 at December 31, 2018 discounted using the Bank's incremental borrowing rate and the lease liabilities recognized as at January 1, 2019 is as follows:

	Amount
Operating lease commitments, December 31, 2018	313,461,643
Add: Extension options which are reasonably certain to be exercised	269,930,061
Less: Leases of low-value assets	(4,280,100)
Effect of discounting using the incremental borrowing rates ranging from 7.63% to 7.74%	(107,084,428)
Lease liabilities, January 1, 2019	472,027,176

Note 20 - Critical accounting estimates and judgments

The Bank makes judgments, estimates and assumptions that affect the reported amounts of resources and liabilities. Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. It is reasonably possible that the outcomes within the next financial year could differ from judgments, estimates and assumptions made at reporting date and could result in the adjustment to the carrying amount of affected assets and liabilities.

20.1 Critical accounting estimates

(i) Measurement of the expected credit loss (ECL) allowance

The measurement of the ECL for loans and advances is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk (SICR);
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Forward-looking scenarios

Three distinct macroeconomic scenarios (baseline, upside and downside) are considered in the Bank's estimation of ECL in Stage 1 and Stage 2. These scenarios are based on assumptions supported by economic theories and historical experience. The downside scenario reflects a negative macroeconomic event occurring within the first 12 months, with conditions deteriorating for up to two years, followed by a recovery for the remainder of the period. This scenario is grounded in historical experience and assumes a monetary policy response that returns the economy to a long-run, sustainable growth rate within the forecast period. The probability of each scenario is determined using expert judgment and recession probability tools provided by reputable external service providers. The baseline case incorporates the Bank's outlook for the domestic and global economy. The best and worst case scenarios take into account certain adjustments that will lead to a more positive or negative economic outcome.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes is likewise considered, if material.

The most significant period-end assumptions used for the ECL estimate at December 31 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

2019

	Base Scenario		Upside Scenario		Downside Scenario	
	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)
Real GDP growth (%)	6.3	6.6	6.6	7.2	0.0	4.2
Inflation Rate (%)	3.0	3.1	2.7	2.4	11.0	5.9
PDST-R2 5Y (%)	4.5	4.7	4.0	4.3	11.2	10.3
US Treasury 5Y (%)	2.5	2.5	2.8	3.4	1.4	1.3
Exchange Rate	52.300	54.874	51.550	52.856	56.970	62.653

2018

	Base Scenario		Upside Scenario		Downside Scenario	
	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)
Real GDP growth (%)	7.0	6.4	7.3	7.3	4.1	(1.2)
Inflation Rate (%)	4.1	3.2	3.5	2.7	6.1	8.8
PDST-R2 5Y (%)	7.0	6.7	6.7	6.4	8.1	10.7
US Treasury 5Y (%)	3.2	2.4	2.7	2.2	6.0	3.7
Exchange Rate	54.638	57.796	53.620	52.812	55.829	66.661

Sensitivity analysis

The Bank's loan portfolio has different sensitivities to movements in macroeconomic variables, so the above three scenarios have varying impact on the ECL of the Bank's portfolio. The allowance for impairment is calculated as the weighted average of ECL under the baseline, upside and downside scenarios. The impact of weighting these multiple scenarios was an increase in the allowance for impairment by P0.9 million from the baseline scenario as at December 31, 2019 (2018 - P13 million).

Transfers between stages

Transfers from Stage 1 and Stage 2 are based on the assessment of SICR from initial recognition. The impact of moving from 12 months ECL to lifetime ECL, or vice versa, varies by product and is dependent on the expected remaining life at the date of the transfer. Stage transfers may result in significant fluctuations in ECL. Assuming all Stage 2 accounts are considered as Stage 1, allowance for impairment would have decreased by P10.6 million as at December 31, 2019 and 2018.

(ii) Fair value of financial instruments (Note 21)

The fair values of financial instruments that are not quoted in active markets are determined by using generally accepted valuation techniques. Where valuation techniques (for example, discounted cash flow models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. Inputs used in these models are from observable data and quoted market prices in respect of similar financial instruments.

All models are approved by the Board of Directors before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. Changes in assumptions about these factors could affect reported fair value of financial instruments.

The Bank considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the fair value of financial instruments that are not quoted in active markets.

(iii) Pension liability on defined benefit plan (Note 17)

The Bank estimates its pension benefit obligation and expense for defined benefit pension plans based on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 17 and include, among others, the discount rate and future salary increases. The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligation.

The present value of the defined benefit obligation of the Bank at December 31, 2019 and 2018 are determined using the market yields on Philippine government bonds with terms consistent with the expected payments of employee benefits. Plan assets are invested in either equity securities, debt securities or other forms of investments. Equity markets may experience volatility, which could affect the value of pension plan assets. This volatility may make it difficult to estimate the long-term rate of return on plan assets. Actual results that differ from the Bank's assumptions are reflected as remeasurements in other comprehensive income. The Bank's assumptions are based on actual historical experience and external data regarding compensation and discount rate trends.

The sensitivity analysis on key assumptions is disclosed in Note 17.

(iv) Valuation of assets held for sale

In determining the fair value of assets held for sale, the Bank analyzed the sales prices by applying appropriate units of comparison, adjusted by differences between the subject asset or property and related market data. Should there be a subsequent write-down of the asset to fair value less cost to sell, such write-down is recognized as provision for impairment in the statement of income.

In 2019, the Bank has recognized provision for impairment loss on its foreclosed assets amounting to P150,799 (2018 - P757,526) as a result of the decline in fair market values of properties.

The Bank considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the fair value of assets held for sale.

(v) Useful lives of bank premises, furniture, fixtures and equipment (Note 7)

The Bank determines the estimated useful lives of its bank premises, furniture, fixtures and equipment based on the period over which the assets are expected to be available for use. The Bank annually reviews the estimated useful lives of bank premises, furniture, fixtures and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned.

The Bank considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the carrying values of bank premises, furniture, fixtures and equipment.

(vi) Determination of incremental borrowing rate (Note 19)

To determine the incremental borrowing rate, the Bank:
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held which do not have recent third-party financing, and
- makes adjustments specific to the lease, (e.g. term, currency and security).

The Bank's weighted average incremental borrowing rates applied to the lease liabilities range from 7.63% to 7.74%.

20.2 Critical accounting judgments

(i) Determining the lease term (Note 19)

In determining the lease term, the Bank considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

(ii) Classification of investment securities (Note 5)

The Bank classifies financial assets at initial recognition whether it will be subsequently measured at FVOCI, at amortized cost, or at FVTPL. The Bank determines the classification based on the contractual cash flow characteristics of the financial assets and on the business model it uses to manage these financial assets. The Bank determines whether the contractual cash flows associated with the financial asset are solely payments of principal and interest ('SPPI'). If the instrument fails the SPPI test, it will be measured at fair value through profit or loss.

The Bank has designated at FVOCI investments in a small portfolio of equity securities of listed private corporations. The Bank chose this presentation alternative because the investments were made for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term.

(iii) Classification of assets held for sale

Management follows the principles in PFRS 5 in classifying certain foreclosed assets (consisting of real estate and auto or chattel) as assets held for sale when the carrying amount of the assets will be recovered principally through sale. Management is committed to a plan to sell these foreclosed assets and the assets are actively marketed for sale at a price that is reasonable in relation to their current fair value.

(iv) Realization of deferred income tax assets (Note 8)

Management reviews at each reporting date the carrying amounts of deferred tax assets. The carrying amount of deferred tax assets is reduced to the extent that the related tax assets cannot be utilized due to insufficient taxable profit against which the deferred tax losses will be applied. Management believes that sufficient taxable profit will be generated to allow all or part of the deferred income tax assets to be utilized.

Note 21 - Financial risk and capital management

Risk management in the Bank covers all perceived areas of risk exposure, even as it continuously endeavors to uncover hidden risks. Capital management is understood to be a facet of risk management. The Board of Directors is the Bank's principal risk and capital manager, and the Bank's only strategic risk taker. The Board of Directors provides written policies for overall risk management, as well as written procedures for the management of credit risk, foreign exchange risk, interest rate risk, equity risk, liquidity risk, and contingency risk, among others.

The primary objective of the Bank is the generation of recurring acceptable returns to shareholders' capital. To this end, the Bank's policies, business strategies, and business activities are directed towards the generation of cash flows that are in excess of its fiduciary and contractual obligations to its depositors, and to its various other funders and stakeholders.

To generate acceptable returns to its shareholders' capital, the Bank understands that it has to bear risk, that risk-taking is inherent in its business. Risk is understood by the Bank as the uncertainty in its future income - an uncertainty that emanates from the possibility of incurring losses that are due to unplanned and unexpected drops in revenues, increases in expenses, impairment of asset values, or increases in liabilities.

The possibility of incurring losses is, however, compensated by the possibility of earning more than expected income. Risk-taking is, therefore, not entirely a bad step to be avoided. Risk-taking presents opportunities if risks are accounted, deliberately taken, and are kept within rationalized limits.

The most important financial risks that the Bank manages are credit risk, liquidity risk and market risk.

21.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that may arise if a borrower or counterparty fails to meet its obligations in accordance with agreed terms. Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk as governed by relevant regulatory requirements and international benchmarks.

Credit risk may also arise due to substantial exposures to a particular counterparty which the Bank manages by adopting proper risk controls and diversification strategies to prevent undue risk concentrations from excessive exposures to particular counterparties, industries, countries or regions.

The most evident source of credit risk is loans and advances; however, other sources of credit risk exist throughout the activities of the Bank, including in credit-related activities recorded in the banking, investment securities in the trading books and off-balance sheet transactions.

21.1.1 Credit risk management

The Credit Policy and Risk Management division of the Parent Bank supports the Credit Committees in coordination with various business lending and operations units in managing credit risk, and reports are regularly provided to the Bank's Senior Management and the Board of Directors. A rigorous control framework is applied in the determination of ECL models. The Parent Bank has policies and procedures that govern the calculation of ECL and such policies are consistently being observed by the Bank. All ECL models are regularly reviewed by the Risk Management Office to ensure that necessary controls are in place and the models are applied accordingly.

The review and validation are performed by groups that are independent of the team that prepares the calculations, e.g., Risk Models Validation and Internal Auditors. Expert judgements on measurement methodologies and assumptions are reviewed by a group of internal experts from various functions.

The Bank employs a range of policies and practices to mitigate credit risk. The Bank monitors its portfolio based on different segmentation to reflect the acceptable level of diversification and concentration. Credit concentration arises from substantial exposures to particular counterparties. Concentration risk in credit portfolios is inherent in banking and cannot be totally eliminated. However, said risk may be reduced by adopting proper risk control and diversification strategies to prevent undue risk concentrations from excessive exposures to particular counterparties, industries, countries or regions.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and subjected to annual or more frequent review, when deemed necessary. Limits on large exposures and credit concentration are approved by the BOD through the Risk Management Committee (RMC).

The exposure to any one borrower is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored regularly.

Settlement risk arises in any situation where a payment in cash, securities, foreign exchange currencies, or equities is made in the expectation of a corresponding receipt in cash, securities, foreign exchange currencies, or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Bank's market transactions on any single day. For certain securities, the introduction of the delivery versus payment facility in the local market has brought down settlement risk significantly.

The Bank employs a range of policies and practices to mitigate credit risk. Some of these specific control and risk mitigation measures include collateral or guarantees.

Collateral or guarantees

One of the most traditional and common practice in mitigating credit risk is requiring security particularly for loans and advances. The Bank implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The Bank assesses the valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The common collateral types for loans and advances are:

- Mortgages over physical properties (e.g., real estate and personal) and
- Mortgages over financial assets (e.g., guarantees).

In order to minimize credit loss, the Bank seeks additional collateral from the counterparty when impairment indicators are observed for the relevant individual loans and advances.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collaterals held by the Bank since the prior period.

21.1.2 Credit risk rating

The Bank uses internal credit risk gradings that reflect its assessment of the probability of default (PD) of individual counterparties. The Bank uses internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. In addition, the models enable expert judgement from the Credit Review Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The Bank has put in place a credit classification system to promptly identify deteriorating exposures and to determine the appropriate credit losses. Classification is being done on the basis of Bank's existing internal credit risk rating system, credit models or determined using reputable external rating agencies. The following are the considerations observed by the Bank in classifying its exposures:

- *Standard monitoring* refers to accounts which do not have a greater-than-normal risk and do not possess the characteristics of special monitoring and defaulted loans. The counterparty has the ability to satisfy the obligation in full and therefore minimal loss, if any, is anticipated.

- *Special monitoring* are accounts which need closer and frequent monitoring to prevent any further deterioration of the credit. The counterparty is assessed to be vulnerable to highly vulnerable and its capacity to meet its financial obligations is dependent upon favorable business, financial, and economic conditions.

- *Default* refers to accounts which exhibit probable to severe weaknesses wherein possibility of non-repayment of loan obligation is ranging from high to extremely high severity.

The mapping of internal credit risk ratings with the Bank's standard account classification is shown below:

(a) Loans and advances

The Bank's internal credit risk rating system comprises a 30-scale rating with eighteen (18) 'pass' rating levels for large corporate accounts; and 14-scale rating system with ten (10) 'pass' rating grades for loans mapped based on reputable external rating agency.

The Bank uses automated scoring models to assess the level of risk for retail accounts. Behavioral indicators are considered in conjunction with other forward-looking information (e.g., industry forecast) to assess the level of risk of a financial asset. After the date of initial recognition, the payment behavior of the borrower is monitored on a periodic basis to develop a behavioral score which is mapped to a PD.

Classifications	PL, Auto, Housing	Self-employed and microentrepreneurs
Standard monitoring	Current to 30 dpd	Current to 7 dpd
Special monitoring	31-90 dpd	-
Default	>90, IL, Loss	8 dpd and up

(b) Treasury and debt securities

Investments in high grade securities are viewed as a way to gain better credit quality mix and at the same time, maintain a readily available source to meet funding requirements. The level of credit risk for treasury and other investment debt securities and their associated PD are determined using reputable external ratings and/or available and reliable qualitative and quantitative information. In the absence of credit ratings, a comparable issuer or guarantor rating is used. Should there be a change in the credit rating of the chosen comparable, evaluation is made to ascertain whether the rating change is applicable to the security being assessed for impairment.

Classifications	Credit Risk Grade following S&P or its equivalent
Standard monitoring	Investment Grade (AAA to BBB-)
Special monitoring	Non-Investment Grade (BB+ to C)
Default	Default (D)

(b) Other financial assets

For other financial assets (accounts receivable and rental deposits), the Bank applies the simplified approach, as permitted by PFRS 9, in measuring ECL which uses a lifetime ECL methodology. These financial assets are grouped based on shared risk characteristics and aging profile. For some of these, impairment is assessed individually at a counterparty level.

21.1.3 Maximum exposure to credit risk

The following tables contain an analysis of the credit risk exposure of each financial instrument for which an ECL allowance is recognized. The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets at December 31.

Credit quality of loans and advances, net

	2019			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring	11,556,258,740	183,863,229	-	11,740,121,969
Special monitoring	1,137,755	267,407,275	-	268,545,030
Default	-	-	1,188,631,728	1,188,631,728
Gross carrying amount	11,557,396,495	451,270,504	1,188,631,728	13,197,298,727
Loss allowance	(355,616,788)	(15,932,104)	(632,205,682)	(1,003,754,574)
Carrying amount	11,201,779,707	435,338,400	556,426,046	12,193,544,153

	2018			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring	8,782,243,783	286,747,363	-	9,068,991,146
Special monitoring	14,559,458	201,489,316	-	216,048,774
Default	-	-	630,521,230	630,521,230
Gross carrying amount	8,796,803,241	488,236,679	630,521,230	9,915,561,150
Loss allowance	(328,566,683)	(22,433,268)	(319,366,511)	(670,366,462)
Carrying amount	8,468,236,558	465,803,411	311,154,719	9,245,194,688

Treasury and other investment securities

Credit risk exposures relating to treasury and other investment securities at December 31 are as follows:

	2019	2018
Due from other banks	830,391,583	884,795,667
Interbank loans receivable	393,634,185	300,158,333
Due from BSP	2,491,887,897	3,853,846,029
Financial assets at FVOCI	-	100,058,207
	3,715,913,665	5,138,858,236

Credit quality of other financial assets

	2019			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring				
Due from other banks	830,391,583	-	-	830,391,583
Interbank loans receivables	393,634,185	-	-	393,634,185
Due from BSP	2,491,887,897	-	-	2,491,887,897
Gross carrying amount	3,715,913,665	-	-	3,715,913,665
Loss allowance	-	-	-	-
Carrying amount	3,715,913,665	-	-	3,715,913,665

	2018			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring				
Due from other banks	884,795,667	-	-	884,795,667
Interbank loans receivables	300,158,333	-	-	300,158,333
Due from BSP	3,853,846,029	-	-	3,853,846,029
Financial assets at FVOCI	100,058,207	-	-	100,058,207
Gross carrying amount	5,138,858,236	-	-	5,138,858,236
Loss allowance	-	-	-	-
Carrying amount	5,138,858,236	-	-	5,138,858,236

The Bank's other financial assets generally arise from transactions with various unrated counterparties with good credit standing. The Bank applies the simplified approach, as permitted by PFRS 9, in measuring ECL which uses a lifetime expected loss methodology for other financial assets.

To measure the ECL, other financial assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of receivables over a period of 36 months and corresponding historical credit losses experienced within the said period. The impact of forward-looking variables on macroeconomic factors is considered insignificant in calculating ECL provisions for other financial assets.

21.1.4 Credit impaired loans and advances

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held at December 31 in order to mitigate potential losses are shown below:

	2019			2018		
	Gross exposure	Impairment allowance	Carrying amount	Gross exposure	Impairment allowance	Carrying amount
Credit-impaired assets						
Corporate entities	50,000,000	50,000,000	-	50,000,000	50,000,000	-
Retail customers	891,130,529	411,634,532	479,495,997	580,521,230	163,040,718	417,480,512
Total credit-impaired assets	941,130,529	461,634,532	479,495,997	630,521,230	213,040,718	417,480,512
Fair value of collateral	244,352,710	-	244,352,710	233,694,689	-	233,694,689

As at December 31, 2019, the Bank acquired assets by taking possession of collaterals held as security for loans and advances with carrying amount of P23,992,147 (2018 - P15,046,077). The related foreclosed collaterals at December 31, 2019 have aggregate fair value of P52,289,337 (2018 - P22,798,200).

As at December 31, 2019, the allowance for impairment of foreclosed collateral amounts to P4,388,448 (2018 - P4,539,247). Foreclosed collaterals include real estate (land, building, and improvements) and chattel.

Repossessed properties are sold as soon as practicable and are classified as assets held for sale in the statement of condition.

21.1.5 Loss allowance

The loss allowance recognized in the period is affected by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;
- Impact on the measurement of ECL due to changes in PDs, Exposure at Default (EAD) and Loss Given Default (LGD) in the period;
- Impact on the measurement of ECL due to changes made to models and assumptions;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

The following table summarizes the changes in the loss allowance for loans and advances between the beginning and the end of the annual period.

For the year ended December 31, 2019

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance, beginning	328,566,683	22,433,268	319,366,511	670,366,462
Movements with P&L impact				
Transfers:				
Transfer in (out of) Stage 1	(202,687,596)	8,648,295	309,928,996	115,889,695
Transfer in (out of) Stage 2	469,646	(12,614,908)	21,061,302	8,916,040
Transfer in (out of) Stage 3	45,297	1,343,690	(6,711,620)	(5,322,633)
New financial assets originated	398,099,581	-	-	398,099,581
Financial assets derecognized during the year	(154,931,427)	(1,973,924)	(21,285,666)	(178,191,017)
Changes in PDs/EADs/LGDs and models assumptions	82,869,073	(2,097,606)	153,137,195	233,908,662
Write-offs and other movements	(96,814,469)	193,289	(143,291,036)	(239,912,216)
Loss allowance, ending	355,616,788	15,932,104	632,205,682	1,003,754,574

For the year ended December 31, 2018

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance, beginning	96,711,892	21,063,603	96,319,800	214,095,295
Movements with P&L impact				
Transfers:				
Transfer in (out of) Stage 1	(51,235,682)	12,576,285	150,840,253	112,180,856
Transfer in (out of) Stage 2	214,655	(9,232,055)	15,171,672	6,154,272
Transfer in (out of) Stage 3	5,087,301	1,283,450	(31,914,265)	(25,543,514)
New financial assets originated	341,471,969	-	-	341,471,969
Financial assets derecognized during the year	(30,604,120)	(3,694,852)	(29,281,961)	(63,580,933)
Changes in PDs/EADs/LGDs and models assumptions	(33,129,447)	(5,448,544)	68,941,391	30,363,400
Write-offs and other movements	50,115	5,885,381	49,289,621	55,225,117
Loss allowance, ending	328,566,683	22,433,268	319,366,511	670,366,462

No movement analysis of allowance for impairment for other financial assets subject to impairment as the related loss allowance is deemed insignificant for financial reporting purposes.

Write-off policy

The Bank writes off financial assets when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Bank may write-off financial assets that are still subject to enforcement activity. The write-off of loans is approved by the Board of Directors in compliance with the BSP requirements. Loans written-off in 2019 and 2018 are fully covered with allowance.

21.1.6 Concentration of financial assets with credit exposure

The Bank's main credit exposures based on carrying amounts and categorized by industry sectors are summarized below:

	Financial Institutions	Manufacturing	Business services and real estate	Private households	Others	Less - Allowance	Total
At December 31, 2019							
Due from other banks	830,391,583	-	-	-	-	-	830,391,583
Interbank loans	-	-	-	-	393,634,185	-	393,634,185
Due from BSP	-	-	-	-	2,491,887,897	-	2,491,887,897
Loans and advances, net	30,509,431	387,628,943	321,500,026	9,151,111,950	3,306,548,377	(1,003,754,574)	12,193,544,153
Other resources, net	-	-	-	-	117,208,984	(4,519,028)	112,689,956
	860,901,014	387,628,943	321,500,026	9,151,111,950	6,309,279,443	(1,008,273,602)	16,022,147,774

	Financial Institutions	Manufacturing	Business Services and Real Estate	Private Households	Others	Less - Allowance	Total
At December 31, 2018							
Due from other banks	884,795,667	-	-	-	-	-	884,795,667
Interbank loans	-	-	-	-	300,158,333	-	300,158,333
Due from BSP	-	-	-	-	3,853,846,029	-	3,853,846,029
Investment securities at FVOCI	-	-	100,058,207	-	-	-	100,058,207
Loans and advances, net	35,239,112	1,872,022	373,049,925	8,373,895,855	1,131,504,236	(670,366,462)	9,245,194,688
Other resources, net	-	-	-	-	195,072,171	(2,459,317)	192,612,854
	920,034,779	1,872,022	473,108,132	8,373,895,855	5,480,580,769	(672,825,779)	14,576,665,778

21.2 Market risk

The Bank is exposed to market risk - the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is managed by the Risk Management Office and confirmed by the BOD.

Market risk management

Market risk management is incumbent on the Board of Directors through its Risk Management Committee. Market risk management in the Bank covers managing exposures to trading risk, foreign exchange risk, counterparty credit risk, interest rate risk of the banking book and liquidity risk. At the management level, the Bank's market risk exposure is managed by Risk Management Office, headed by the Bank's Chief Risk Officer who reports directly to the Risk Management Committee. In addition, Internal Audit is responsible for the independent review of risk assessment measures and procedures and the control environment.

The Bank reviews and controls market risk exposures of both its trading and non-trading portfolios. Trading portfolios include those positions arising from the Bank's market-making transactions. Non-trading portfolios primarily arise from the interest rate management of the Bank's retail and commercial banking assets and liabilities.

Value-at-Risk (VaR) measurement is an integral part of the Bank's market risk control system. This metric estimates, at 99% confidence level, the maximum loss that a trading portfolio may incur over a trading day. This metric indicates as well that there is 1% statistical probability that the trading portfolios' actual loss would be greater than the computed VaR. In order to ensure model soundness, the VaR is periodically subject to model validation and back testing. VaR is supplemented by other risk metrics and measurements that would provide preliminary signals to Treasury and to the management to assess the vulnerability of Bank's positions.

To control the risk, the RMC sets risk limits for trading portfolios which are consistent with the Bank's goals, objectives, risk appetite, and strategy.

Stress tests indicate the potential losses that could arise in extreme conditions that would have detrimental effect to the Bank's positions. The Bank periodically performs stress testing (price risk and liquidity risk) to assess the Bank's condition on assumed stress scenarios. Contingency plans are frequently reviewed to ensure the Bank's preparedness in the event of real stress. Results of stress tests are reviewed by senior management and by the RMC.

The average daily VaR for the trading portfolios in 2019 is at 177 (2018 - 89).

21.3 Interest rate risk

There are two types of interest rate risk - (i) fair value interest rate risk and (ii) cash flow interest rate risk. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may also result in losses in the event that unexpected movements arise.

The BOD sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by the RMO.

Interest rate risk in the banking book arises from the Bank's core banking activities. The main source of this type of interest rate risk is repricing risk, which reflects the fact that the Bank's assets and liabilities are of different maturities and are priced at different interest rates.

	Up to 1 year	Over 1 year and up to 3 years	Over 3 years	Non-repricing	Total
As at December 31, 2019					
Financial assets					
Cash and other cash items	-	-	-	216,587,760	216,587,760
Due from other banks	-	-	-	830,391,583	830,391,583
Interbank loans	-	-	-	393,634,185	393,634,185
Due from BSP	-	-	-	2,491,887,897	2,491,887,897
Financial assets at FVOCI	-	-	-	5,560	5,560
Loans and advances,net	1,984,469,491	185,899,103	103,080,209	9,920,095,350	12,193,544,153
Other resources, net	-	-	-	112,689,956	112,689,956
Total financial assets	1,984,469,491	185,899,103	103,080,209	13,965,292,291	16,238,741,094
Financial liabilities					
Deposit liabilities	5,434,571,008	8,526,542,438	-	-	13,961,113,446
Accrued interest	-	-	-	36,399,472	36,399,472
Other liabilities	-	-	-	1,004,036,417	1,004,036,417
Total financial liabilities	5,434,571,008	8,526,542,438	-	1,040,435,889	15,001,549,335
Total interest gap	(3,450,101,517)	(8,340,643,335)	103,080,209	12,924,856,402	1,237,191,759

	Up to 1 year	Over 1 year and up to 3 years	Over 3 years	Non-repricing	Total
As at December 31, 2018					
Financial assets					
Cash and other cash items	-	-	-	86,383,976	86,383,976
Due from other banks	-	-	-	884,795,667	884,795,667
Interbank loans	-	-	-	300,158,333	300,158,333
Due from BSP	-	-	-	3,853,846,029	3,853,846,029
Financial assets at FVOCI	-	-	-	100,065,545	100,065,545
Loans and advances, net	5,448,712,642	3,577,582,194	121,284,774	97,615,078	9,245,194,688
Other resources, net	-	-	-	192,612,854	192,612,854
Total financial assets	5,448,712,642	3,577,582,194	121,284,774	5,515,477,482	14,663,057,092
Financial liabilities					
Deposit liabilities	12,560,640,302	-	-	-	12,560,640,302
Accrued interest	-	-	-	7,447,214	7,447,214
Other liabilities	-	-	-	531,245,917	531,245,917
Total financial liabilities	12,560,640,302	-	-	538,693,131	13,099,333,433
Total interest gap	(7,111,927,660)	3,577,582,194	121,284,774	4,976,784,351	1,563,723,659

The Bank uses a simple version of the Balance Sheet VaR (BSVaR) whereby only the principal and interest payments due and relating to the banking book as at particular valuation dates are considered. The BSVaR assumes a static balance sheet, i.e., it is assumed that there will be no new transactions moving forward, and no portfolio rebalancing will be undertaken in response to future changes in market rates.

The BSVaR is founded on re-pricing gaps, or the difference between the amounts of rate sensitive assets and the amounts of rate sensitive liabilities. An asset or liability is considered to be rate-sensitive if the interest rate applied to the outstanding principal balance changes (either contractually or because of a change in a reference rate) during the interval.

The BSVaR estimates the "riskiness of the balance sheet" and compares the degree of risk taking activity in the banking books from one period to the next. In consideration of the static framework, and the fact that income from the positions is accrued rather than generated from marking-to-market, the probable loss (that may be exceeded 1% of the time) that is indicated by the BSVaR is not realized in accounting income.

The cumulative BSVaR for the banking or non-trading book in 2019 amounts to P25,261,000 (2018 - P114,190,000).

21.4 Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of financial instrument will fluctuate because of changes in foreign exchange rates. It arises on financial instruments that are denominated in a foreign currency other than the functional currency which they are measured.

The Bank takes on exposure to the effects of fluctuations in the prevailing exchange rates on its foreign currency financial position and cash flows. The table below summarizes the Bank's exposure to foreign currency exchange rate risk relative to its financial assets and liabilities denominated in United States Dollar (US Dollar) at December 31.

	2019	2018
Financial assets		
Due from other banks	233,212,291	339,118,419
Other resources	130,497	186,210
	233,342,788	339,304,629
Financial liabilities		
Deposit liabilities	227,922,425	324,942,353
Accrued interest	45,866	50,887
	227,968,291	324,993,240
Net foreign exchange exposure	5,374,497	14,311,389

At December 31, 2019, if the Philippine Peso had weakened/strengthened by 3.70% (2018 - 12.46%) against the US Dollar based on historical information in the last five years with all other variables held constant, net income as at and for the year ended December 31, 2019 would have been P198,856 higher/lower (2018 - P1,783,199 higher/lower), mainly as a result of foreign exchange gains/losses on translation of US Dollar-denominated deposits with other banks and deposit liabilities.

21.5 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

The Bank's liquidity profile is observed and monitored through its metric, the Minimum Cumulative Liquidity Gap (MCLG). The MCLG is the smallest net cumulative cash inflow (if positive) or the largest net cumulative cash outflow (if negative) over the next three (3) months. The MCLG indicates the biggest funding requirement in the short term and the degree of liquidity risk present in the current cash flow profile of the Bank. The MCLG is computed monthly and reported in the RMC meetings. A red flag is immediately raised and reported to management and the RMC when the MCLG level projected over the next 3 months breaches the RMC prescribed MCLG limit.

21.5.1 Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by the RMC and the RMO includes:

- day-to-day funding, which includes replenishment of funds as they mature or are borrowed by customers, managed by monitoring future cash flows to ensure that requirements can be met;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- managing the concentration and profile of debt maturities; and
- performing periodic liquidity stress testing on the Bank's liquidity position by assuming a faster rate of withdrawals in its deposit base.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The Bank also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities (if any).

Liquidity Coverage Ratio (LCR)

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

The main drivers of the Bank's LCR comprise the changes in the total stock of HQLA as well as changes in net cash outflows related to deposits, unsecured borrowings and commitment facilities, if any.

Net Stable Funding Ratio (NSFR)

On January 1, 2019, the Bank adopted BSP Circular No. 1007 issued in 2018 regarding the NSFR requirement. The NSFR is aimed at strengthening the Bank's long-term resilience by maintaining a stable funding in relation to its assets and off-balance sheet items as well as to limit the maturity transformation risk of the Bank. The NSFR is expressed as the ratio of available stable funding and the required stable funding and complements the LCR as it takes a longer view of the Bank's liquidity risk profile. The Bank's capital and retail deposits are considered as stable funding sources whereas the Bank's assets including, but not limited to, performing and non-performing loans and receivables, HQLA and non-HQLA securities as well as off-balance sheet items form part of the required stable funding. The Bank's NSFR is well-above the regulatory minimum of 100%.

The Bank maintains a well-diversified funding base and has a substantial amount of core deposits, thereby avoiding undue concentrations by counterparty, maturity, and currency. The Bank manages its liquidity position through asset-liability management activities supported by a well-developed funds management practice as well as a sound risk management system. As part of risk oversight, the Bank monitors its liquidity risk on a daily basis, in terms of single currency and significant currencies, to ensure it is operating within the risk appetite set by the BOD and to assess ongoing compliance with the minimum requirement of the liquidity ratios. Furthermore, the Bank has a set of policies and escalation procedures in place that govern its day-to-day risk monitoring and reporting processes.

The table below shows the actual liquidity metrics of the Bank:

	2019	2018
Liquidity coverage ratio	162.86%	407.17%
Net stable funding ratio	124.42%	161.27%
Leverage ratio	12.64%	13.54%
Total exposure measure	17,779,755,263	15,547,852,527

21.5.2 Funding approach

Sources of liquidity are regularly reviewed by the Bank to maintain a wide diversification by currency, geography, counterparty, product and term.

21.5.3 Non-derivative cash flows

The table below presents the maturity profile of non-derivative financial instruments at December 31 based on undiscounted cash flows, including interest, which the Bank uses to manage the inherent liquidity risk. The analysis takes into account the maturity grouping based on the remaining period from the end of the reporting period to the contractual maturity date or, if earlier, the expected date the financial asset will be realized or the financial liability will be settled.

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
2019				
Financial assets				
Cash and other cash items	216,587,760	-	-	216,587,760
Due from other banks	830,391,583	-	-	830,391,583
Interbank loans	393,634,185	-	-	393,634,185
Due from BSP	2,491,887,897	-	-	2,491,887,897
Investment securities at FVOCI	5,560	-	-	5,560
Loans and advances	5,943,538,832	7,955,675,809	3,432,466,439	17,331,681,080
Other resources	112,689,956	-	-	112,689,956
Total financial assets	9,988,735,773		3,432,466,439	21,376,878,021
Financial liabilities				
Deposit liabilities	5,441,203,910	8,526,542,438	-	13,967,746,348
Accrued interest and other expense	29,766,570		-	29,766,570
Other liabilities	706,688,013	284,390,498	12,957,906	1,004,036,417
Total financial liabilities	6,177,658,493	8,810,932,936	12,957,906	15,001,549,335
Total maturity gap	3,811,077,280	(855,257,127)	3,419,508,533	6,375,328,686

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
2018				
Financial assets				
Cash and other cash items	86,383,976	-	-	86,383,976
Due from other banks	884,795,667	-	-	884,795,667
Interbank loans	300,158,333	-	-	300,158,333
Due from BSP	3,853,846,029	-	-	3,853,846,029
Investment securities at FVOCI	106,756,752	-	-	106,756,752
Loans and advances	5,546,327,720	3,577,582,194	121,284,774	9,245,194,688
Other resources	192,612,854	-	-	192,612,854
Total financial assets	10,970,881,331	3,577,582,194	121,284,774	14,669,748,299
Financial liabilities				
Deposit liabilities	1,129,951,718	11,436,543,082	-	12,566,494,800
Accrued interest and other expenses	1,592,716	-	-	1,592,716
Other liabilities	531,245,917	-	-	531,245,917
Total financial liabilities	1,662,790,351	11,436,543,082	-	13,099,333,433
Total maturity gap	9,308,090,980	(7,858,960,888)	121,284,774	1,570,414,866

The maturity gap is being managed through the minimum cumulative liquidity gap.

21.6 Fair values of financial assets and liabilities

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities at December 31 not presented in the statement of condition at fair value.

	Carrying Value		Fair Value	
	2019	2018	2019	2018
Financial assets				
Cash and other cash items	216,587,760	86,383,976	216,587,760	86,383,976
Due from other banks	830,391,583	884,795,667	830,391,583	884,795,667
Interbank loans receivable	393,634,185	300,158,333	393,634,185	300,158,333
Due from BSP	2,491,887,897	3,853,846,029	2,491,887,897	3,853,846,029
Loans and advances, net	12,193,544,153	9,245,194,688	12,193,544,153	9,245,194,688
Other resources, net	112,689,956	192,612,854	112,689,956	192,612,854
Financial liabilities				
Deposit liabilities	13,961,113,446	12,560,640,302	13,961,113,446	12,560,640,302
Accrued interest and other expenses	36,399,472	7,447,214	36,399,472	7,447,214
Other liabilities	1,004,036,417	531,245,917	1,004,036,417	531,245,917

Cash and other cash items, due from BSP and other banks and interbank loans receivable

The fair value of floating rate placements and overnight deposits approximates their carrying amounts. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity. All of these financial assets have a maturity of one year, thus their fair values approximate their carrying amounts.

Loans and advances

The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted with the use of assumptions regarding appropriate credit spread for the loan, derived from other market instruments.

Financial liabilities

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Other resources and other liabilities

Carrying amounts of other resources and other liabilities which have no definite repayment dates are assumed to be their fair values.

21.6.1 Fair value hierarchy

The following table presents the fair value hierarchy of the Bank's financial assets and liabilities at December 31:

	Fair value		
2019	Level 1	Level 2	Total
Recurring measurements			
Financial assets at FVOCI			
Equity security	5,560	-	5,560
	5,560	-	5,560
Non-recurring measurements			
Assets held for sale, net	-	147,751,044	147,751,044

	Fair value		
2019	Level 1	Level 2	Total
Financial assets			
Cash and other cash items	-	216,587,760	86,383,976
Due from other banks	-	830,391,583	884,795,667
Interbank loans receivable	-	393,634,185	393,634,185
Due from BSP	-	2,491,887,897	2,491,887,897
Loans and advances, net	-	12,193,544,153	12,193,544,153
Other resources, net	-	112,689,956	112,689,956
Financial liabilities			
Deposit liabilities	-	13,961,113,446	13,961,113,446
Accrued interest and other expenses	-	36,399,472	36,399,472
Other liabilities	-	1,004,036,417	1,004,036,417

2018	Fair value Level 1	Level 2	Total
Recurring measurements			
Financial assets at FVOCI			
Debt security	-	99,640,000	99,640,000
Equity security	7,338	-	7,338
	7,338	99,640,000	99,647,338

	Level 1	Level 2	Total
Non-recurring measurements			
Assets held for sale, net	-	128,669,155	128,669,155

2018	Fair value Level 1	Level 2	Total
Financial assets			
Cash and other cash items	-	86,383,976	86,383,976
Due from other banks	-	884,795,667	884,795,667
Interbank loans receivable	-	300,158,333	300,158,333
Due from BSP	-	3,853,846,029	3,853,846,029
Loans and advances, net	-	9,245,194,688	9,245,194,688
Other resources, net	-	192,612,854	192,612,854
Financial liabilities			
Deposit liabilities	-	12,560,640,302	12,560,640,302
Accrued interest and other expenses	-	7,447,214	7,447,214
Other liabilities	-	531,245,917	531,245,917

There are no transfers between the fair value hierarchy above for the years ended December 31, 2019 and 2018.

21.7 Capital management

Capital management is understood to be a facet of risk management. The primary objective of the Bank is the generation of recurring acceptable returns to shareholder's capital. To this end, the Bank's policies, business strategies and activities are directed towards the generation of cash flows that are in excess of its fiduciary and contractual obligations to its depositors, and to its various funders and stakeholders.

Cognizant of its exposure to risks, the Bank understands that it must maintain sufficient capital to absorb unexpected losses, to stay in business for the long haul, and to satisfy regulatory requirements. The Bank further understands that its performance, as well as the performance of its various units, should be measured in terms of returns generated vis-à-vis allocated capital and the amount of risk borne in the conduct of business.

Effective January 1, 2014, the BSP, through its Circular 781, requires each bank and its financial affiliated subsidiaries to adopt new capital requirements in accordance with the provisions of Basel III. The new guidelines are meant to strengthen the composition of the Bank's capital by increasing the level of core capital and regulatory capital. The Circular sets out minimum Common Equity Tier 1 (CET1) ratio and Tier 1 Capital ratios of 6% and 7.5%, respectively. A capital conservation buffer of 2.5%, comprised of CET1 capital, was likewise imposed. The minimum required capital adequacy ratio (CAR) remains at 10% which includes the capital conservation buffer.

The table below summarizes the Bank's CAR under the Basel III framework for the years ended December 31:

	2019	2018
Tier 1 capital	2,601,981,668	2,368,682,739
Tier 2 capital	127,967,043	93,316,281
Gross qualifying capital	2,729,948,711	2,461,999,020
Less: Required deductions	354,936,540	264,091,514
Total qualifying capital	2,375,012,171	2,197,907,506
Risk weighted assets	14,795,700,780	10,528,451,664
CET1	15.19%	19.99%
CAR (%)	16.05%	20.88%

The Bank has fully complied with the CAR requirement of the BSP as at December 31, 2019 and 2018.

Leverage Ratio

On June 9, 2015, the BSP issued Circular No. 881 which provides for the implementing guidelines on the Leverage Ratio framework in accordance with Basel III standards. The Basel III leverage ratio is designed to act as a supplementary measure to the risk-based capital requirements. This is intended to restrict the build-up of leverage in the banking sector to avoid destabilizing deleveraging processes which can damage the broader financial system and the economy. It reinforces the risk-based requirements with a simple, non-risk based backstop measure.

The Basel III leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator). The ratio shall not be less than 5%. The monitoring period has been set every quarter starting December 31, 2014 and extended until June 30, 2018 per BSP Circular No. 990 issued on January 22, 2018. Effective July 1, 2018, the monitoring of the leverage ratio was implemented as a Pillar I minimum requirement.

As of December 31, 2019 and 2018, the Basel III leverage ratio of the Bank is shown in the table below:

	2019	2018
Total Tier 1 capital	2,247,045,128	2,104,591,225
Total exposures	17,779,755,263	15,547,852,527
Basel III leverage ratio	12.64%	13.54%

The Bank is compliant with the minimum required leverage ratio as at December 31, 2019 and 2018.

Note 22 - Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Bank's financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

22.1 Basis of preparation

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). The term PFRSs in general includes all applicable PFRSs, Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

The financial statements comprise the statement of condition, statement of income and statement of comprehensive income shown as two statements, statement of changes in capital funds, the statement of cash flows and the notes.

These financial statements of the Bank have been prepared under the historical cost convention, as modified by the revaluation of investment securities at FVOCI and plan assets of the Bank's pension plans measured at fair value.

The preparation of these financial statements in conformity with PFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the financial statements therefore fairly present the financial position and results of the Bank. The areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 20.

22.1.1 Changes in accounting policy and disclosures

(a) New standard and interpretation adopted by the Bank

The Bank has adopted the following standard and interpretation to existing standard effective January 1, 2019:

- *PFRS 16, 'Leases'*

  PFRS 16 replaces the guidance of PAS 17 that relate to the accounting by lessees and the recognition of long-term leases on the balance sheet. PFRS 16 removes the current distinction between operating and finance leases and requires recognition of an asset (the right-of-use asset) and a lease liability to pay rentals for virtually all long-term lease contracts. Under PFRS 16, 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.

  The Bank has applied PFRS 16 using the modified retrospective approach, under which the cumulative effect if any, of initial application is recognized in Surplus at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated. The Bank's adoption of IFRS 16 has resulted in changes in accounting policies. However, the adoption did not result in any adjustment to the balance of Surplus as at January 1, 2019.

  As a practical expedient allowed by the standard, the Bank chooses, on a lease by lease basis, to measure its right-of use assets at an amount equal to its lease liabilities. The lease liabilities were measured at the present value of the remaining lease payments, discounted using the Bank's incremental borrowing rate in 2019. The right-of-use assets determined at transition date will be adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of condition immediately before the date of initial application.

  The Bank has elected to apply PFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under PAS 17 and IFRIC 4, *"Determining whether an arrangement contains a lease"* were not reassessed. Therefore, the definition of a lease under PFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019. The Bank has further assessed lease contracts by applying the recognition exemption in the standard that allows not to recognize right-of-use assets and lease liabilities for leases of low-value assets.

  The effects of adoption of PFRS 16 on the Bank's financial statements as at January 1, 2019 are as follows:

	Notes	Increase
Right-of-use assets (included within Bank premises, furniture and equipment)	7	472,027,176
Lease liabilities (included within Other liabilities)	12	472,027,176

  Refer to Note 19 for the reconciliation of the operating lease commitments recognized under PAS 17 as at December 31, 2018 to the amount recognized as lease liabilities under PFRS 16 as at January 1, 2019.

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

  It has been clarified previously that PAS 12, *Income Taxes* not PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, applies to accounting for uncertain income tax treatments. Philippine Interpretation IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

  An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. Philippine Interpretation IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

  The adoption of the above interpretation did not have a material impact on the financial statements of the Bank.

(b) *New standards, amendments and interpretations not yet effective and not yet adopted by the Bank*

There are no relevant standards, amendments to standards or interpretations that are effective beginning on or after January 1, 2020 that are expected to have a material impact on the Bank's financial statements.

22.2 Business combination between entities under common control

Business combinations under common control are accounted for using the predecessor cost method following the guidance under the PIC Q&A No. 2011-02 and PIC Q&A 2012-01. Under this method, the Bank does not restate the acquired businesses or assets and liabilities to their fair values. The net assets of the combining entities or businesses are combined using the carrying amounts of assets and liabilities of the acquired entity. No amount is recognized in consideration for goodwill or the excess of acquirer's interest in the net fair value of acquired identifiable assets, liabilities and contingent liabilities over their cost at the time of the common control combination.

The financial statements incorporated the net assets and results of operations of the combining entities or businesses at the date of acquisition. The difference between the consideration given and the aggregate book value of the assets and liabilities acquired as of the date of the transaction are included in "Other reserves" under the equity account.

22.3 Financial assets

22.3.1 Classification

Th Bank classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss (FVTPL);
- those to be measured subsequently at FVOCI; and
- those to be measured at amortized cost.

The classification depends on the Bank's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether Bank has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes.

In the determination of the business model, the Bank considers its past experience on how the cash flows for these assets were collected, how the assets' performance are evaluated and how risks are assessed and managed.

22.3.2 Recognition

Regular way purchases and sales of financial assets are recognized on trade date, the date on which the Bank commits to purchase or sell the asset.

22.3.3 Measurement

The classification requirements for debt and equity instruments are described below:

At initial recognition, the Bank measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse. Subsequent measurement of debt instruments depends on the Bank's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Bank classifies its debt instruments:

- *Amortized cost*
  Assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any ECL allowance recognized and measured. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

  Financial assets at amortized cost at December 31, 2019 and 2018 include cash and other cash items, due from BSP, due from other banks, interbank loans receivables, loans and advances, and other resources.

  Cash and cash equivalents consist of cash and other cash items, due from BSP and other banks and interbank loans receivable with maturities of less than three months from the date of acquisition and that are subject to insignificant risk of changes in value.

  Securities sold subject to repurchase agreements are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest rate method. Securities purchased under agreements to resell are recorded as loans and advances to other banks and customers and included in the statement of condition under "Interbank loans receivable." Securities lent to counterparties are also retained in the financial statements.

- *FVOCI*
  Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses which are recognized in the statement of income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

The Bank's financial assets at FVOCI at December 31, 2018 consist of corporate bonds.

- *FVTPL*
  Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognized in profit or loss and presented in the statements of in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately.

  The Bank does not hold financial assets at FVTPL at December 31, 2019 and 2018.

Business model: The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of 'other' business model and measured at fair value through profit or loss. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

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

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Bank subsequently measures equity investments at FVTPL, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in other comprehensive income and are not subsequently reclassified to profit or loss, even on disposal. Impairment losses and reversal of impairment losses, if any, are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Bank's right to receive payments is established.

The Bank's investment in a listed equity security at December 31, 2019 and 2018 is measured at FVOCI.

22.3.4 Impairment of financial assets at FVOCI and at amortized costs

The Bank assesses impairment as follows:

- individually for loans that exceed specified thresholds - where there is an objective evidence of impairment, individually assessed provisions will be recognized; and
- collectively for loans below the specified thresholds noted above or if there is no objective evidence of impairment. These loans are included in a group of loans with similar risk characteristics and collectively assessed for impairment. If there is objective evidence that the group of loans is collectively impaired, collectively assessed provisions will be recognized.

The Bank assesses on a forward-looking basis the ECL associated with its debt instruments carried at amortized cost and FVOCI and with the exposure arising from loan commitments. The Bank recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

PFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in "Stage 1" and has its credit risk continuously monitored by the Bank.
- If a SICR since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired. The Bank determines SICR based on prescribed benchmarks approved by the Board of the Directors.
- If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3".
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on ECL on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with PFRS 9 is that it should consider forward-looking information.

The Bank assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost and FVOCI. The Bank recognizes a loss allowance for such losses at each reporting date.

The following diagram summarizes the impairment requirements under PFRS 9 (other than purchased originated credit-impaired financial assets):

Change in credit quality since initial recognition

Stage 1	**Stage 2**	**Stage 3**
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

For ECL provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

Determination of SICR

The Bank compares the probabilities of default occurring over its expected life as at the reporting date with the probability of default occurring over its expected life on the date of initial recognition to determine significant increase in credit risk. Since comparison is made between forward-looking information at reporting date against initial recognition, the deterioration in credit risk may be triggered by the following factors:

- substantial deterioration in credit quality as measured by the applicable internal or external ratings, credit score or shift from investment grade category to non-investment grade category;
- adverse changes in business, financial and/or economic conditions of the borrower;
- early warning signs of worsening credit where the ability of the counterparty to honor his obligation is dependent upon favorable business or economic condition;
- the account has become past due beyond 30 days where an account is classified under special monitoring category; and
- expert judgment for the other quantitative and qualitative factors which may result to SICR as defined by the Bank.

Measuring ECL - Inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECLs are the discounted product of the PD, EAD and LGD, defined as follows:

- The PD represents the likelihood that the borrower will default (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining life (lifetime PD) of the asset.

- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining life (lifetime EAD). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

  The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

  - For amortizing products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.
  - For committed credit lines, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default.

- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default.

  The LGDs are determined based on the factors which impact the recoveries made post-default.

  - For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
  - For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies and historical recoveries.

The ECL is determined by multiplying the PD, LGD and EAD together for each individual exposure or collective segment. This effectively calculates an ECL for each future year, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the life of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band.

Forward-looking economic information is also included in determining the 12-month and lifetime PD. These assumptions vary by product type.

The assumptions underlying the ECL calculation such as how the maturity profile of the PDs and how collateral values change are monitored and reviewed regularly.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period from the time of the adoption of PFRS 9 on January 1, 2018 to the reporting date.

Forward-looking information incorporated in the ECL models

The Bank incorporates historical and current information, and forecasts forward-looking events and key economic variables that are assessed to impact credit risk and ECL for each portfolio. Macroeconomic variables that affect a specific portfolio's non-performing loan rate(s) are determined through statistical modelling and the application of expert judgement. The Bank's economics team establishes possible global and domestic economic scenarios. With the use of economic theories and conventions, expert judgement and external forecasts, the economics team develops assumptions to be used in forecasting variables in the next five (5) years, subsequently reverting to long run-averages. The probability-weighted ECL is calculated by running each scenario through the relevant ECL models and multiplying it by the appropriate scenario weighting.

The estimation and application of forward-looking information requires significant judgment. As with any economic forecasts, the projections and likelihood of occurrences are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The scenarios and their attributes are reassessed at each reporting date. Information regarding the forward-looking economic variables and the relevant sensitivity analysis is disclosed in Note 21.

Financial assets with low credit risk

Loss allowance for financial assets at amortized cost and FVOCI that have low credit risk is limited to 12-month ECLs. Management considers "low credit risk" for listed government bonds to be an investment grade credit rating with at least one major rating agency. Other debt instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Definition of default and credit-impaired assets

The Bank considers a financial instrument in default or credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments (with the exception of credit cards and micro-finance loans where a borrower is required to be 90 days past due and over 7 days past due, respectively, to be considered in default).

Qualitative criteria

The counterparty is experiencing significant financial difficulty which may lead to non-payment of loan as may be indicated by any or combination of the following events:

- The counterparty is in long-term forbearance;
- The counterparty is insolvent;
- The counterparty is in breach of major financial covenant(s) which lead(s) to event of default;
- An active market for the security has disappeared;
- Granting of concession that would not be otherwise considered due to economic or contractual reasons relating to the counterparty's financial difficulty;
- It is becoming probable that the counterparty will enter bankruptcy or other financial reorganization; and
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, EAD, and LGD throughout the Bank's ECL calculations.

The Bank's definition of default is substantially consistent with non-performing loan definition of the BSP. For treasury and debt securities, these are classified as defaulted based on combination of BSP and external credit rating agency definitions.

22.3.5 Modification of loans

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in the statement of income as a gain or loss on derecognition.

22.3.6 Derecognition

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have ceased, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank derecognizes financial assets if the principal terms and conditions have been modified in accordance with a new (restructured) agreement setting forth a new plan of payment or a schedule of payment on a periodic basis. Derecognition of loan is necessary in cases where the deterioration in the financial position of the borrower is such that the borrower can no longer service his debt, whether principal and/or interest, according to existing terms and conditions. This would have been brought about by major operating losses and/or serious and sustained impairment in cash flow, in turn caused by factors such as adverse economic and industry trends, contraction of markets or revenue sources, heavy debt burden, poor business/financial management, labor unrest, and product obsolescence which contributed to business financial difficulty.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
(ii) Is prohibited from selling or pledging the assets; and
(iii) Has an obligation to remit any cash it collects from the assets without material delay.

22.3.7 Write-off policy

The Bank writes off financial assets when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Bank may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended December 31, 2019 was P218.91 million (2018 - P146.93 million). The write-off of loans is being approved by the Board of Directors in compliance with the BSP requirements.

22.4 Financial liabilities

22.4.1 Classification

The Bank classifies its financial liabilities in the following categories: FVTPL, and financial liabilities at amortized cost. The Bank has only financial liabilities at amortized cost as at December 31, 2019 and 2018.

Financial liabilities at amortized cost pertain to financial instruments not classified at FVTPL and contain obligations to deliver cash or another financial assets to settle the obligations.

Financial liabilities measured at amortized cost include deposit liabilities, accrued interest and other expenses, and other liabilities (except tax-related/statutory payables).

22.4.2 Recognition and measurement

Initial recognition and measurement

Financial liabilities at amortized cost are initially recognized at fair value plus transaction costs.

Subsequent measurement

Financial liabilities at amortized cost are subsequently measured at amortized cost using the effective interest rate method.

22.4.3 Derecognition

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished (i.e. when the obligation is discharged or is cancelled or has expired).

22.5 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

Financial instruments

The Bank classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Philippine Stock Exchange, Inc., Philippine Dealing and Exchange Corp. (PDEX), etc.).

- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the over-the-counter ("OTC") derivative contracts. The primary source of input parameters like LIBOR yield curve or counterparty credit risk is Bloomberg.

- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible. The Bank has no assets or liabilities classified under Level 3 as at December 31, 2019 and 2018.

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes mainly from PDEX and Bloomberg.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at reporting dates. The Bank uses widely recognized valuation models for determining fair values of non-standardized financial instruments of lower complexity. For these financial instruments, inputs into models are generally market observable.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment.

The fair value for loans and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

Non-financial assets or liabilities

The Bank uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Commonly used valuation techniques are as follows:

- Market approach - A valuation technique that uses observable inputs, such as prices, broker quotes and other relevant information generated by market transactions involving identical or comparable assets or group of assets.

- Income approach - A valuation technique that converts future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

- Cost approach - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

The fair values were determined in reference to observable market inputs reflecting orderly transactions, i.e. market listings, published broker quotes and transacted deals from similar and comparable assets, adjusted to determine the point within the range that is most representative of the fair value under current market conditions.

The fair values of the Bank's foreclosed assets (shown as Assets held for sale) fall under level 2 of the fair value hierarchy using market approach. The Bank has no non-financial assets or liabilities classified under Level 3 as at December 31, 2019 and 2018.

22.6 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of condition when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. As at December 31, 2019 and 2018, there are no financial assets and liabilities that have been offset.

22.7 Bank premises, furniture, fixtures and equipment

Bank premises, furniture, fixtures and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of an asset which comprises its purchase price, import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred. Depreciation on furniture, fixtures and equipment is calculated using the straight-line method to allocate their cost less residual values over the useful lives of three to five years.

Depreciation on assets is calculated using the straight-line method to allocate cost of each asset less its residual value over its estimated useful life as follows:

	Estimated useful life
Leasehold, Rights and Improvements	Based on lease term or life of the leased item whichever is shorter
Furniture, Fixtures, and Equipment	36 months
FFE-Computer Equipment	36 months

Leasehold rights and improvements in progress are stated at cost. Costs are accumulated in the accounts until these projects are completed upon which these are classified to the appropriate property accounts and accordingly depreciated.

Major renovations are depreciated over the remaining useful life of the related asset. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value-in-use.

An item of Bank premises, furniture, fixtures and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period the item is derecognized.

22.8 Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specified software. These costs are amortized on a straight-line basis over the expected useful lives of three to five years. Computer software is included in Other resources, net.

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Computer software is derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

22.9 Impairment of non-financial assets

Asset that have indefinite useful lives are not subject to amortization and depreciation and are tested annually for impairment. Assets that have definite useful life are subject to amortization and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there is a separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

22.10 Foreclosed asset

Assets foreclosed shown as Assets held for sale in the statement of condition are accounted for at the lower of cost and fair value less cost to sell, similar to the principles of PFRS 5. The cost of assets foreclosed includes the carrying amount of the related loan less allowance for impairment at the time of foreclosure. Impairment loss is recognized for any subsequent write-down of the asset to fair value less cost to sell.

These foreclosed assets are classified as assets held for sale since it is the intention of the Bank's management to principally recover the carrying amount through sale transactions and the sale is considered highly probable.

The sale is expected to be completed within one year from the date of classification. In case events or circumstances may extend the period to complete the sale beyond one year, the extension of the period to complete the sale does not preclude the asset from being classified as held-for-sale if the delay is caused by events or circumstances beyond the Bank's control and the Bank remains committed to its plan to sell the asset.

22.11 Accrued expenses and other liabilities

Accrued expenses and other liabilities are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Bank is established.

Accrued expenses and other liabilities are derecognized upon settlement, or when discharged, cancelled or expired.

22.12 Provisions for legal or contractual obligations

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and the risk specific to the obligation. The increase in provision due to the passage of time is recognized as interest expense.

22.13 Interest income and expense

Interest income and expense are recognized in the statement of income for all interest-bearing financial instruments using the effective interest rate method.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss.

22.14 Service fee income

The Bank recognized revenue when (or as) the Bank satisfies a performance obligation by transferring a promised good or service to a customer (i.e. an asset). An asset is transferred when (or as) the customer obtains control of that asset.

Fees and commissions are generally recognized over time when the service has been provided and the control over the service is transferred to the customer. The service being rendered by the Bank represents a single performance obligation.

Fees and commissions, mainly representing service fees, are recognized on an accrual basis when the service has been provided. Fees and commission arising from loans, deposits and other banking transactions are recognized as income based on agreed terms and conditions.

22.15 Foreign currency translation

Functional and presentation currency

Items in the financial statements of the Bank are measured using the currency of the primary economic environment in which it operates (the functional currency). The financial statements are presented in Philippine Peso, which is the Bank's functional currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuations where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

22.16 Income taxes

The tax expense for the period comprises current and deferred income tax. Tax is recognized in profit or loss, except to the extent that that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the country where the Bank operates and generates taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which the applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences, unused tax losses and unused tax credits can be utilized.

Deferred income tax liabilities are recognized in full for all taxable temporary differences. Deferred income tax liabilities are provided on taxable temporary differences except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Bank and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

22.17 Employee benefits

(a) Short-term benefits

The Bank recognizes a liability, net of amount already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given to its employees include salaries and wages, social security contributions, short-term compensated absences and bonuses, and non-monetary benefits.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(b) Defined benefit retirement plan

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the statement of condition in respect of defined benefit pension plan is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The amount of pension asset recognized in the books is reduced by the amount of asset ceiling, as applicable.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognized immediately in profit or loss.

For individual financial reporting purposes, the unified plan assets are allocated based on the level of the defined benefit obligation attributable to each entity to arrive at the net liability or asset that should be recognized in the individual financial statements.

(c) Defined contribution retirement plan

The Bank also maintains a defined contribution plan that covers certain full-time employees. Under its defined contribution plan, the Bank pays fixed contributions based on the employees' monthly salaries. The Bank, however, is covered under RA No. 7641, otherwise known as The Philippine Retirement Pay Law, which provides for its qualified employees a defined benefit minimum guarantee. The defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA No. 7641. Accordingly, the Bank accounts for its retirement obligation under the higher of the defined benefit obligation relating to the minimum guarantee and the obligation arising from the defined contribution plan.

For the defined benefit minimum guarantee plan, the liability is determined based on the present value of the excess of the projected defined benefit obligation over the projected defined contribution obligation at the end of the reporting period. The defined benefit obligation is calculated annually by a qualified independent actuary using the projected unit credit method. 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 net defined benefit liability (asset) and then, it takes into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plan are recognized in the statement of income.

The defined contribution liability is measured at the fair value of the defined contribution assets upon which the defined contribution benefits depend, with an adjustment for margin on asset returns, if any, where this is reflected in the defined contribution benefits.

Actuarial gains and losses arising from the remeasurements of the net defined contribution liability are recognized immediately in other comprehensive income.

(d) Profit sharing and bonus plans

The Bank recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Bank's shareholder after certain adjustments. The Bank recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

22.18 Share capital; Surplus

Share capital represents common shares.

Incremental costs directly attributable to the issue of new shares are shown in capital funds as a deduction from the proceeds, net of tax.

Surplus includes current and prior years' results of operations, with the excess being declared for dividend payout or reserved for the Bank's future use.

22.19 Dividends on common shares

Dividends are recognized as a liability in the Bank's financial statements in the year in which they are approved by the Board of Directors.

22.20 Leases

From January 1, 2019, the Bank recognizes leases as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use.

Assets and liabilities arising from long-terms leases are initially measured on a present value basis. The interest expense is recognized in the statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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 lease commencement date plus any initial direct costs incurred, less any lease incentives received. The right-of-use asset is subsequently depreciated on a straight-line basis over the lease term. The right-of-use asset may be reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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 rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Payments associated with leases of low-value assets are recognized on a straight-line basis as an expense in the statement of income. Low-value assets comprise certain IT-equipment and office furniture.

Until December 31, 2018, leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to "Occupancy and equipment-related expenses" in the statement of income on a straight-line basis over the period of the lease. When the lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which the termination takes place.

22.21 Related party relationships and transactions

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

22.22 Subsequent events (or Events after the reporting date)

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

Note 23 - Supplementary information required under BSP Circular No. 1074

Presented below are the additional information required by BSP Circular No. 1074 issued on January 8, 2020. This information is presented for BSP reporting purposes and is not required in the basic financial statements.

(i) Basic quantitative indicators of financial performance

The key financial performance indicators as at December 31 follow:

	2019	2018
Return on average equity[1]	10.49%	11.63%
Return on average assets[2]	1.78%	1.79%
Net interest margin[3]	20.38%	12.28%

[1]Net income divided by average total equity for the period indicated. Average equity is based on the daily average balance of equity for the years ended December 31, 2019 and 2018.
[2]Net income divided by average total assets as at period indicated. Average total assets are based on the daily average balance of total assets as at December 31, 2019 and 2018.
et interest income divided by average interest-earning assets. Average interest earning assets is based on the daily average balance of interest earning assets as at December 31, 2019 and 2018.

(ii) Description of capital instrument issued

The Bank considers its common shares as capital instrument for the purpose of calculating its CAR as at December 31, 2019 and 2018.

(iii) Significant credit exposures

Details of the Bank's loans and advances portfolio as to concentration to industry/economic sector (in %) at December 31 are as follows:

	2019	2018
Private household with employed persons	69.34	73.26
Wholesale and retail trade	25.05	22.10
Real estate, renting and other related activities	2.44	3.76
Manufacturing	2.94	0.02
Others	0.23	0.86
	100.00	100.00

(iv) Breakdown of total loans

Details of the Bank's loans and advances portfolio as to collateral (amounts net of unearned discounts and accrued interest receivable) at December 31 are as follows:

	2019	2018
Secured loans		
Real estate mortgage	2,405,689,841	2,449,805,397
Chattel mortgage	262,824	756,567
	2,405,952,665	2,450,561,964
Unsecured loans	10,791,346,062	7,464,999,186
	13,197,298,727	9,915,561,150

Non-performing loans, net of allowance for credit losses, at December 31 are as follows:

	2019	2018
Non-performing loans (NPL)	928,714,553	709,385,859
Accounts with specific allowance for credit losses	(537,795,977)	(413,812,248)
Net NPL	390,918,576	295,573,611

BSP Circular 941, Amendments to Regulations on Past Due and Non-Performing Loans, states that loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and if there is an evidence that full repayment of principal and interest is unlikely without foreclosure of collateral. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

(v) Information on related party loans

The Bank does not have DOSRI loans as at December 31, 2019 and 2018.

(vi) Liabilities and assets pledged as security

There are no loans and advances at December 31, 2019 and 2018 used as security for liabilities.

(vii) Contingencies and commitments arising from off-balance sheet items

The Bank does not have any contingencies and commitments arising from off-balance sheet items as at December 31, 2019 and 2018.

Note 24 - Supplementary information required by the Bureau of Internal Revenue (BIR)

Below is the additional information required by Revenue Regulations No. 15-2010 that is relevant to the Bank. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

(i) Documentary stamp tax

Documentary stamp taxes (DST) paid through the Electronic Documentary Stamp Tax System for the year ended December 31, 2019 consist of DST on deposit documents amounting to P43,677,720 and DST on contracts of lease amounting to P437,621.

(ii) Withholding taxes

Withholding taxes paid/accrued and/or withheld for the year ended December 31, 2019 consist of:

	Paid	Accrued	Total
Creditable income taxes withheld (expanded)	24,650,416	8,985,798	33,636,214
Final income taxes withheld on interest on deposits and yield on deposit substitutes	15,446,055	2,521,403	17,967,458
Income taxes withheld on compensation	9,494,122	1,097,993	10,592,115
Final income taxes withheld on the amount withdrawn from decedent's deposit account	37,678	-	37,678
Final income taxes withheld on income payment	5,000	3,042	8,042
	49,633,271	12,608,236	62,241,507

Withholding tax payable is presented as part of Accrued taxes, interest and other expenses in the statement of condition.

(iii) All other local and national taxes

All other local and national taxes paid/accrued for the year ended December 31, 2019 consist of:

	Paid	Accrued	Total
Gross receipts tax	157,916,529	53,220,338	211,136,867
Municipal taxes / Mayor's permit	11,233,267	-	11,233,267
Real property tax	354,714	-	354,714
Fringe benefits tax	127,048	30,393	157,441
Others	2,163,731	-	2,163,731
	171,795,289	53,250,731	225,046,020

Local and national taxes are presented as part of taxes and licenses under Other operating expenses in the statement of income.

(iv) Tax cases and assessments

As at reporting date, the Bank has pending cases filed in court and with the tax authorities contesting tax assessments. Management is of the opinion that the ultimate outcome of the said case will not have a material impact on the Bank's financial statements of the Bank.