Annual Report

2019

www.enterprisebank.ph

IN THIS REPORT

VISION

To be a strong regional bank within greater Mindanao and Visayas that leads in the delivery of high quality financial products and services that promote, support, and encourage entrepreneurship.

MISSION

- Provide innovative financial products and services to small and medium sized enterprises, micro entrepreneurs, especially women and to members of low income groups and to ensure that credit is utilized appropriately to improve their economic well-being.
- Promote savings consciousness as a means to attaining self-sufficiency and self-reliance.
- Strive to offer highest quality service and customer value by investing in human resource development.
- Provide a work environment that will stimulate the employees to be innovative and enable them to realize their professional objectives.
- Make certain that each employee will be given the opportunity for professional advancement as merited and have the right of economic security and stability.
- Guarantee that shareholder’s value is enhanced through prudent investment undertakings and efficient operations; and,
- Abide by the laws and regulations of the Philippines to which it is subject and adhere to international standards within core operations.

DIRECTORY OF BRANCHES

ARAS-ASAN	Aras-asan, Cagwait, Surigao del Sur, Philippines
BAROBO	Poblacion Barobo, Surigao del Sur, Philippines
BAYUGAN	Yakal Street, Taglatawan Bayugan City, Agusan del Sur, Philippines
BISLIG	Abarca St., Mangagoy, Bislig City, Surigao del Sur, Philippines
BUHANGIN	Km.5, Buhangin, Davao City, Davao del Sur, Philippines
BUTUAN	Ground Floor Intino Building, Aquino Avenue, Brgy. Bayanihan, Butuan City, Agusan del Norte, Philippines
CAGAYAN DE ORO	Doors 3 & 4, G/F RMR Diamond Residences Bldg., Tomas Saco St., Cagayan de Oro City, Philippines
CATEEL	Castro Avenue, Poblacion Cateel, Davao Oriental, Philippines
GENERAL SANTOS	Ground Floor, RDRDC Building, Magsaysay Avenue corner Salazar Street, General Santos City, South Cotabato, Philippines
GINGOOG	Brgy. 22, National Highway, Gingoog City, Misamis Oriental, Philippines
HINATUAN	Hinatuan, Surigao del Sur, Philippines
ILOILO	City time Square, Gaisano City 2, Benigno Avenue, Diversion Road, Mandurriao, Iloilo City, Philippines
LIANGA	Poblacion Lianga, Surigao del Sur, Philippines
MADRID	corner Guillen-Arreza Sts., Brgy. Quirino, Madrid , Surigao del Sur
MANDAUE	City Time Square Phase II, Mantawi Ave., Barangay Tipolo, Mandaue City, Cebu, Philippines

MATI	**Door 10 MJI Building, Rizal Extension, Mati City, Davao Oriental, Philippines**
MATINA	DBC McArthur Highway, Matina, Davao City, Davao del Sur, Philippines
NABUNTURAN	Purok 1 Nabunturan, Compostela Valley, Compostela Province, Philippines
PANABO	Ground Floor, Centino Realty, Quezon Street, Sto. Niño, Panabo City, Davao del Norte, Philippines
SAN FRANCISCO	Quezon St., San Francisco, Agusan del Sur, Philippines
SURIGAO	1st Floor Aguilar Bldg., No.0487 Burgos St. Surigao City, Philippines
TAGUM	Door Nos. 3 & 4 of AAC Bldg. No. 1 Circumferential Road, Tagum Public Market, Magugpo West, Tagum City, Davao del Norte, Philippines
TALISAY	National Highway, Lawa-an I, Talisay City, Cebu, Philippines
TANDAG	Napo, Tandag City, Surigao del Sur, Philippines
TRENTO	Ground Floor Ticao Building, Poblacion, Trento, Agusan del Sur, Philippines
VALENCIA	G. Laviña Avenue, Guinoyoran Road, Valencia City Bukidnon, Philippines
MARIHATAG	Poblacion Marihatag, Surigao del Sur, Philippines
TAGBINA	Purok 4 Tagbina, Surigao del Sur, Philippines
RONDA	Villanueva Bldg., Centro Poblacion, Ronda, Cebu

HISTORY

Enterprise Bank, Inc (formerly known as the New Rural Bank of Lianga) was founded on May 10, 1976 in Lianga, Surigao Del Sur by Mr. Ignacito U. Alvizo and other local investors as a community- based Rural Bank serving the needs of the locality. The bank embarked on the establishment of branches in 1994 when BSP deregulated the banking industry. Ten branches were established in several parts of Caraga Region,Davao Provinces and Misamis Oriental.

In 1997, Enterprise Bank, Inc. (EBI) was accredited by the People's Credit and Finance Corp. (PCFC) as one of its program partners in Mindanao. EBI then launched its microfinance program “Kalisud Mo, Tabangan ko” of KMTK, a credit program which adopts the basic Grameen Bank model of solidarity lending. KMTK became the flagship loan product of EBI and was instrumental in improving the bank's financial performance.

EBI has established itself to become a compelling financial provider that has made a difference and improved the lives of thousands of households in Mindanao. Remarkably growing and constantly expanding its operations and services to maintain flexibility and to keep at pace with the demands of a dynamic business market, it launched another program aimed to expedite its eventual shift from being a rural bank to become an “entrepreneur’s “bank in the offing: EBI's SME Lending Program.

EBI formally started its operation as a Thrift Bank as authorized by the Bangko Sentral ng Pilipinas last October 1, 2012.

In generic sense, small and Medium Enterprise (SMEs) in the Philippine play very important roles as sources of growth, employment, income, trade, innovation, entrepreneurship and opportunity for the people. It is a catalyst in expanding diversification of entrepreneurial market increasing investment base and savings rate. Recognizing its significance, the Philippine Government ratified into law the Magna Carta of Small and Medium Enterprises (Republic Act 677) on January 24,1991 which outlines the general policies for the development of SME's encouraging the participation of private financial institutions.

EBI also shares and pursues the same objectives. With redefined vision and mission, the bank's efficient workforce has already completed the blueprints on how to better promote, support, strengthen, and encourage the growth and development of small and medium enterprises in all productive sectors of the economy particularly rural/agri-based ventures.

Along with EBI’s deposit and loan products, the bank, in partnership with reputable third parties also provide fee-based services such as remittance and bills payment.

In 2016, Enterprise Bank, Inc. entered into a shareholders’ agreement with prominent businessmen from Cebu engaged in trading, retail goods, real estate development, lending and banking. The final draft of Subscription Agreement was signed and sealed last September 5, 2016, resulting in a capital infusion that has contributed expansion of operations in the Visayas.

Alongside the earlier mentioned forging of Subscription Agreement, an application for merger of Enterprise Bank, Inc. and the RuraL Bank of Ronda, Inc. was submitted. In March 23, 2018 and August 16, 2018, the Philippine Deposit Insurance Corporation (PDIC) and the Bangko Sentral ng Pilipinas (BSP) have respectively approved the application of merger. Among the benefits this initiative will create is continuous increase of EBI's clientele reach and network with the addition of a new branch located in Ronda, Cebu. Having said so, The Rural Bank of Ronda is concurrently being managed by Enterprise Bank, Inc.

Currently, the bank has a wide spectrum of branches spread over in 13 provinces of Mindanao and Cebu City. It has a total of 28 offices; consisting of 25 regular branches and 2 branch-lites.

BEYOND THE WALLS OF BANKING OPERATIONS

AWARDS AND RECOGNITIONS

BancNet

CERTIFICATE OF RECOGNITION

is hereby awarded to

Enterprise Bank, Inc.

Top 3 Outsourcing Bank with the Highest Volume of Transactions as Acquirer for 2019

during the

BancNet Outsourcing Services Users Conference

*on the occasion of **10th Year of Operations***

held at the Ayala Banquet Hall,

Makati Sports Club, Makati City

Given this 10th day of October 2019

MYRA A. PRIVADO
AVP

ARISTEO P. ZAFRA, JR.
EVP & CEO

BancNet

CERTIFICATE OF RECOGNITION

is hereby awarded to

Enterprise Bank, Inc.

(Lianga, Barobo, Bayugan, Sta. Josefa, Talacogon, Ronda & Carrascal)

Supports Financial Inclusion by Operating ATMs Exclusively in Remote Locations

during the

BancNet Outsourcing Services Users Conference

*on the occasion of **10th Year of Operations***

held at the Ayala Banquet Hall,

Makati Sports Club, Makati City

Given this 10th day of October 2019

MYRA A. PRIVADO
AVP

ARISTEO P. ZAFRA, JR.
EVP & CEO

AWARDS AND RECOGNITIONS

K - 12 PLUS Project

This certificate is presented to

ENTERPRISE BANK, INC.

MOST OUTSTANDING FDE IMPLEMENTOR
Phase 2 K-12 PLUS PROJECT

01 December 2019 | Manila

CARLA DIVINA S. VIRTUDAZO, PhD
Country Representative
Sparkassenstiftung für internationale Kooperation

FINANCIAL HIGHLIGHTS

	2019	2018
TOTAL NET INTEREST INCOME	154,883,681	158,911,988
TOTAL NON-INTEREST INCOME	87,759,266	88,988,818
OTHER COMPREHENSIVE INCOME	278,591	3,677,502
TOTAL NON-INTEREST EXPENSES	236,179,110	242,021,179
PROVISION FOR EXPECTED CREDIT LOSSES (ECL)	–	356,467
INCOME TAX EXPENSE	2,033,721	4,499,874
COMPREHENSIVE INCOME FOR THE YEAR	4,708,707	4,700,788

LIQUID ASSETS	412,201,202	294,534,674
GROSS LOANS	1,602,713,580	1,754,202,827
TOTAL ASSETS	2,265,622,352	2,315,979,526
DEPOSIT LIABILITIES (NOTE 10)	1,670,829,913	1,475,668,453
TOTAL SHAREHOLDERS' EQUITY	258,631,748	231,400,141

RETURN ON AVERAGE EQUITY	**1.71%**	**0.40%**
RETURN ON AVERAGE ASSETS	0.19%	0.04%
RISK-BASED CAPITAL ADEQUACY	10.90%	10.16%

HEADCOUNT	263	302
Officers	98	200
Staff	165	102

RISK MANAGEMENT

The Board and Management of Enterprise Bank, Inc. believes that risk management is an essential element of good governance, thus it fully supports a bank-wide RM that looks into the adequacy of controls in addressing all the risk of the Bank. It adopts an integrated risk management approach that encompasses all possible risk the bank could encounter, the Enterprise Risk Management.

Overall risk management oversight is instigated by the Board of Directors of the Bank who established Board committees to oversee the increasingly varied risk management activities of the Bank with active participation of the Senior Management.

The board oversight approves the RM Framework of the bank, as well as, the RM policies and procedures and other forms of controls proposed to manage the risks. Risk management and appetite statement of EBI is manifested in the policies, processes and procedures adopted to operate the deposit-taking and lending activities of the Bank. It is undertaken in the context of the Bank's vision, mission and strategies considering existing structure, products and services, communication processes and infrastructure support.

Specific risks are mapped with the proper management committees. The Executive Committee provides general oversight of the strategic and business risks of EBI. The Asset-Liability Committee provides risk oversight in balancing the Bank's financial assets, ensuring a sound mix of assets and liabilities. The Credit Committee oversees, reviews and recommends prudent lending policies, standards and procedures in respect to lending operations in order to avoid undue credit risk and potential loss that defeats achievement of reasonable returns as determined and approved by the Board. The Management Committee ensures the smooth implementation of EBI's plans and programs and oversees operational risks. These committees provide recommendations and valuable inputs to the President and the Board for decision-making. The Risk management Office performs an independent function within the Bank and is responsible for establishing and maintaining the banks risk policy framework.

With a working Enterprise Risk Management approach, EBI expects to increase operational efficiencies, enhance Bank resilience as manifested by a strong capital base and sustain growth through the achievement of target profitability level. An effective risk management should likewise expand EBI's client reach and enable the Bank to generate revenues that would allow it to continue and increase its contributions to its social development mandate or corporate social responsibility.

Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to ten percent of its risk assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio to total equity excluding: (a) unbooked valuation reserves and other capital adjustments as may be required by the BSP; (b) total outstanding unsecured credit accommodations to DOSRI; (c) deferred tax asset or liability; (d) sinking fund for redemption of redeemable preferred shares; and, (e) other regulatory deductions.

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP. The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

	Amount (in millions)
Tier 1 Capital	199.665
Tier 2 Capital	63.726
Total Qualifying Capital	**263.392**
Capital requirements for credit risk	2,040.710
Capital requirements for market risk	0.00
Capital requirements for operational risk	359.407
Total CAR (%)	**10.97%**
Tier 1 CAR	**8.32%**

Breakdown of Qualifying Capital (in millions)

	Tier 1	***Tier2***	***Total***
Core Capital			
Paid up Common Stock	*274.195*		*274.1955*
Retained Earnings	*(11.298)*		*(11.298)*
Undivided Profits	*(4.070)*		*(4.070)*
Paid up Perpetual and Cumulative Preferred Stock			
Paid-up limited life redeemable preferred stock with the replacement upon redemption		*51.567*	*51.567*
General Loan Loss Provision		*12.159*	*12.159*
Unsecured Subordinated Debt			
Deductions			
Deferred Tax Asset	*59.161*		*59.161*
Unbooked valuation reserves			
Unsecured Loans to DOSRI			
Total Operational Risk-weight Assets			
Total Qualifying Capital	***199.665***	***63.726***	***263.392***

The Bank's policy is to maintain a strong capital base aimed at upholding stockholders', creditors' and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. It has complied with the requirement on the ratio of combined capital accounts against the risk assets.

Overall Anti-Money Laundering and Terrorist Financing Risk Management

Consistent with the Bank's mission of full compliance to existing laws and regulations, the Board and Management are in unison in combating and condemning any money laundering and terrorist financing activities. Measures undertaken by the bank involves heavy reliance on its enhanced KYC policies and procedures to assess the risk profile of its clienteles in relation to AMLA compliance. Other risk mitigating control is cross-referencing the account names of newly opened accounts against the UN Sanction List. Any applicant assessed as high risk or will potentially expose the Bank to money laundering and terrorist financing will not be allowed to open an account with the Bank.
Managing risks associated with money laundering and terrorist financing is both undertaken in the branches and head office. Branch personnel are trained and equipped to detect and diligently report suspicious transactions to the Compliance Department. Transactions, whether falling under CTR or STR, are further assessed by the Compliance Department to make the appropriate directive to the concerned branch or office to adopt measures such as conducting enhanced due diligence or immediate account closure with due notice to the account holder. The Compliance Department then processes the reports for submission to the AMLC on a timely manner.

RETIREMENT PROGRAM

Enterprise bank is concerned with the welfare of its employees, and ensures the provision of benefits even during separation. It is the policy of the Bank to comply with the requirement of the law to provide employees retirement benefits subject to the terms and conditions of the established Retirement Program.

The plan established is a non-contributory retirement plan which provides for post-employment or retirement benefit plan and termination benefit plan.

The retirement benefits are provided to employees through a defined benefit plan that defines an amount of retirement benefit an employee will receive on retirement, dependent on age, years of service and salary. The Bank's defined benefit retirement plan covers all regular full-time employees whose retirement benefits are paid in lump sum payments at the time of the allowable retirement age - 60 or 65. An early retirement at the age of 50 is considered a management-initiated program follows a different set of terms and conditions approved by the management and the board.

Moreover, termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Further, voluntary separation benefits are also considered by the Bank's retirement plan for employees who have served at least five consecutive years in accordance with the vesting schedule set forth in the program while employees separated due to death or disability are granted with all accrued retirement benefits plus a fixed amount.

For Members of the Board holding management positions and forms part of the manpower complement of the Bank are qualified for the retirement benefit plan in place, otherwise, the Director shall receive benefits prescribed in the Bank's by-laws.

A Director of the Bank is required to serve at least one year effective from the date of his election. Unless a director shall sooner resign, be removed from office, or becomes unable to act by reason of death, disqualification, or otherwise, he shall hold office during the term for which elected and until his qualified successor is elected in next annual meeting of the stockholders.

ORIENTATION AND EDUCATION PROGRAM

It is a corporate vision to accord deserving employees a venue for professional advancement by means of training and specialized courses in field of expertise and continuing education during off-work hours which is deemed beneficial to both the individual and the Bank.

In order for its employees to become effective in their jobs, the bank regularly conducts training needs analysis to know what are the skills needed to enhance. The bank then provides both external and internal training as deemed necessary. Employees who are recommended to be sent to external trainings are granted full assistance.

In 2018, the Bank institutionalizes an improved new-employee and BOD on-boarding program aimed to provide the new entrant to the company a complete "Know Your Organization" two-day sessions. For some specialized and technical positions, a special on-boarding program are conducted. Branch Academy trainings are in-house platforms also provided to newly hired and newly promoted personnel for them to better appreciate the responsibilities of each department and the Bank as a whole; and to prepare them for the actual job.

Members of the Board are required to attend external trainings related to Corporate Governance, AMLA seminars and the like. Participation in meetings initiated by the Chamber of Thrift Banks was also instrumental for the Board of Director to be kept abreast of the latest trends in the banking industry and on updates in the regulations.

The Bank also takes advantage of the technology in its launching of webinars. Through webinars, employees are provided with reading materials, audio visual presentations and educational videos to get updated and well-informed of the latest trends pertinent to enriching skills and competencies gearing towards productivity and efficiency. In each participation of the webinars, the employee-participants are then required to undergo a post-lecture exam to assess how the employee-participant have understood and appreciated the topic provided.






CORPORATE GOVERNANCE

at Enterprise Bank, Inc. is simply drawing the line where one action stops and another begins. This consists of policies, practices and processes by which the business affairs of the bank are controlled and directed, as they reflect the balance of interest among shareholders.

Over the years, consistent with the Bank's values of honesty, commitment and loyalty, the Board of Directors has established a series of policies for the good governance of the Bank. This highest governing body of the Bank believes that good governance should be fully-embedded in the Bank's fabric and culture, and this has the widespread support of those who work for or with the Bank.

The Board of Directors, is composed of seven highly qualified professionals and business individuals carrying with them their broad range of expertise. As provided for in the Bank's Articles of Incorporation and By-Laws, compliant to the Corporate Code of the Philippines, the members of Board of Directors whose qualifications are in accordance with existing laws and regulations were elected by the holders of common stock entitled to vote. This body politic is committed to excellence in corporate governance. It establishes the overall policies and sets strategic directions in line with the Bank's mission and vision that guides senior management and business units to overall operation of the Bank. It is responsible in ensuring that a strong and effective government system is in place. While monitoring business performance and directing long-term success of the Bank, it oversees major risk-taking activities through active collaboration with management in setting risk appetite, tolerances and alignment with strategic objectives. Furthermore, it establishes structures and processes to fulfill responsibilities that consider the perspective of investors, regulators and management among others.

Among best practices and standards adopted by Enterprise Bank to strengthen controls and internal compliance is depicted through the presence of established independent units of the Bank – the Internal Audit, Compliance and Risk Management Departments. These departments have been delegated by the Board to perform oversight functions whose appointed department heads perform quarterly reporting to the ARCCo. Meanwhile, during the course of regular banking days within the span of time after every ARCCo meetings, these departments report to the President matters needing immediate attention by Senior Management and collaboration with functional units of the Bank for the implementation of self-assessment activities.

Internal Audit Department (IAD) assists the Bank and the Board in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement. IAD is mandated to ensure adherence of all operating units to policies and procedures approved by the Board as imposed and implied in its operations and product manuals. The Internal Audit Head who leads the department ensures that the internal audit function complies with sound internal auditing standards (Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and other supplemental standards issued by regularity authorities/government agencies, as well as with Internal Auditors' Code of Professional Ethics). IAD's recommendations to improve operations are timely discussed and coordinated with the Management through the President and CEO where progress reports of Management actions plans are discussed deliberated and reported during ARCCo meetings.

The Compliance Department functions independently and reports directly to the Board through ARCCo to oversee and coordinate the implementation of the bank's compliance system. Led by the Chief Compliance Officer, the department's primary duties include the identification, monitoring and controlling of compliance risk.

The Risk Management Office is responsible for the development and oversight of the institution's risk management program. It oversees the system of limits to discretionary authority that the board delegates to management, ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached.

The Founder of the Bank, Mr. Ignacito U. Alvizo, is the lone major stockholder of the Bank owning 37% of the Bank's outstanding shares while all other shareholders have shareholdings of not more than 10%. Mr. Alvizo was appointed by the Board of the Directors as the Chairman Emeritus or ex—officio member whose role would be to act as adviser or observer during board meetings which he is requested to participate but with no voting right.

SUCCESSION PROGRAM

In order to ensure continuous coverage of primary duties critical to the ongoing operations of Enterprise Bank, Inc. and its services to clients, the Bank adopts policies and procedures for short-term replacement and permanent appointment of second line management personnel in the event of an unplanned and/or extended absence, retirement and/or resignation of the incumbent.

The Bank undertakes a systematic effort and process of identifying and developing suitable employees by cultivating talents from within the organization through planned development activities like mentoring, training and job rotation to replace key positions. It involves having the right leadership in place at every level to ensure continuity of management within an organization.

PERFORMANCE ASSESSMENT PROGRAM

It is the policy of Enterprise Bank, Inc. to provide feedback, review progress, identify gaps and address potential issues for the advancement of its employees and even members of the Board.

The members of the Board undergoes performance review through annual self-assessment of themselves through an adopted performance self-assessment questionnaires which will help them assess their competence and independence of the body, commitment to corporate governance, transparency, committee activity and audit and risk oversight. They also conduct self-assessment review of their Board committee memberships aided by questionnaires aimed to determine the effectiveness and fitness of the committee composition, processes undertaken by the committee in the course of conducting their oversight functions and the tasks undertaken by the committee based on Board's mandate.

Aided with performance management tools and assessment questionnaires, the Bank led by its Human Resource Management Department ensure the conduct of at periodic performance reviews (monthly, quarterly, semi-annual and annual) as it deemed fits and applicable to its employees for regularization, promotion, transfer to other fields, annual salary review, succession planning and training and development.

THE BOARD OF DIRECTORS

Maximino A. Salang, Jr.
Chairman of the Board
Director

Nationality: Filipino
Age: 65

Director Salang is a businessman in Davao City, engaged in construction, heavy equipment rental, banana plantation export production and container yard (shipping van) operations. His expertise lies in marketing and business management.

He finished his degree in Bachelor of Science in Business Administration from Southwestern University in Cebu.

He has been a member of the board since 2007 and has served as Chairman of the Board since May 2017.

As of December 31, 2019, his 242,503 held shares accounted 8.24% of the total shareholdings.

As a chairman of the Board, presides over meetings and leads the board to consensus from the disparate points of view of its members.

Richard M. Rodriguez
Vice-Chairman of the Board
Director

Nationality: Filipino
Age: 45

Director Rodriguez is a businessman in Cebu City, engaged in academe, construction and financing operations. He is also a professor in Salazar Colleges.

Prior to joining Enterprise Bank, Inc. last January 19, 2017, he was the President of the Rural Bank of Ronda from 2012-2013 before becoming one of its directors in 2013.

Mr. Richard M. Rodriguez gained banking exposure as Branch Manager at Merchants Bank and Consumer Lending Head at Insular Savings Bank.

He finished his degree in Bachelor of Accountancy from Southwestern University in Cebu. He also finished his post-graduate degree of Master in Management from University of San Jose Recoletos in 2011 and has taken up units in Bachelor of Laws at Southwestern University in Cebu.

He has been an active member of the Board since 2017 owning 150,890 shares that accounted to 5.13% of total shareholdings of as of December 31, 219.

Alberto P. Capati
Director
President and Chief Executive Officer

Nationality: Filipino
Age: 68

Director Capati is an international consultant for enterprise and entrepreneurship development, business development services, and technical-vocational education and training. He has work experiences in different countries in Asia, Africa, Europe, and the Middle East.

He started his career in small and medium enterprises development while working at the University of the Philippines Institute for Small-Scale Industries as a training associate and eventually as the Director for Training and the Director for Operations. He was also a Chief Executive Officer and Chairperson of the 888 Loans Corporation and the former President and Chairman of the Board of the Philippine CEFE Network Foundation, Inc.

Mr. Capati finished his Bachelor of Arts Degree at the Ateneo de Manila University and completed the academic units for Masters in Business Administration at De La Salle University. Along the course of his professional career, he also obtained diplomas and certifications from various institutions in the Philippines and abroad.

He has been an active member of the Board since 2014 and has accumulated 94,567 shares that accounted to 3.21% of the total shareholdings of the Bank as of December 31, 2108.

THE BOARD OF DIRECTORS

Nationality: Filipino
Age: 55

Director Tee is a prominent businessman in Cebu City, He is engaged in property development and marketing operations.

He is also one of board of directors of Rural Bank of Ronda, Inc. from 2012 and became one of EBI's directors last January 19, 2017.

He finished a degree of Education from Nan An Institute in 1982.

As of December 31, 2019, he holds 135,262 commons shares equivalent to 6.21% of total shareholdings.

Nationality: Filipino
Age: 52

Director Alvizo is a lawyer with 14-year experience in microfinance and rural banking operations. His expertise lies in the areas of rural financing, product development and implementation, corporate planning, banking and corporate law.

He studied Bachelor of Laws at the Ateneo de Davao University and earned his Master Degree in Entrepreneurship at the Asian Institute of Management.

He was also one of the pioneering organizers of the Mindanao Microfinance Council, an organization of microfinance institutions working towards the professionalization of the industry.

Prior to his appointment as the Chief Executive Officer of the Bank in 2017, he has served more than 10 years as an Executive Director.

He is holding 12,949 shares which comprised to 0.44% of the Bank's shareholdings.

Nationality: Filipino
Age: 59

Director Chan is a businessman engaged in manufacturing and trading business.

He became one of EBI's directors last January 19, 2017 and held 115,169 shares which constituted to 3.91% of the bank's shareholdings.

He finished a degree of Architecture from University of Sto. Tomas in 1982.

Nationality: Filipino
Age: 74

Director Sia is a respected banker not only locally but also internationally. He became the Executive Vice-President of Planters Development Bank from 1999-2002. He also worked as Senior Vice President with Bank Internasional Indonesia for 8 years. He became President of Chamber of Thrift Banks and Savings Bankers Association of the Philippines in 1982.

With his expertise in banking operations he was hired as a consultant at Capital Plus Exchange Corporation and financial advisor of La Savoie Development Corporation.

Mr. Sia is a graduate of BSBA Economics at University of the Philippines, Diliman. He finished his Master in Economics from Ateneo de Manila University in 1966.

He was elected as one of EBI's directors last January 19, 2017 owning only one share.

BOARD OF DIRECORS' MEETINGS 2019			
Name of Director	Position	Meetings Attended	%
Maximino A. Salang, Jr.	Chairman	6	100%
Richard M. Rodriguez	Vice-Chairman	6	100%
Alberto P. Capati	Director	6	100%
Lung Fai Chan	Independent Director	6	100%
Manuel T. Sia, Jr.	Independent Director	5	83%
Ronald E. Alvizo	Director	6	100%
Jimmy C. Tee	Director	4	67%
Total Meetings held in 2018		**6**	**100%**

DIVIDENDS POLICY

Enterprise Bank's dividend policy is determined by agreement of the Board of Directors. It shall be distributed to stockholders, either in cash or stock or both, subject to the policy and pertinent rules and regulations of the Bangko Sentral ng Pilipinas. Section 5 of the Bank's By-Laws stipulates the manner that dividends are distributed. The dividends to be distributed are the remaining sums after the Bank's earnings are appropriately applied for capital retirement fund to provide for the gradual retirement of the redeemable preferred stock-government and redeemable preferred stock-private, establishment and maintenance of reserve for bad and/or doubtful accounts and replenishment of any impairment to capital.

THE BOARD COMMITTEES

To assist the Board of Directors in carrying out its functions, certain responsibilities are delegated to the Board Committees in order to ensure that there is an independent oversight of internal control and risk management. These Board Committees includes the Credit Committee (CreCom), Asset and Liability Committee (ALCo), Audit, Risk and Compliance Committee (ARCCo) and Executive Committee (EXCo). The chairman of each committee reports to the Board of Directors on the matters discussed during the committee meetings.

The **Audit, Risk and Compliance Committee** (ARCCO) assists the Board of Directors in fulfilling its oversight responsibilities over the Bank's financial reporting policies, practices, internal and external audit function, as well as, risk management and compliance functions. It possesses the authority to provide functional supervision over the Internal Audit Department, Risk Management Office and Compliance Management Office to ensure effective and efficient performance of their function.

ARCCO's MEETINGS 2019			
Name of Committee Member	**Position**	**Meetings Attended**	**%**
Manuel T. Sia, Jr.	Chairman	4	100%
Lung Fai Chan	Director/Member	4	75%
Maximino A. Salang, Jr.	Director/Member	2	50%
Jimmy C. Tee	Director/Member	1	25%
Jenisie D. Porot	Member/Head of Audit and Risk	4	100%
Claire Marie B. Mauro	Member, Chief Compliance Officer	4	100%
Reymon R. Erezo	Member, Risk Management Officer	4	100%
	Total Meetings held	**4**	

The **Related Party Transactions (RPT) Committee** assists the Board of Directors in fulfilling its oversight responsibilities in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity, and in compliance with applicable laws and regulations to protect the interest of depositors, creditors and other stakeholders. It possesses the authority to approve all material related party transactions, those that cross the materiality threshold, and write-off of material exposures to related parties, and submit the same for confirmation by majority vote of the stockholders in the annual stockholders' meeting; and delegate to appropriate management committee the approval of RPTs that are below the materiality threshold, subject to confirmation by the board of directors.

RPT Committee's MEETINGS 2019			
Name of Committee Member	**Position**	**Meetings Attended**	**%**
Manuel T. Sia, Jr.	Chairman	4	100%
Lung Fai Chan	Director/Member	4	100%
Maximino A. Salang, Jr.	Director/Member	1	25%
Jimmy C. Tee	Director/Member	3	75%
	Total Meetings held	**4**	

The **Credit Committee (CRECOM)** approves loan proposal endorsed by the Credit Department and determines levels of limits or restrictions pertaining to credit operations. It sets target market definitions and risk acceptance criteria of the Bank. The committee also reviews and recommends lending policies, standards and procedures that

CRECOM's MEETINGS 2019			
Name of Committee Member	**Position**	**Meetings Attended**	**%**
Alberto P. Capati	Chairman	13	93%
Richard M. Rodriguez	Director/Member	13	93%
Maximino A. Salang, Jr.	Director/Member	14	100%
Ronald E. Alvizo	Director/Member	11	79%
Ma. Conchita B. Dañocup	COO/Member	14	100%
	Total Meetings held	**14**	

seeks to be responsive to the needs of the target market while satisfying the bank's desired financial outcome and social mission.

EXCO's MEETINGS 2019			
Name of Committee Member	**Position**	**Meetings Attended**	**%**
Alberto P. Capati	Chairman	13	100%
Richard M. Rodriguez	Director/Member	13	100%
Maximino A. Salang, Jr.	Director/Member	13	100%
Ronald E. Alvizo	Director/Member	13	100%
Joy G. Politico	CFO/Member	8	100%
Kent A. Young	CCO/Member	7	100%
Ma. Conchita B. Dañocup	COO/Member	8	100%
	Total Meetings held	**13**	

The **Executive Committee (EXCO)** is a core group of officers of the Bank given authority by the Board of Directors to oversee on its behalf the bank's management operation and ensure alignment of plans and programs of the bank vis-à-vis approved strategic or business plan. It is responsible in setting up the budget for the Bank and approves any proposed suggestions or amendments for the budget. It also reviews the bank's performance vis-à-vis quarterly and annual goals in terms of growth, efficiency, profitability, asset quality and productivity.

ALCO's MEETINGS 2019			
Name of Committee Member	**Position**	**Meetings Attended**	**%**
Richard M. Rodriguez	Chairman	11	92%
Alberto P. Capati	Director/Member	12	100%
Ronald E. Alvizo	Director/Member	9	750%
Kent A. Young	CCO/Member	6	100%
Joy G. Politico	CFO/Member	12	100%
	Total Meetings held	**12**	

The **Asset and Liability Committee** (ALCO) monitors the status and results of implemented asset/liability management strategies and the current and the prospective capital levels of the bank to determine sufficiency in relation to expected growth, interest rate risk, price risk and asset mix/quality. It also reviews current and prospective liquidity position, monitors alternative funding resources of the bank, outlook for interest rates and economy at local, regional and international levels. The committee utilizes tools in monitoring maturity and re-pricing gaps of its assets and liabilities.

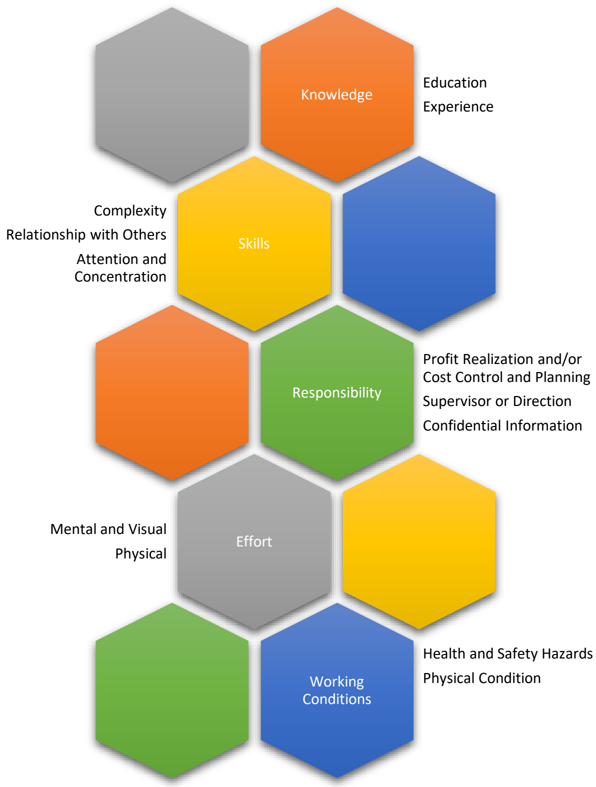
REMUNERATION SYSTEM

Enterprise Bank's By-Laws provides no compensation to be paid to any director as such but the director of the Bank may be allowed reasonable honoraria for actual attendance at meetings to defray fare and other actual expenses incurred in connection thereto and in recognition of the valuable management time devoted.

Moreover, salaries of the executive officers of the Bank are fixed following remuneration system approved by the Board of Directors. For the year 2019, among the highest paid officers of the Bank are personnel handling the positions of President and CEO, Chief Operations Officer and Chief Financial Officer.

At all times, the Bank adheres to Labor Standards in the payment of wages and benefits to its employees. Its compensation and incentive structure is in accordance to mandates set by the regulators and the Bank's By-laws. The Bank is concerned with the welfare of its employees, and ensures the provision of competitive and equitable salaries.

As a standard basis in classifying the positions, the Bank adapts the Point Rating Scale Methods in assessing the value of jobs available in the organization and in pricing them correspondingly in accordance with defined compensable factors. Under this method, jobs are broken down based on various identifiable factors.



The Pay Scale is divided into five (5) categories namely:

1. Levels 1-4: Rank and File
2. Levels 5-7: Supervisory
3. Levels 8-10: Managerial
4. Levels 11-13: Executives
5. Levels 14-16: C-level Executives

Each level has an established pay range for hiring, minimum, midpoint and maximum rate which serves as a guide for both Human Resource Management and Compensation and Benefits Units in determining appropriate price for a new entrant or a newly promoted employee. Also provided are defined Steps in each Rank for ladderized salary movement where the granting of increase is not driven by promotion in rank but on consistently creditable performance within the established job perimeters.

INCENTIVE STRUCTURE

The Incentive Structure varies considering peculiarities in the department belonging to the business group and the defined performance parameters and standards set year on year. On the over-all, while the management palpably recognizes achievements beyond expectation, it also considers contribution to the bottom line in the administration of reward.

THE MANAGEMENT TEAM

ALBERTO P. CAPATI
President adn CEO

He is an international consultant focused in enterprise and entrepreneurship development, business development services, and technical-vocational education and training. He gained his work experiences in different countries in Asia, Africa, Europe, and the Middle East.

Among his domestic experiences includes being a training associate and eventually as the Director for Training and the Director for Operations at the University of the Philippines Institute for Small-Scale Industries. He also served as Chief Executive Officer and Chairperson of the 888 Loans Corporation and the former President and Chairman of the Board of the Philippine CEFE Network Foundation, Inc.

JOY G. POLITICO
Chief Financial Officer

A Certified Public Accountant who completed a degree with cum laude honors in Bachelor of Science in Accountancy and post graduate degree in Business Administration at Ateneo de Davao University

Prior to joining Enterprise Bank, Inc. she handled various significant posts in Punongbayan & Araullo as Audit Junior, Audit Senior, until Senior Manager for Audit and Assurance.

MA. CONCHITA B. DAÑOCUP
Chief Operations Officer

A Certified Public Accountant who also earned cum laude honors in Accountancy at the Ateneo de Davao University.

Prior to joining the Enterprise Bank, Inc. in June 2014, she gained her 22-year banking experience at One Network Bank, Inc. where she handled positions such as Branch Accountant, Chief Accountant, Branch Manager, Cluster Head until the Credit Department Head position. She also enjoyed being a freelance management consultant and a part time faculty member of the Ateneo de Davao University way back 2011.

CLAIRE MARIE B. MAURO
Chief Compliance Officer and Legal Counsel

A laywer who earned her degree in the Bachelor of Laws in Ateneo de Davao University and a degree in BS Agriculture at the University of the Philippines - Los Baños.

Prior to joining the Bank in May 2014, she served as Data Anayst of an international company engaged in banana exports, a technical staff of the Department of Agriculture Region XI and an administrative Assistant of an international beverage company.

JENISIE D. POROT
Internal Audit Head

A Certified Public Accountant who earned a degree in Bachelor of Science in Accountancy at the University of Mindanao - Tagum College.

Prior to joining Enterprise Bank, Inc. in April 2015, she handled posts in Accounting in two private companies in the span of three years after a year and a half service as an Internal Audit Staff of a rural bank in Kapalong, Davao del Norte.

RUBY L. CANDADO
Corporate Secretary and CHRD Head

Ms. Candado earned a degree in Business Economics in Mindanao State University – Iligan Institute of Technology and completed 36 post graduate units for Diploma in Economics at the University of Southeastern Philippines.

She joined Enterprise Bank, Inc. since June 2006 and handled various posts in the field of Finance, Planning, Risk Management and Human Resource Development.

REYMON R. EREZO
Risk Management Officer

A former college instructor of the University of Mindanao, Mr. Erezo earned his graduate diploma degree in Econometrics at the University of Southeastern Philippines after his return to the Bank in August 2015.
He attended various external and internal capability building trainings in Enterprise Risk Management.

THE MANAGEMENT TEAM

AVA VIERRA P. VIEJO
Credit Head

Ms. Viejo is an alumna of Ateneo de Davao University where she earned the degree in Bachelor of Science in Management Accounting.

Her 16 years of banking experience exposed her in various areas of banking operations from branch and administrative support operations, sales, credit and compliance management.

ELIAS M. TANJILI
RBG Operations Head

Mr. Tanjili is a seasoned banker who earned his 19-year commercial banking experience in RCBC after a 2-year service in a cooperative rural bank. He joined Enterprise Bank, Inc. in January 2012.

A graduate of BS. Commerce major in Accounting at the Ateneo de Davao University.

IAN Y. CAANGAY
Information and Technology Head

Mr. Caangay earned his 17-year banking experience from three bank including Enterprise Bank, Inc. He served four years in Micro Enterprise Bank in various positions in the field of accounting, audit, IT and loans before the bank was acquired by Planters Bank Development Bank which he served as credit investigator and appraiser prior to joining EBI in September 2011.

He earned a degree in BS Accountancy at Ateneo de Davao University and 18 post graduate units in Information Technology in the University of Southeastern Philippines.

GILBERT D. YU
Cluster Head

Mr. Yu earned a degree in Bachelo of Science in Computer Engineering in University of San Carlos.

Prior to joining Enterprise Bank, Inc. in April 2016, he has adequately gained 24 years of banking epxerience from 4 banks and creidt operations with 3 lending institutions.

MARK LOUIE T. SALINAS
Cluster Head / RBG Services Head

Mr. Salinas earned a degree in Bachelor of Science in Computer Engineering in the University of San Jose Recoletos and earned nine units in Masters in Business Administration at the University of Southeastern Philippines.

He joined Enterprise Bank. Inc. since July 2002 and has gained his 16-year of relevant banking experience through various posts in the banking operations ranging from Accounting, Clearing, Treasury, Sales and Brach Operations.

NOEL E. CABRERA
Cluster Head

Mr. Cabrera is an alumni of Holy Corss of Davao College where he earned the degree in Bachelor of Arts in English.

He joined Enterprise Bank, Inc. in 2002 and has gained his 18-year of banking experience in all facets of branch operations particularly lending.

JULIETA L. MIRANDA
Cluster head

Ms. Miranda is an alumna of St. Theresa College in Tandag City, Surgiao del Sur where she earned the degree in BS Accountancy.

She joined Enterprise Bank. Inc. since 1999 as a Branch Bookkeeper until become among the pillars of the Bank. She has more than 21 years of banking experience with her and has been exposure to various development programs in all facets of the banking operations.

PRESIDENT'S REPORT

Before the banking industry took off for the year 2019, major regulatory enhancements were introduced in the year 2018 aimed for a stronger and resilient industry. These created a more stringent financial landscape. Amidst this highly competitive and highly regulated banking landscape, Enterprise Bank, Inc. managed to post a comprehensive income of P5.4 million end-2019.

The additional Php22.5 million investment from existing investors together with improvements in the funding cost and operating expenses, disposal of acquired assets, increased number of transactions from fee-based services and the shift to full collection outsourcing cushioned the impact of the decline in the top line.

Consistent with the objectives of improved management structures such as strengthened risk management system, better lending operations, reduced operating costs and more importantly improved funding mix, the initiatives that were started in 2018 paved way for the Bank to overcome the challenges faced in the year 2019. Focus of its initiatives shifted to recovery from non-performing loans and improving the credit risk management system being the primary concern raised by the Bangko Sentral ng Pilipinas.

Organizational Development

Investments continued in upgrading the bank's systems and facilities, coupled with streamlining of business processes and improvement of internal servicing. Among these upgrading initiatives involved the updating of the Banks' core banking system in February 2019 to accommodate more banking facilities and services including the direct clearing with PCHC. As a result, by the end of 2019, all 27 branches of the Bank have been participants of the inward clearing operations of PCHC. By shifting from conduit clearing operations to direct clearing with PCHC and thereby enhancing the Bank's reputation on deposit taking, resulted to increased demand deposits portfolio by nearly P30M.

Taking advantage of technology the Bank adopted an E-learning program as an additional alternative for effective but cost-efficient tool for retooling and training personnel. Webinars were introduced under the expanded training and development program of the Bank – the Expanded Branch Academy. A total of nine (9) e-learning modules were conducted and participated by the employees of the Bank.

Various organizational restructuring aimed at strengthening management oversight were undertaken resulting to reduction in the share of manpower costs to the total operating expenses and enhanced monitoring and control of operations.

a. Installed four (4) Cluster Heads to further strengthen management oversight of the branches improved branch profitability performance and yielded an accumulated branch operations profits of P13.17M.

b. Re-instated Area Operations Managers (AOMs) to strengthen monitoring of implementation of controls at the branch operations promoted early detection in the operational lapses and minimized incidence of fraud cases.

c. Instituted employee retention and development programs such as Service Awarding, Team Building, performance merit increases alongside continued participation to internal and external trainings helped boosted employees' morale.

While sustaining operational efficiencies, various organizational restructuring and branch license relocations, significantly reduced expenditures on basis pays by P6.8 million as the manpower complement dropped to 263 by end 2019 from a start of 302 end-2018.

Deposits

The Bank's conscious effort towards reducing its cost of funds resulted to the continuous growth of its deposit portfolio by Php195 million from P1.475 billion in 2018 to P1.67 billion end-2019. The shift from high cost funds to low cost funds sustained the declining financial cost to only Php71 million in 2019 or a 36% drop from Php111 million in 2013.

a. Expensive borrowings of the Bank were replaced by the offering of 1-year TD product which generated P145 million fresh deposits.

b. The POS merchant product was able to entice 21 merchants which accumulated an ADB of more than P24 million for low-cost deposit. And as of end of April 2020, as the number of merchants increased to 36 and accumulated ADB nearly doubled in four months as it reached P44 million.

c. Re-launched the Automatic Transfer Account (ATA) deposits feature which also assisted in managing the excessive requirement for overdraft credit line (OCL) security with BSP.

d. Relocation of low-performing ATMs at areas with high volume of ATM transactions such as Barobo, Cateel maximized potential of ATM operations.

Credit and Lending

For the year 2019, the bank disbursed P1.08 billion loans. Class A clients of Consumer Loans were offered new ATM loan accounts while efforts to regain interest of former clients who dropped-out from the Bank paid off. A total of P776 million Consumer Loans were disbursed.

The combined efforts of retaining valued existing Enterprise Loan clients and generating of new accounts resulted to disbursement P309 million in Enterprise Loans.

However, despite the enormous 1 billion loan disbursements, expansion initiatives in the lending operations were overtaken by 1) aggressive competitors' expansion to areas formerly dominated by rural bank where EBI has been operating and offering of relatively lower interest rates and 2) Management's persistent drive to speed up recovery from non-performing loans. These resulted to drop in loan portfolio by P195 million:

a. The shift to full collection outsourcing in January 2019 significantly ramped-up recovery efforts from past due loans and recorded P30.8 million collections from principal and interests.

b. Other than collection outsourcing, the Bank was able to seize the opportunity provided by GSIS through its GFAL program wherein, qualified Bank clients availed the debt consolidation offer and bought out their outstanding loans with the Bank. This totalled to more than P56 million portfolio bought-out by GSIS. While this also contributed to the decline in the Bank's loan portfolio, it helped alleviate any potential increment in the bad debts arising from over exposures of clients to various lending facilities affecting their future cash flows.

c. A total of P34.2 million past due Enterprise Loans were converted into acquired properties as foreclosure of collaterals were actively initiated.

Further, the acceptance of the Bangko Sentral ng Pilipinas on the Loan Loss Methodology on Consumer Loans of the Bank improved confidence in the credit risk management system of the Bank as it has addressed BSP's primary requirement of establishing a sound loan loss methodology. It provided the Bank Management a holistic profile of the Bank's loan portfolio and enabled it to prepare and allocate for the potential losses depicted in the forecast derived from at least a 5-year historical trend.

ROPA Disposal

Intensified recovery efforts from soured portfolio in Enterprise Loans resulted to increase in the Bank's acquired assets to P31 million but Management strived aggressively in disposing some of its prime acquired assets through speedy negotiations in public biddings and intensified prospecting of buyers. A gain on sale of more than Php 2.64 million was realized from disposal of 11 properties worth Php9.6 million. This will be further improved as the installation of monitors at major branches to improve awareness of the Bank's properties for sale continues. For the year 2020, the Bank anticipated to dispose P78 million worth of properties and generate a gain on sale of P23 million.

2020 and Beyond

Looking forward for 2020 and the next four years, the Bank will continue to strengthen its position to be the bank of choice and convenience for Consumers and MSMEs.

Following the approval of the merger of Enterprise Bank and Rural Bank of Ronda by PDIC and BSP, efforts are now concentrated to finalizing the merger process with Securities and Exchange Commission. Alongside, it is now approaching to the final stages in the amendments of its Articles of Incorporation and By-Laws which included the relocation of the Head Office from Lianga, Surigao del Sur to Davao City.

In order to expand and deepen our reach, the bank will direct efforts towards new client generation, client retention and enhancement of its corporate image. Leaner but efficient organizational structure with highly competent manpower complement for the business group to beef up marketing efforts likewise at the support group will be implemented.

Investments will continue specifically in streamlining of business processes, improvement of internal servicing, and centralized and organized records management. Believing that its employees is the Bank's primary partner in making a lasting impact in the lives of the entrepreneurs and the community, improvements will also be introduced in its training program, wellness program and performance management system for the employees' holistic development.

In the coming years, the Bank will continue to navigate through these changing times – resilient and stronger as it has always been for the last 44 years.

CONSUMER PROTECTION is regarded as a core function complementary to BSP's prudential regulation and supervision, financial stability, financial inclusion and financial education agenda. Hence, all BSP-supervised financial institutions are mandated to follow at least the minimum guidelines for institutionalizing consumer assistance mechanism in their operations.

In view of Circular No. 857 series of 2014, for the protection of Enterprise Bank, Inc. and to assure that every customer's needs are met and are satisfied with the services they receive, the Bank created the Consumer Assistance Management System (CAMS).

The Board's responsibility to ensure delivery of effective recourse to its consumers is depicted in the consumer assistance policies and procedures embodied in the CAMS – which is designed to instill within the bank's day to day operations the promotions of transparency, fairness and ease of access for financial consumers including the resolution of complaints.

The Senior Management is responsible for the effective implementation of the CAMS and adoption of the established risk management system tools and practices. This responsibility is further delegated to the Consumer Assistance Officer who monitors the consumer assistance process, analyzes nature of complaints, develops recommendations and solutions and reports to Senior Management and the Board (through ARCCo) status of the complaints.

At the branches and offices, personnel designated to perform consumer assistance activities submits complaints report to the Consumer Assistance Officer. They are also provided with appropriate trainings for the job to be equipped with knowledge on the structure and implementation of the bank's consumer assistance mechanism.

Consumer Assistance Channels	Customer may lodge their concerns through any reasonable mean, such as, a centralized web portal, walk-in or personal visit, letter, e-mail, telephone and facsimile.
	Customer/client assistance help desk or hotline dedicated for customers concerns and service and manned by Customer Assistance Group
	The bank encourages to resolve customer/client complaints by providing alternative modes of resolution, such as conciliation, mediation and arbitration, in order to achieve settlement of the issues at the bank level.

Processes and procedures in identifying, measuring, monitoring and controlling consumer protections risks are aligned with the established risk management system and tools of the Bank closely coordinated with the Risk Management Office and Compliance Department.

Enterprise Bank ensures that complaints received are acted upon and are treated with utmost care and confidentiality. It is also recorded in a complaints/request register maintained and being utilized for monitoring, risk analysis and action planning.

PRODUCTS AND SERVICES

Small Business Loans

- Secured loan for additional working capital
- Faciltiy: Term up to 18 months
- Loanable Amount: 50,000.00 to 1,000,000.00

Enterprise Business Loans

- Secured loan for business expansion and Purchases related to business operation such as supplies, inventories, equipment and other fixed assets
- Facilties:Credit line and Term up to 36 months
- Loanable Amount: 1,000,000.00 to 5,000,000.00

Back to Back Loan

- Hold-out loan granted to existing clients against his/her own deposit account with the bank
- Facilties: Term up to 12 months
- Loanable Amount: 85% of deposit or up to 5,000,000.00 (whichever is lower)

Loan against ADB on Deposits

- Designed to assist thriving small entrepreneurs who are at the same time existing depositors of the bank
- Facilties: Credit Line Term up to 12 months
- Loanable Amount: 50,000.00 to 1,000,000.00

Consumer Loans

- Payroll-based consumption loan for girvernment employees
- Facilties: Term up to 48 months
- Loanable Amount: up to 700,00.00

Regular Time Deposit

- Proof of Deposit: Certificate of Time Deposit
- Term: Options comes in 30, 90, 180 or 360 days
- Mnimum Amount: 5,000.00
- Interest Rate: Variable Interest rate depending on amount and term

TD5 or 5-year Time Deposit

- Proof of Deposit: Certificate of Time Deposit
- Term: 5 years (tax exempt)
- Mnimum Amount: 500,000.00
- Interest Rate: 6% annually credited quarterly

Automatic Trasfer Deposit Account

- MInimum Amount: 5,000,00 (Individual) / 10,000 (Corporate)
- Interest Rate.if source account if savings account - 010%

Basic Saviings Deposit

- Proof of deposit may come in either Passbook or ATM Card with NO maintaining balance required
- Minimum Amount: 100.00
- Interest rate: 0.10% annually

Current / Checking Account

- Also known as Checking or Demand Deposit under a direct clearing facility of the Philippine Clearing House Corporation
- Minimum Amount: 3,500.00 (Individual) / 10,000.00 (Corporte)
- Interest rate: None

Super Savings Account

- Proof of deposit comes in a passbook
- Interest will be earned if monthly ADB exceeds Php300,000.00 following Treasury Bulletin.
- Additional interest of 0.5% if no withdrawals made during the month.
- Minimum Amount: 3,00.00

Super Checking Account

- Checking account that comes in passbook, ATM and check book for individuals only. Not applicable to corporate
- Minimum Amount: 5,00.00
- Interest Rate: 0%

Financial Statements of

Enterprise Bank, Inc. (A Thrift Bank)

December 31, 2019 and 2018

And

Report of Independent Auditors

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders

Enterprise Bank, Inc. (A Thrift Bank)

Poblacion, Lianga, Surigao del Sur

Report on the Financial Statements

Qualified Opinion

We have audited the financial statements of Enterprise Bank, Inc. (A Thrift Bank) which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, comprising of a summary of significant accounting policies and other explanatory notes.

In our opinion, except for the effects of the matters described in the *Bases for Qualified Opinion* Section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of Enterprise Bank, Inc. (A Thrift Bank) as of December 31, 2019 and 2018, and of its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Bases for Qualified Opinion

The following form the bases of our qualified opinion:

(a) As explained in Note 5 to the financial statements, the allowance for expected credit losses (ECL) on loans and discounts is deficient by ₱150,413,241 as of December 31, 2019, computed based on the Appendix 15, '*Basic Guidelines in Setting Up of Allowance for Credit Losses' (Appendix to Sec. 143 on Credit Classification and Provisioning)* of the MORB. The deficiency includes the unamortized balance of the relief provided by the BSP to the Bank amounting ₱63.2 million, as of December 31, 2019, which the Bank was allowed to book until 2021.

(b) As also explained in Note 17 to the financial statements, the Bank did not book the provision for retirement benefits for 2019 amounting ₱6,316,013, resulting in the deficiency of the same amount of the actuarially-computed retirement benefit obligation at the end of 2019.

Had the Bank booked the required ECL as of December 31, 2019, and the retirement benefit expense for 2019, as explained in the preceding two paragraphs, the Bank's reported profit for the year ended December 31, 2019, reported at ₱4,430,116, will reverse to a net loss of ₱105,280,362 (net of deferred taxes on the two provisions amounting ₱47,018,776). Its loans and other receivables as presented in the statement of financial position will be reduced by the booking of the required additional ECL of ₱150,413,241, and its retirement benefit obligations (under other liabilities) will be increased by the amount of additional retirement benefit obligation of ₱6,316,013. Corollary to the booking of the two provisions as explained in the foregoing, the Bank's deferred tax assets will be increased by the anticipated tax benefits of the additional ECL and retirement benefit obligation.

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

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.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, license and fees in Note 19 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as whole.

Report on the Supplementary Information Required by Revised SRC Code Rule 68 (Version 2019)

Our audits were conducted for the purpose of forming opinions on the basic financial statements taken as a whole. The following supplementary schedules to the financial statements:

Annex 1 Schedule of Retained Earnings Available for Dividend Declaration, and are presented for the purpose of complying with the requirements of Part 1, Section 5 of the Revised Securities Regulation Code Rule 68 (2019 Version) and are not required parts of the basic financial statements. Such information is the responsibility of the Bank's management. The information in such supplementary schedules has been subjected to the auditing procedures applied in the audits of the basic financial statements. In our opinion, the information is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole and has been prepared in accordance with the Revised SRC Rule 68 (2019 Version).

QUILAB & GARSUTA, CPAs

By:

ANA MARIAE MICHELLE D. QUILAB-ARRABACA
Partner
CPA Cert. No.121076
TIN No. 948-844-710
SEC No. 1892-A (7.15.2021)
PTR No. 4533813
January 2, 2020
Cagayan de Oro City

June 15, 2020

Cagayan de Oro City, Philippines.

STATEMENTS OF FINANCIAL POSITION

Enterprise Bank, Inc. (A Thrift Bank)

December 31	**2019**	2018
		(As Restated)
		(Note 15)
ASSETS		
Cash and Cash Equivalents *(Note 4)*	**₱412,201,202**	₱294,534,674
Loans and Other Receivables *(Note 5)*	**1,522,171,566**	1,717,126,297
Investments in Debt Securities – At Amortized Cost *(Note 6)*	**38,305,317**	33,154,412
Bank Premises, Furniture, Fixtures and		
Equipment and Right-of-Use Asset *(Note 7)*	**85,304,967**	84,933,019
Investment Properties *(Note 8)*	**122,697,099**	92,815,093
Other Assets *(Note 9)*	**84,942,201**	93,416,031
	₱2,265,622,352	₱2,315,979,526
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposit liabilities *(Note 10)*	**₱1,670,829,913**	₱1,475,668,453
Bills payable *(Note 11)*	**200,153,168**	436,604,366
Other liabilities *(Note 13)*	**124,753,191**	122,306,566
Lease liabilities *(Note 7)*	**11,254,332**	–
Unsecured subordinated debt *(Note 12)*	–	50,000,000
Total Liabilities	**2,006,990,604**	2,084,579,385
Shareholders' Equity		
Share capital *(Note 14)*	**274,195,500**	251,672,600
Reserves	**35,966,279**	35,687,688
Deficit *(Notes 14 and 15)*	**(51,530,031)**	(55,960,147)
Total Shareholders' Equity	**258,631,748**	231,400,141
	₱2,265,622,352	₱2,315,979,526

See Notes to Financial Statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Enterprise Bank, Inc. (A Thrift Bank)

Years Ended December 31,	**2019**	2018[1]
INTEREST INCOME		
Loans and discounts *(Note 5)*	**₱222,726,878**	₱232,957,478
Bank deposits and investments in debt securities *(Notes 4 and 6)*	**3,306,290**	4,724,744
Total	**226,033,168**	237,682,222
LESS INTEREST EXPENSE		
Bills payable and unsecured subordinated debt *(Notes 11 and 12)*	**22,582,884**	31,297,016
Deposit liabilities *(Note 10)*	**48,566,603**	47,473,218
Total	**71,149,487**	78,770,234
NET INTEREST INCOME	**154,883,681**	158,911,988
PROVISION FOR EXPECTED CREDIT LOSSES (ECL) *(Note 5)*	**–**	356,467
INTEREST INCOME AFTER PROVISION FOR ECL	**154,883,681**	158,555,521
APPLICATION FEES AND OTHER INCOME *(Note 16)*	**87,759,266**	88,988,818
PROFIT BEFORE OTHER EXPENSES	**242,642,947**	247,544,339
OTHER EXPENSES		
Compensation *(Note 17)*	**86,992,479**	91,341,195
Other operating expenses *(Note 18)*	**132,892,737**	137,582,428
Depreciation *(Notes 7 and 8)*	**16,293,894**	13,097,556
Total Other Expenses	**236,179,110**	242,021,179
PROFIT BEFORE INCOME TAX EXPENSE	**6,463,837**	5,523,160
INCOME TAX EXPENSE *(Note 19)*	**2,033,721**	4,499,874
PROFIT FOR THE YEAR	**4,430,116**	1,023,286
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that may not be subsequently reclassified to profit or loss:		
Actuarial and re-measurement losses *(Note 17)*	**397,987**	5,253,574
Deferred income tax *(Notes 17 and 19)*	**(119,396)**	(1,576,072)
Net	**278,591**	3,677,502
COMPREHENSIVE INCOME FOR THE YEAR	**₱4,708,707**	₱4,700,788

[1] *(As Restated) (Note 15)*

See Notes to Financial Statements.

Earnings Per Share *(Note 20)*		
Basic	**₱1.72**	₱0.42
Diluted	**₱1.72**	₱0.42

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

Enterprise Bank, Inc. (A Thrift Bank)

December 31	**2019**	2018
		(As Restated) *(Note 15)*
SHARE CAPITAL *(Note 14)*		
Preference Shares – ₱100 par value	**₱–**	₱–
Ordinary (Common) Shares – ₱100 par value		
Opening balances	**251,672,600**	242,376,400
Additional shares issued during the year	**22,522,900**	9,296,200
Closing balances	**274,195,500**	251,672,600
Total Share Capital	**274,195,500**	251,672,600
SURPLUS RESERVES		
Surplus Reserves	**28,430,427**	28,430,427
Accumulated Actuarial Gains *(Note 17)*		
Opening balances	**7,257,261**	3,579,759
Actuarial gain on defined benefit plan, net of tax effect *(Note 17)*	**278,591**	3,677,502
Closing balances	**7,535,852**	7,257,261
Total Reserves	**35,966,279**	35,687,688
DEFICIT		
Opening balances, as originally stated	**(46,676,369)**	(16,879,529)
Adjustments to restate beginning balances *(Note 15)*	**(9,283,778)**	(40,103,904)
Opening balances, as restated	**(55,960,147)**	(56,983,433)
Profit for the year	**4,430,116**	1,023,286
Closing balances	**(51,530,031)**	(55,960,147)
	₱258,631,748	₱231,400,141

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

Enterprise Bank, Inc. (A Thrift Bank)

Years Ended December 31,	**2019**	2018
		(As Restated)
		(Note 15)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax expense	**₱6,463,837**	₱5,523,160
Add (deduct) adjustments for:		
Depreciation on bank premises and investment properties *(Notes 7 and 8)*	**13,381,572**	13,097,556
Depreciation on right-of-use assets *(Note 7)*	**2,912,322**	
Provision for retirement benefits *(Note 17)*	**2,936,264**	2,603,803
Interest expense on lease liabilities *(Note 7)*	**516,838**	–
Provision for ECL on loans and other receivables *(Notes 5 and 8)*	–	356,467
Operating income before changes in working capital	**26,210,832**	21,580,986
Changes in working capital, excluding cash and cash equivalents:		
Decrease (increase) in loans and other receivables *(Note 5)*	**194,954,731**	(74,218,581)
Decrease in other assets *(Note 9)*	**8,473,830**	6,138,910
Increase in deposit liabilities *(Note 10)*	**195,161,460**	48,846,199
Increase (decrease) in other liabilities *(Note 13)*	**(211,048)**	4,957,706
Net cash provided by operations	**424,589,805**	7,305,220
Income taxes paid *(Note 19)*	**(2,033,721)**	(4,499,874)
Net Cash Provided from Operating Activities	**422,556,084**	2,805,346
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from additional bills payable *(Note 11)*	**109,115,000**	547,550,847
Settlement of bills payable *(Note 11)*	**(345,566,198)**	(668,885,598)
Settlement of unsecured subordinated debt *(Note 12)*	**(50,000,000)**	–
Issuance of additional ordinary shares *(Note 14)*	**22,522,900**	9,296,200
Net Cash Used in Financing Activities	**(263,928,298)**	(112,038,551)

CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in investment properties *(Note 8)*	**(32,848,521)**	(29,638,947)
Increase in investments in debt securities *(Note 6)*	**(5,150,905)**	(189,884)
Sale/reclassification of bank premises, furn., fixt. and equipment *(Note 7)*	**4,784,490**	–
Additions to bank premises, furn., fixt. and equipment – net *(Note 7)*	**(4,643,416)**	(13,391,177)
Payment of lease liabilities and interest *(Note 7)*	**(3,102,906)**	–
Net Cash Used for Investing Activities	**(40,961,258)**	(43,220,008)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**117,666,528**	(152,453,213)
OPENING CASH AND CASH EQUIVALENTS	**294,534,674**	446,987,887
CLOSING CASH AND CASH EQUIVALENTS *(Note 4)*	**₱412,201,202**	₱294,534,674

See Notes to Financial Statements.

Note 1

Organization

The Enterprise Bank, Inc. (A Thrift Bank) (to be referred henceforth as 'Bank') was originally organized on May 10, 1976, to engage and carry on the business of a Rural Bank. On June 28, 2012, the Securities and Exchange Commission approved the conversion of the Bank from a Rural Bank to a Thrift Bank. On July 24, 2012, the Bangko Sentral ng Pilipinas (BSP) granted the Bank the authority to operate as Thrift Bank. The Bank started to operate as a Thrift Bank on October 1, 2012.

The Bank's registered office and principal place of business is located at Poblacion Lianga, Surigao del Sur. It operates 31 offices within the islands of Mindanao and Visayas.

Recent Developments

The Bangko Sentral ng Pilipinas (BSP) approved the merger of Rural Bank of Ronda, Inc., a Rural Bank with principal office address at the Municipality of Ronda, Province of Cebu, with the Bank as the surviving entity on August 29, 2018. Subsequently, on February 26, 2020 the Securities and Exchange Commission approved the Articles of Merger. The merged bank will officially commence its operation after completing the processing of the regulatory requirements

The merger will secure for the Bank a stronger foothold in the Cebu Province market by adding a new branch on top of the existing branches in Talisay City, which operated in 2010, and in Tipolo, Mandaue City, which opened in 2016. The Bank expects to obtain benefits provided by BSP Memorandum No. M-2016-023, dated December 21, 2016, on this merger.

Note 2

Summary of Significant Accounting Policies

The significant accounting policies that have been used in the preparation of these financial statements are summarized below.

Statement of Compliance

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The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs) and Philippine Interpretations-IFRIC, except for not booking additional allowance for expected credit losses as required under PFRS 9 *Financial Instruments* and except for not booking the retirement benefit expense for 2019 in accordance with PFRS 19.

PFRSs include statements named PFRSs and 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 adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board and approved by the Philippine Board of Accountancy (BOA) and adopted by the Securities and Exchange Commission (SEC).

The financial statements have been prepared under the assumptions that the Bank operates on a going concern basis.

Basis of Preparation

The financial statements have been prepared using the historical cost basis, except for financial instruments that are measured at fair values at the end of the year, as explained in the following accounting policies. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the financial statements is determined on such a basis, except for leasing transactions that are within the scope of PFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in PAS/IAS 2 or value in use in PAS/IAS 36.

The financial statements are presented in Philippine peso, which is the Bank's functional and presentation currency and all values are recorded to the nearest peso except when otherwise indicated.

The preparation of the financial statements made use of estimates, assumptions and judgments by management based on management's best knowledge of current and historical facts as at reporting date. These estimates and judgments affect the reported amounts of assets and liabilities and contingent liabilities as at statement of financial position date, as well as affecting the reported income and expenses for the year. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

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Presentation of Financial Statements

The Bank's statements of financial position are presented broadly in order of liquidity. An analysis regarding recovery (asset) or settlement (liability) within 12 months after the reporting date (current) and more than 12 months after the reporting date (noncurrent) are disclosed in Note 23. Financial assets and financial liabilities are offset, and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense are not offset in the statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Adoption of New and Amended PFRS Standards that are Effective for the Current Year

Impact of Initial Application of PFRS 16 Leases

In the current year, the Bank has applied PFRS 16 that is effective for annual periods that begin on or after January 1, 2019. The date of initial application of PFRS 16 for the Bank is January 1, 2019.

PFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

The impact of the adoption of PFRS 16 on the Bank's financial statements is described below.

Impact of PFRS 16 Leases on the Bank as a Lessee

PFRS 16 changes how the Bank accounts for leases previously classified as operating leases under PAS/IAS 17, which were off-balance sheet items. Applying PFRS 16, for all leases (except as noted below), the Bank: (a) recognizes right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments; (b) recognizes depreciation of right-of-use assets and interest on lease liabilities in profit or loss, and (c) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the statement of cash flows.

Lease incentives (e.g. rent-free period) are recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under PAS/IAS 17 they resulted in the recognition of a lease incentive, amortized as a reduction of rental expenses generally on a straight-line basis.

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Under PFRS 16, right-of-use assets are tested for impairment in accordance with PAS/IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Bank has opted to recognize a lease expense on a straight-line basis as permitted by PFRS 16. This expense (if incurred) is presented within ‘other operating expenses’ in the statement of profit or loss.

Impact of PFRS 16 Leases on the Bank as a Lessor

PFRS 16 does not change substantially how the Bank accounts for leases as a lessor. Under PFRS 16, the Bank continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. PFRS 16, however, has changed and expanded the disclosures required, in particular with regard to how the Bank manages the risks arising from its residual interest in leased assets.

The Bank is not a lessor of properties.

Approach at Adoption of PFRS 16 Leases

The Bank has applied PFRS 16 using the modified retrospective approach, with the cumulative effect of adopting PFRS 16 being recognized in equity as an adjustment to the opening balance of Deficit for the current period. Prior periods have not been restated.

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

The Bank has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of PFRS 16, on January 1, 2019. At this date, the Bank has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Bank has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of PFRS 16.

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

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On transition to PFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognized under PFRS 16 was 5.8% (the average borrowing rate of its bills payable). (See Note 7.)

Financial Impact in 2019 of the Initial Application of PFRS 16

The tables on the following page show the amount of adjustment for each financial statement line item affected by the application of PFRS 16 for the current and prior years.

Impact on Profit or Loss

Year Ended December 31,	**2019**
Increase in depreciation of right-of-use asset *(Note 7)*	**₱2,912,322**
Increase in finance costs *(Note 7)*	**516,838**
Decrease in rental expenses *(Note 7)*	**(3,102,907)**
Net Decrease in Profit for the Year	**₱326,253**

Impact on Assets, Liabilities and Equity

December 31,	**2019**
Increase in right-of-use asset – net *(Note 7)*	**₱10,928,079**
Increase in lease liability *(Note 7)*	**(11,254,332)**
Net adjustments to Deficit	**–**
Net Effect	**(₱326,253)**

Impact on the Statement of Cash Flows

The application of PFRS 16 has an impact on the statement of cash flows of the Bank as a lessee. Under PFRS 16, the Bank, as a lessee, must present:

- Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities;

- Cash paid for the interest portion of a lease liability as either operating activities or financing activities, as permitted by PAS/IAS 7 (the Bank has opted to include interest paid as part of financing activities); and

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- Cash payments for the principal portion for a lease liability, as part of financing activities.

Under PAS/IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities. Consequently, the net cash used for operating activities has increased by ₱ 3,102,907, being the principal payments and interest on lease liabilities, and net cash used in financing activities has increased by the same amount.

Applying Amendments to PFRS Standards and Interpretations Effective January 1, 2019

In the current year, the Bank has applied a number of amendments to PFRS Standards and Interpretations issued by the IASB and concurred by the Philippine Financial Reporting Standards Council (FRSC) that are effective for an annual period that begins on or after January 1, 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to PFRS 9 Prepayment Features with Negative Compensation

The Bank has adopted the amendments to PFRS 9 for the first time in the current year. The amendments to PFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI.

The adoption of the amendment did not have an impact on the current year's financial statements as the Bank does not have prepayment features with negative compensation.

Amendments to PAS/IAS 28 Long-term Interests in Associates and Joint Ventures

The amendment clarifies that PFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The entity applies PFRS 9 to such long-term interests before it applies PAS/IAS 28. In applying PFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests required by PAS/IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with PAS/IAS 28).

The amendments to PAS/IAS 28 have had no impact on the Bank as it has no associates and joint ventures.

Annual Improvements to PFRS Standards 2015–2017 Cycle Amendments to PFRS 3 Business Combinations, PFRS 11 Joint Arrangements, PAS/IAS 12 Income Taxes and PAS/IAS 23 Borrowing Costs

The Bank has adopted the amendments included in the *Annual Improvements to PFRS Standards 2015–2017 Cycle* for the first time in 2019, which adoption have had no impact on the Bank in 2019.

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- PAS/IAS 12 *Income Taxes* – The amendments clarify that the Bank should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Bank originally recognized the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

- PAS/IAS 23 *Borrowing Costs* – The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

- PFRS 3 *Business Combinations* – The amendments clarify that when the Bank obtains control of a business that is a joint operation, the Bank applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognized assets, liabilities and goodwill relating to the joint operation.
- PFRS 11 *Joint Arrangements* – The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the Bank does not remeasure its PHI in the joint operation.

Amendments to PAS/IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). PAS/IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognized in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. The Bank will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under PAS/IAS 19:99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The Bank has adopted the amendments of PAS/IAS 19 for the first time in the current year.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Bank to: (a) determine whether uncertain tax

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positions are assessed separately or as a group; and (b) assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings. If yes, the Bank should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings. If no, the Bank should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

The Bank has adopted IFRIC 23 for the first time in the current year. The amendments have not affected the Bank as it has no issues related to income tax treatments.

New and Revised PFRS Standards in Issue but not Yet Effective

At the date of authorization of these financial statements, the Bank has not applied the following new and revised PFRS Standards that have been issued but are not yet effective [and, in some cases] had not yet been adopted by the Philippine FRSC:

- PFRS 17 *Insurance Contracts*
- PFRS 10 and PAS/IAS 28 (Amendments) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- Amendments to PFRS 3 *Definition of a business*
- Amendments to PAS/IAS 1 and PAS/IAS 8 *Definition of material*
- Conceptual Framework *Amendments to References to the* Conceptual Framework *in IFRS Standards*

The management and the Board of Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Bank in future periods, except as noted below:

PFRS 17 Insurance Contracts

PFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes PFRS 4 *Insurance Contracts*. PFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

The Standard is effective for annual reporting periods beginning on or after January 1, 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the

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modified retrospective approach or the fair value approach is applied. An exposure draft *Amendments to IFRS 17* addresses concerns and implementation challenges that were identified after IFRS 17 was published. One of the main changes proposed is the deferral of the date of initial application of IFRS 17 by one year to annual periods beginning on or after 1 January 2022.

The Financial Reporting Standards Council (FRSC) and the SEC have approved the adoption of the Standard in the Philippines beginning January 1, 2021 as PFRS 17. The Philippine Insurance Commission (IC) however approved to defer the implementation of PFRS 17 to January 1, 2023 citing the need for additional period of time to address issues related to resources, education and taxation, among other reasons. (Ref. IC Circular Letter No. 2018-69, dated December 28, 2018.) The Bank does not anticipate any effect on its operations from the adoption of PFRS 17.

PFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an

Investor and its Associate or Joint Venture

The amendments to PFRS 10 and PAS/IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The Philippine FRSC has not yet adopted the amendments for Philippine use.

The management and the Board of Directors of the Bank, however, do not anticipate that the application of these amendments may have an impact on the Bank's financial statements in future periods should such transactions arise.

Amendments to PFRS 3 Definition of a 'Business'

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of

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whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

Amendments to PAS/IAS 1 and PAS/IAS 8 Definition of 'Material'

The amendments are intended to make the definition of material in PAS/IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in PFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in PAS/IAS 8 has been replaced by a reference to the definition of material in PAS/IAS 1. In addition, the IASB amended other Standards and the *Conceptual Framework* that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

Amendments to References to the Conceptual Framework in PFRS Standards

Together with the revised *Conceptual Framework*, which became effective upon publication on 29 March 2018, the IASB has also issued *Amendments to References to the* Conceptual Framework in *IFRS Standards*. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC *Framework* adopted by the IASB in 2001, the IASB *Framework* of 2010, or the new revised *Framework* of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

The Philippine FRSC has not yet adopted the amendments for Philippine use. The management and the Board of Directors of the Bank, however, do not anticipate that the application of these amendments may have an impact on the Bank's financial statements in future periods should such transactions arise.

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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 the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

Cash and Cash Equivalents

Cash and cash equivalents substantially consist of cash on hand and other cash items, amounts due from BSP and other banks that are known amounts of cash with maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value. These are carried in the books at cost, which approximates market.

Financial Instruments

Financial assets and financial liabilities are recognized in the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of

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the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial Assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification of Financial Assets

Debt instruments that meet the following conditions are measured subsequently at amortized cost: (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI): (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Bank may make the following irrevocable election/designation at initial recognition of a financial asset: (a) the Bank may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met [see (iii) below]; and (b) the Bank may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch [see (iv) below].

(i) Amortized Cost and Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

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For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below).

For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Bank recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

(ii) *Debt Instruments Classified as at FVTOCI*

The corporate bonds held by the Bank are classified as at FVTOCI. The corporate bonds are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these corporate bonds as a result of foreign exchange gains and losses (see below), impairment gains or losses (see below), and interest income calculated using the effective interest method (see (i) above) are recognized in profit or loss.

The amounts that are recognized in profit or loss are the same as the amounts that would have been recognized in profit or loss if these corporate bonds had been measured at amortized cost. All other changes in the carrying amount of these corporate bonds are recognized in other

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comprehensive income and accumulated under the heading of investments revaluation reserve. When these corporate bonds are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

(iii) *Equity Instruments Designated as at FVTOCI*

On initial recognition, the Bank may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

A financial asset is held for trading if: (1) it has been acquired principally for the purpose of selling it in the near term; or (2) on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has evidence of a recent actual pattern of short-term profit-taking; or (3) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss in accordance with PFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment.

(iv) *Financial Assets at FVTPL*

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI [see (i) to (iii) above] are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Bank designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition [see (iii) above].

- Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria [see (i) and (ii) above] are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Bank has not designated any debt instruments as at FVTPL.

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Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship (the Bank has no hedge investments).The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'other services and other income' line item. Fair value is determined in the manner described the Bank's significant accounting policies.

Impairment of Financial Assets

The Bank recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVPL, loans and receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Bank always recognizes lifetime ECL (expected credit losses) for loans and receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Bank's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Bank recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Bank measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) Significant Increase in Credit Risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Bank's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Bank's core operations.

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In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- Significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost;

- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- An actual or expected significant deterioration in the operating results of the debtor;

- Significant increases in credit risk on other financial instruments of the same debtor; and

- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Bank presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Bank has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Bank assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if: (1) the financial instrument has a low risk of default; (2) the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and (3) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Bank considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there are no past due amounts.

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The Bank regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) *Definition of Default*

The Bank considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable: (1) when there is a breach of financial covenants by the debtor; or (2) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Bank, in full (without taking into account any collateral held by the Bank).

Irrespective of the above analysis, the Bank considers that default has occurred when a financial asset is more than 90 days past due unless the Bank has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) *Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events: (a) significant financial difficulty of the issuer or the borrower; (b) a breach of contract, such as a default or past due event (see (ii) above); (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or (e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) *Write-Off Policy*

The Bank writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Bank's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

(v) *Measurement and Recognition of Expected Credit Losses (ECL)*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date

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determined based on historical trend, the Bank's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Bank in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with PFRS 16.

For a financial guarantee contract, as the Bank is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Bank expects to receive from the holder, the debtor or any other party.

If the Bank has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Bank measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which the simplified approach was used.

The Bank recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI (if any), for which the loss allowance is recognized in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

Derecognition of Financial Assets

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in an equity instrument which the Bank has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously

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accumulated in the investments revaluation reserve is not reclassified to profit or loss but is transferred to retained earnings.

Financial Liabilities and Equity

Classification as Debt or Equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Financial Liabilities

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL. However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Bank, are measured in accordance with the specific accounting policies set out below.

Financial Liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) designated as at FVTPL.

A financial liability is classified as held for trading if: (a) it has been acquired principally for the purpose of repurchasing it in the near term; or (b) on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or (c) it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if: (1) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or (2) the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or (3) it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

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Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other services and other income' line item (Note 16) in profit or loss.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Gains or losses on financial guarantee contracts issued by the Bank that are designated by the Bank as at FVTPL are recognized in profit or loss.

Financial Liabilities Measured Subsequently at Amortized Cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

Derecognition of Financial Liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Bank exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid

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net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification is recognized in profit or loss as the modification gain or loss within other gains and losses.

Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment are carried at cost less accumulated depreciation. Such cost includes the cost of replacing part of such bank premises, furniture, fixtures and equipment when that cost is incurred, if the recognition criteria are met. Interests incurred on borrowed funds used to finance the construction of properties during the construction period are capitalized. Other borrowing costs are expensed.

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

(a) Buildings, 25 years,
(b) Furniture, fixtures and equipment, 5 to 10 years,
(c) Transportation equipment, 3 to 7 years,
(d) Leasehold rights and improvement, over the estimated useful lives of the improvements or the term of the lease, whichever is shorter, and
(e) Land is not depreciated.

The carrying values of bank premises, furniture, fixtures and equipment are reviewed for impairment when changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of bank premises, furniture, fixtures and equipment is the greater of net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's-length transaction.

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

Investment Properties

The Bank's investment properties pertain to real and other properties acquired (ROPA), which are real and other properties, other than those used for banking purposes or held for investment. These properties were acquired by the Bank in settlement of loans through foreclosure or dation in payment and/or for other reasons, whose carrying amount will be recovered principally through a sale transaction.

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ROPAs are booked initially at the carrying amount of the loan (i.e., outstanding loan balance adjusted for any unamortized premium or discount less allowance for credit losses computed based on PFRS 9 provisioning

requirements, which take into account the fair value of the collateral) plus booked accrued interest less allowance for credit losses (computed based on PFRS 9 provisioning requirements) plus transaction costs incurred upon acquisition (such as non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase of the acquired real estate property). If the carrying amount of ROPA exceeds ₱5.0 million, the appraisal of the foreclosed/purchased asset should be conducted by an independent appraiser acceptable to the BSP.

The carrying amount of ROPA are allocated to land, building, other non-financial assets and financial assets (e.g., receivables from third party or equity interest in an entity) based on their fair values, which allocated carrying amounts shall become their initial costs.

The non-financial assets portion of ROPA shall remain in ROPA and shall be accounted for as follows:

(1) Land and buildings are accounted for using the cost model under PAS/IAS 40 *Investment Property*;

(2) Other non-financial assets are accounted for using the cost model under PAS/IAS 16 *Property Plant and Equipment*;

(3) Buildings and other non-financial assets are depreciated over the remaining useful life of the assets, which shall not exceed ten (10) years and three (3) years from the date of acquisition, respectively; and

(4) Land, buildings and other non-financial assets are subject to the impairment provisions of PAS/IAS 36 *Impairment of Assets.*

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

Investment properties are derecognized when they have either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from their disposal. Any gain or loss on derecognition of an investment property is recognized in the statement of profit or loss in the year of derecognition.

Other Assets

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

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Impairment of Non-Financial Assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Shareholders' Equity

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

Surplus reserves comprises mainly of the appropriation from surplus and undivided profits (retained earnings) for the retirement of preferred stock to provide for the reacquisition and cancellation of a Bank's preferred stock. Upon complete retirement of the preferred stock, the account will cease to exist. Any excess of retirement premium not fully absorbed by the paid-in capital accounts will be charged surplus and undivided profits.

Surplus and undivided profits include all current and prior period results of operations as disclosed in the statement of profit or loss, less appropriated surplus and dividends declared.

Revenue and Cost Recognition

The Bank's revenue is derived substantially from banking business and related activities and comprises net interest income and non-interest income. Income is recognized on an accrual basis in the period in which it accrues. Management has determined that the revenue from interest on loans are within the scope of PFRS 9 while the income from non-interest related activities are within the scope of PFRS 15.

The following specific criteria are the bases used in recognizing revenue:

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Under PFRS 9

(a) Interest income and interest expenses are recognized in profit or loss for all financial assets or liabilities using the effective interest method on the basis of the cost of the individual financial instrument. The effective interest method is a method of calculating the amortized costs of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

    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 and points paid or received between parties to the contract that are 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 the future cash flows for the purpose of measuring the impairment loss.

(b) Interest expense on deposit liabilities are recognized based on the accrual method of accounting, using the effective interest method which is the rate that exactly discounts estimated future cash flows through the expected life of the interest-bearing financial instruments to the net carrying amount of the financial liability.

(c) Income from investments in debt securities held to collect contractual cash flows (rather than to sell the instrument prior to its contractual maturity to realize its fair value changes) are recognized at amortized cost, with interest income recognized at the effective interest rate.

Under PFRS 15

The Bank recognizes revenue from contracts with customers at an amount that reflects the consideration to which the Bank is expected to be entitled in exchange for transferring goods or services to a customer.

For each contract with a customer, the Bank:

(1) Identifies the contract with a customer;
(2) Identifies the performance obligations in the contract;
(3) Determines the transaction price which takes into account estimates of variable consideration and the time value of money;
(4) Allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and
(5) Recognizes revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

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Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognized as deferred revenue in the form of a separate refund liability.

The Bank recognizes income from other sources as follows:

(a) Application fees and commissions are generally recognized when earned over the term of the credit lines granted to each borrower. Other non-finance charges on loans and penalties on delinquent accounts are recognized are recognized as the related services are performed.

(b) Income from assets sold or exchanged is recognized when the title to the assets is transferred to the buyer or when collectability of the entire sales price is reasonably assured. This is included in profit or loss as part of Application Fees and Other Income.

Cost and Expenses

Costs and expenses are recognized in the statement of profit or loss when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen which can be measured reliably.

Costs and expenses are recognized in the statement of profit or loss : i) on the basis of a direct association between the cost incurred and the earnings of specific items of income; ii) on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or iii) immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial position as an asset.

Operating expense include administrative and other operating expenses representing the costs directly associated with the generation of revenue and cost of administering the business, and these are expensed as incurred.

Compensation and Benefits Expense

Employee benefits are all forms of consideration given by the Bank in exchange for services rendered by employees or for the termination of their employments in the Bank. The Bank recognizes: (a) a

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liability when an employee has provided service in exchange for employee benefits to be paid in the future; and (b) an expense when the Bank consumes the economic benefit arising from the service provided by an employee in exchange for employee benefits. The following represent the accounting followed by the Bank for all types of employee benefits, except share-based payment, to which there is none.

- *SHORT-TERM EMPLOYEE BENEFITS*
  Short-term employee benefits are those expected to be settled wholly before twelve months after the end of the annual reporting period during which employee services are rendered, but do not include termination benefits. These benefits include wages, salaries, profit-sharing and bonuses (if there are any) and non-monetary benefits paid to current employees. These are recognized when the employee has rendered the service and are measured at the undiscounted amount of benefits expected to be paid in exchange for that service.

  The benefits also include compensated absences which are recognized for the number of paid leave days (including holiday entitlement) remaining at the reporting date. The expected cost of short-term compensated absences is recognized as the employees render service that increases their entitlement or, in the case of non-accumulating absences, when the absences occur, and includes any additional amounts the Bank expects to pay as a result of unused entitlements at the end of the period. The amounts recognized are included in Other Liabilities account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

- *PROFIT-SHARING AND BONUS PAYMENTS (IF ANY)*
  The Bank recognizes the expected cost of profit-sharing and bonus payments when, and only when, it has a legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the expected obligation can be made. Profit-sharing agreements are normally covered during the hiring of services of selected officers and are based on certain conditions and parameters that are measurable. Such agreements are normally approved and authorized by the Board of Directors. On the other hand, declarations of bonuses to officers and employees are the sole responsibility of the Board of Directors. As a matter of policy, the Bank does not declare and accrue bonuses unless approved and authorized for release by the Board of Directors.

- *POST-EMPLOYMENT BENEFIT PLANS*
  Post-employment benefit plans that are provided to employees only cover their retirement benefits, which are paid in lump sum payments at the time of their retirements. The retirement benefits are provided to employees through a defined benefit plan. A defined benefit plan is a retirement plan that defines an amount of retirement benefit an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for the benefits of the retirement plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's defined benefit retirement plan covers all regular full-time employees.
- *TERMINATION BENEFITS*

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Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than12 months after the statement of financial position date are discounted to present value.

Retirement Benefits

The Bank operates a defined benefit retirement plan which requires contribution to be made to a separately administered fund. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the reporting date reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. The defined benefit costs comprise the following: (a) service cost, (b) net interest on the net defined benefit liability or asset, and (c) remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the statement of profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by the Consulting Actuary.

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

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

Plan assets are assets that are held by a trustee bank intended for retirement. Plan assets are not available to the creditors of the Bank, nor can they be paid directly to the Bank. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk

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associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Leases

The Bank has applied PFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under PAS/IAS 17 and IFRIC 4.

Policy Applicable from January 1, 2019

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in PFRS 16. This policy is applied to contracts entered into, on or after 1 January 2019.

Leases – The Bank as Lessee

The Bank's leases substantially involve the use of office spaces that are used for its branch offices.

The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these low value leases, the Bank recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Bank uses its incremental borrowing rate. For purposes of discounting, the Bank is using the average borrowing rate of its bills payable and time deposits.

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

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and

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- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Bank did not make any such adjustments during the period presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under PAS/IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is

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depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as part of the property and equipment account in the statement of financial position.

The Bank applies PAS/IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Bank Premises, Furniture, Fixtures and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Rent" in the statement of profit or loss. (See Note 16.)

As a practical expedient, PFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Bank has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Leases – The Bank as Lessor

Leases, for which the Bank is a lessor, are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Bank is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. The Bank is not a lessor of properties.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

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When a contract includes both lease and non-lease components, the Bank applies PFRS 15 to allocate the consideration under the contract to each component.

Policy Applicable Before January 1, 2019

For contracts entered into before 1 January 2019, the Bank determined whether an arrangement is, or contains a lease based on the substance of the arrangements. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys the right to use the asset. The Bank is a lessee of the building it uses as its Head Office.

The Bank accounts for this lease as follows:

- Leases which transfer to the Bank substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the statements of financial position at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the leased liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are directly charged against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

- Leases which do not transfer to the Bank substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the statement of profit or loss on a straight-line basis over the lease term. The existing leases of all branch offices are treated as operating leases.

Income Taxes

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

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except: (a) where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (b) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from excess minimum corporate income tax (MCIT) and unused net operating loss carry

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over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused NOLCO can be utilized except: (a) where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (b) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the period when the asset is realized, or the liability is settled, based on tax rate (and tax laws) that have been enacted or substantively enacted at the statement of financial position date. Income tax relating to items recognized directly in equity is recognized in equity and not in the statement of profit or loss.

Earnings per Share

Basic earnings per share (EPS) is computed by dividing the profit for the year attributable to common shareholders (net income for the period less dividends on convertible redeemable preferred shares) by the weighted average number of common shares issued and outstanding during the year and adjusted to give retroactive effect to any stock dividends declared during the period.

Diluted EPS is computed by dividing the net income for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year adjusted for the effects of dilutive convertible redeemable preferred shares. Diluted EPS assumes the conversion of the outstanding preferred shares. When the effect of the conversion of such preferred shares is anti-dilutive, no diluted EPS is presented.

Contingencies

A contingency arises when there is a situation for which the outcome is uncertain, and which should be resolved in the future, possibly creating a loss. The accounting for a contingency is essentially to recognize only those losses that are probable and for which a loss amount can be reasonably estimated. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable. Contingent liabilities are not recognized either, but these are generally disclosed unless the possibility of an outflow of resources is remote.

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Provisions and Contingent Liabilities

Provisions, if any, are recognized when the Bank has legal or constructive obligations as a result of a past event: it is probable that an outflow of resources will be required to settle the obligation and estimate can be made of the amount obligation. Provisions are recognized when present obligation will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of related provision. Provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate. In those cases where the possible outflow of the economic resources as a result of present obligation is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Probable inflows of economic benefits that do not yet meet the recognition criteria of the asset are considered contingent assets, hence, are not recognized in the financial statements.

Events After Reporting Date

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

Note 3

Significant Accounting Judgment and Estimates

In applying the Bank's accounting policies, which are described in Note 2, *Summary of Significant Accounting Policies*, the management of the Bank are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognized and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical Judgements in Applying the Bank's Accounting Policies

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The following are the critical judgements, apart from those involving estimations (which are presented separately below), that the management of the Bank have made in the process of applying the accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Business Model Assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated.

The Bank monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

Significant Increase in Credit Risk

Expected credit losses (ECL) are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. PFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information.

Key Sources of Estimation Uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Fair Value Measurements

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible; but this is not always available. In that case, management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

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Estimating Useful Lives of Bank Premises, Furniture, Fixture and Equipment

The Bank reviews annually the estimated useful lives of its bank premises, furniture, fixture and equipment based on expected asset utilization. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of these properties would increase recorded depreciation and amortization expense and decrease the related asset accounts.

Impairment of Non-financial Assets

The Bank assesses the impairment of its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. For impairment loss on specific asset, the recoverable amount represents the net selling price. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Bank is required to make estimates and assumptions that can materially affect the Bank's financial statements.

Retirement Benefits

The determination of the Bank's obligation and cost for pension and other employee benefits is dependent on the selection of certain assumptions used by management in calculating such amounts. While the Bank believes that the assumptions used are reasonable and appropriate, significant differences in the actual experience or significant changes in assumptions may materially affect employee benefit obligations.

Realizable Amount of Deferred Tax Assets

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.

Note 4

Cash and Cash Equivalents

This account consists of the following:

December 31	**2019**	2018

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Due from Bangko Sentral ng Pilipinas	**₱249,530,385**	₱120,478,385
Due from other banks	**111,752,216**	118,245,207
Cash and other cash items	**50,918,601**	55,811,082
	₱412,201,202	₱294,534,674

Due from other banks earn annual interest ranging from 0.125% to 0.75% in 2019 and 2018. Short-term deposits are made for varying periods up to three months depending on the immediate cash requirements of the Bank, and earn interest ranging from 0.50% to 4.30% in 2019 and 2018. Interest income from bank deposits amounted to ₱2,263,157 and ₱3,784,744 in 2019 and 2018.

Due from other banks also includes restricted time deposits used to secure the Bank's bills payable with the following banks:

December 31,	**2019**	2018
Land Bank of the Philippines (LBP)	**₱5,297,227**	₱15,993,821
Development Bank of the Philippines (DBP)	**–**	2,539,660
	₱5,297,227	₱18,533,481

Note 5

Loans and Other Receivables

The loans and other receivables consist of the following:

(Please see table next page.)

December 31	**2019**	2018
Loans receivable	**₱1,602,713,580**	₱1,754,202,827
Other receivables	**113,571,945**	165,900,575
Total	**1,716,285,525**	1,920,103,402
Allowance for expected credit losses	**(182,783,423)**	(189,783,423)
Unearned interest and discounts	**(11,330,536)**	(13,193,682)
Net	**₱1,522,171,566**	₱1,717,126,297

Breakdown of Loans Receivable

December 31,	**2019**	%	2018	%
Agricultural	**₱180,856,981**	11	₱152,266,899	9

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Commercial	**1,351,390,323**	84	1,531,132,292	87
Others	**70,466,276**	5	70,803,636	4
Total	**1,602,713,580**	100	1,754,202,827	100
Allowance for expected credit losses	**(177,862,410)**	(13)	(184,862,410)	(11)
Unearned interest and discounts	**(11,330,536)**	(1)	(13,193,682)	(1)
Net	**₱1,413,520,634**	86	₱1,556,146,735	88

These loans bear annual interest rates ranging from 8% to 30% per annum collectible over a period of 6 months to 5 years. Income on loans recognized in the statement of profit or loss amounted ₱ 222,726,878 in 2019 and ₱232,957,478 in 2018.

Maturity Profile of Loans Receivable

December 31,	**2019**	**%**	2018	%
Due more than 12 months	**₱1,321,313,083**	98	₱1,227,058,745	70
Due within 12 months	**281,400,497**	2	527,144,082	30
	₱1,602,713,580	100	₱1,754,202,827	100

Breakdown by Type of Security

December 31,	**2019**	**%**	2018	%
Unsecured	**₱1,176,953,369**	**73**	₱1,167,149,674	67
Secured	**425,760,211**	**27**	587,053,153	33
	₱1,602,713,580	**100**	₱1,754,202,827	100

About ₱230 million and ₱497 million as of December 31, 2019 and 2018, respectively, have been pledged as security to the bills payable of the Bank. (See Note 11.)

Breakdown by Concentration of Credit

December 31,	**2019**	**%**	2018	%
Agricultural	**₱111,074,846**	7	₱102,066,966	6
Wholesale and retail trade	**308,263,643**	19	311,167,224	18
Others	**1,183,375,091**	74	1,340,968,637	76
	₱1,602,713,580	100	₱1,754,202,827	100

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or economic sector exceeds 30% of total loan portfolio.

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Breakdown by Age of Accounts

December 31, 2019	*Current*	*Past Due*	***Total***
Agricultural	₱167,878,127	₱12,978,854	**₱180,856,981**
Commercial	1,048,069,050	303,321,273	1,351,390,323
Others	–	70,466,276	**70,466,276**
	₱1,215,947,177	₱386,766,403	**₱1,602,713,580**
	74%	26%	**100%**
December 31, 2018			
Agricultural	₱93,035,682	₱59,231,217	**₱152,266,899**
Commercial	1,312,949,321	218,182,971	**1,531,132,292**
Others	34,761,456	36,042,180	**70,803,636**
	₱1,440,746,459	₱313,456,368	**₱1,754,202,827**
	76%	24%	**100%**

Portion of the past due accounts are covered with real estate mortgages, which could be foreclosed to reduce possible losses from non-collection.

As at December 31, 2019 and 2018, nonperforming loans (NPLs) based on Section 304 of the MORB, and as reported to the BSP amounted to ₱386,766,403 and ₱313,456,368, respectively. Under Section 304 of the MORB, loans are considered nonperforming, *'even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered nonperforming 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.'*

Allowance for Expected Credit Losses (ECL)

The accounts were subjected to impairment testing using the expected credit loss model by considering possible defaults for the next 12 months (12-month ECL) and expected credit losses for the entire remaining life of the receivables (lifetime ECL).

The recorded ECL have been determined from the gap analysis performed by the Bank on its accounts which are in accordance with the MORB.

A 12-month ECL was provided at 1% of on all current accounts (general loan-loss provisions) and ECL at graduated rates for accounts classified as past due as follows:

I. Individually Assessed Loans and Other Credit Accommodations

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A. For Unsecured Loans and Other Credit Accommodations

No. of Days Unpaid/with Missed Payments	*Classification*	*ECL Rate*
31-90 days	Substandard	10%
91-120 days	Substandard	25%
121-180 days	Doubtful	50%
181 days and over	Loss	100%

B. For Secured Loans and Other Credit Accommodations

31-180 days	Substandard	10%
181-365 days	Substandard	25%
Over 1 year to 5 years	Doubtful	50%
Over 5 years	Loss	100%

C. For Loans and Other Credit Exposures (Classified Accounts)

Especially Mentioned	5%
Substandard – Secured	10%
Substandard – Unsecured	25%
Doubtful	50%
Loss	100%

II. Collectively Assessed Loans and Other Credit Exposures

D. For Unsecured Loans and Other Credit Accommodations

No. of Days Unpaid/with Missed Payments	*Classification*	*ECL Rate*
1-30 days	LEM	2%
31-60 days	Substandard	25%
61-90 days	Doubtful	50%
Over 90 days	Loss	100%

E. For Secured Loans and Other Credit Accommodations

31-90 days	Substandard	10%
91-120 days	Substandard	15%
121-360 days	Doubtful	25%
361 days to 5 years	Loss	50%

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Over 5 years	Loss	100%

Roll-Forward Analyses of the Allowance for ECL

The movements of the allowance for expected credit losses are as follows:

December 31,	**2019**	2018
Opening balances, as originally stated	**₱184,862,410**	₱133,996,173
Add additional allowance (see below)	**–**	57,291,292
Opening balances, as restated	**184,862,410**	191,287,465
Write-off of loans	**(7,000,000)**	(6,425,055)
Closing balances as restated	**₱177,862,410**	₱184,862,410

In accordance with the Bank's Loan Loss Estimation Methodology developed in accordance with MORB, the Bank determined that the required additional allowance for expected credit losses (ECL) as of December 31, 2019 should be ₱150,413,241. The Bank however did not book the required ECL since portion of the required ECL will be offset against the unamortized balance of the relief provided by the BSP to the Bank amounting ₱63.2 million, as of December 31, 2019, which the Bank was allowed to book until 2021. Considering offsetting the BSP relief, the Bank's allowance for expected credit losses on loans and discounts is still deficient by ₱87,213,241 as of December 31, 2019.

Details of Other Receivables

These accounts consist of the following:

December 31,	**2019**	2018
Accrued interest receivable	**₱91,300,685**	₱107,310,640
Accounts receivable	**15,582,594**	14,919,996
Sales contract receivable	**6,688,666**	4,748,993
Claims on loans receivable	**–**	38,920,946
	113,571,945	165,900,575
Allowance for expected credit losses	**(4,921,013)**	(4,921,013)

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Net	**₱108,650,932**	₱160,979,562

Composition of Accounts Receivable

December 31,	**2019**	2018
Receivable from resigned employees	**₱4,281,363**	₱3,055,988
Borrowers under litigation	**4,221,692**	2,459,559
Receivable from sale of bank assets	**3,500,000**	–
Advances to contractors	**1,974,486**	2,007,819
Advances to officers and employees	**676,637**	307,705
Receivable from Bancnet	**525,210**	453,804
Advances for SSS maternity/sickness	**138,584**	312,888
Receivable from insurance	**85,254**	–
Uncleared PDC for loan collection	**–**	2,348,337
Subscription receivable	**–**	3,296,200
Other receivables	**179,368**	677,696
	₱15,582,594	₱14,919,996

Allowance for Expected Credit Losses

The accounts were subjected to impairment testing using the expected credit loss model by considering possible defaults for the next 12 months (12-month ECL) and expected credit losses for the entire remaining life of the receivables (lifetime ECL).

The movements of the allowance for expected credit losses are as follows:

December 31,	**2019**	2018
Opening balances	**₱4,921,013**	₱4,564,546
Additional provisions during the year	**–**	356,467
Closing balances	**₱4,921,013**	₱4,921,013

Note 6

Investments in Debt Securities – At Amortized Cost

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This account consists of the following:

December 31	**2019**	2018
Retail treasury bonds, at face value	**₱14,000,000**	₱14,000,000
Retail treasury bonds, at discounts on its face value	**24,305,317**	19,154,412
	₱38,305,317	₱33,154,412

Investment income earned amounted to ₱1,043,133 in 2019 and ₱940,000 in 2018.

Management has determined that these investments have not been impaired during the year.

Retail Treasury Bonds, at Face Value

The retail treasury bonds purchased through Land Bank of the Philippines (LBP), totaling ₱14,000,000, have coupon rates ranging from 3.25% to 4.63% and will mature on the following dates: September 9, 2026, October 4, 2020, and March 12, 2022.

Retail Treasury Bonds, at Discounts on its Face Value

The treasury bonds represent 4 to 6-year retail treasury notes which are issued at discount on its face value with interest rate at 3.25% per annum payable quarterly. The bond will mature on the following dates: August 15, 2023 and October 7, 2024.

The analysis of this account is as follows:

December 31,	**2019**	2018
Face value	**₱24,651,975**	₱19,344,296
Net discount	**(346,658)**	(189,884)
Carrying Amount	**₱24,305,317**	₱19,154,412

Note 7

Bank Premises, Furniture, Fixtures and Equipment and Right-of-Use Asset

Bank premises, furniture, fixtures and equipment and right-of-use asset, which are stated at cost, consist of the following:

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December 31	2019	2018
Land	**₱17,348,890**	₱19,153,630
Building	**45,626,065**	50,795,178
Furniture, fixtures and equipment	**85,491,175**	83,084,913
Transportation equipment	**22,370,958**	28,591,895
Leasehold improvements	**21,309,496**	21,119,552
Total	**192,146,584**	202,745,168
Accumulated depreciation	**(117,769,696)**	(117,812,149)
Net book value	**74,376,888**	84,933,019

Right-of-Use Assets		
Right-of-use assets	**13,840,401**	–
Accumulated depreciation	**(2,912,322)**	–
Net book value	**10,928,079**	–
Total Net Book Value	**₱85,304,967**	₱84,933,019

Reconciliation of Carrying Amount

December 31, 2019	*Opening Balance*	*Additions*	*Disposal/Adjustment*	***Closing Balance***
Cost				
Land	₱19,153,630	₱–	(₱1,804,740)	**₱17,348,890**
Building	50,795,178	717,327	(5,886,440)	**45,626,065**
Furniture, fixtures and equipment	83,084,913	3,060,080	(653,818)	**85,491,175**
Transportation equipment	28,591,895	676,065	(6,897,002)	**22,370,958**
Leasehold improvements	21,119,552	189,944	–	**21,309,496**
Total	202,745,168	4,643,416	(15,242,000)	**192,146,584**
Accumulated Depreciation				
Building	(19,921,829)	(1,753,562)	3,178,235	**(18,497,156)**

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Furniture, fixtures and equipment	(58,735,038)	(6,096,708)	914,360	**(63,917,386)**
Transportation equipment	(19,453,659)	(1,715,306)	6,364,915	**(14,804,050)**
Leasehold improvements	(19,701,623)	(849,481)	–	**(20,551,104)**
Total	(117,812,149)	(10,415,057)	10,457,510	**(117,769,696)**
Net Book Value	₱84,933,019	(₱5,771,641)	(₱4,784,490)	**₱74,376,888**
Right-of-Use Assets				
Right-of-use assets	–	13,840,401	–	**13,840,401**
Less accumulated depreciation	–	2,912,322	–	**2,912,322**
Net Book Value	–	10,928,079	–	**10,928,079**
Total Net Book Value	₱84,933,019	₱5,156,438	(₱4,784,490)	**₱85,304,967**

December 31, 2019	*Opening Balance*	*Additions*	*Disposal/Adjustment*	***Closing Balance***
Cost				
Land	₱19,153,630	₱–	₱–	₱19,153,630
Building	50,735,031	60,147	–	50,795,178
Furniture, fixtures and equipment	73,420,317	10,254,253	(589,657)	83,084,913
Transportation equipment	27,593,968	1,928,372	(930,445)	28,591,895
Leasehold improvements	19,748,553	1,370,999	–	21,119,552
Total	190,651,499	13,613,771	(1,520,102)	202,745,168
Accumulated Depreciation				
Building	(17,982,429)	(1,939,400)	–	(19,921,829)
Furniture, fixtures and equipment	(54,006,864)	(5,218,138)	489,964	(58,735,038)
Transportation equipment	(17,826,025)	(2,435,178)	807,544	(19,453,659)
Leasehold improvements	(18,538,005)	(1,163,618)	–	(19,701,623)
Total	(108,353,323)	(10,756,334)	1,297,508	(117,812,149)
Net Book Value	₱82,298,176	₱2,857,437	(₱222,594)	₱84,933,019

Leases

The Bank has leases for buildings and spaces occupied by its branches dispersed in strategic locations

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within Mindanao and Visayas. With the exception of short-term leases and leases of low value assets, the leases are reflected on the statement of financial position collectively as right-of-use assets and lease liabilities. Variable lease payments which do not depend on an index or a rate are excluded from the initial measurement of the lease liabilities and assets.

The Bank discounted the future lease payments at 5.8% per annum, the incremental borrowing rate (IBR) based on the average borrowing rate of the Bank's existing loans payable to a Government bank. (See Note 11.). The observable rate was no longer adjusted for credit risk and other factors as management determined that any adjustments are immaterial. The Bank applied a single discount rate to the portfolio of leases as it considers the leases similar in class of underlying assets in a similar economic environment.

The Bank classifies its right-of-use assets to its property and equipment at ₱13,840,401, and recognized lease liability of ₱11,254,332, interest expense of ₱516,838 and depreciation expense of ₱2,912,322. Total lease payments (including interest) amounted ₱3,102,907 in 2019, the first year of adoption of PFRS 16.

Lease liabilities are presented in the statement of financial position as follows:

December 31,	**2019**	2018
Current	**₱4,291,160**	NA
Non-current	**6,963,172**	NA
	₱11,254,332	NA

Each lease imposes a restriction that, unless there is a written approval of the lessor to sublet the asset to another party, the right-of-use asset can only be used by the Bank. The lease contains an option to extend the lease for a further term under such terms and conditions as may be mutually agreed upon by the parties. The Bank is prohibited from selling or pledging the underlying leased assets as security.

For leases over office spaces premises, the Bank must keep the properties in good states of repair and return the properties in their original condition at the end of the lease. Further, the Bank must insure items of property and equipment and incur maintenance fees on such items in accordance with the lease contracts.

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Note 8

Investment Properties

This account represents land and buildings which were acquired in settlement of loans and are held for capital appreciation. The land consists of several pieces of lots located within Mindanao recorded in the books at the total loan outstanding at the time of acquisition. These properties have estimated market values of ₱197 million at the end of 2019 and ₱161.5 million at the end of 2018.

The recorded amount consists of the following details:

December 31,	**2019**	2018
Cost		
Opening balances	**₱96,837,724**	₱67,562,530
Additions	**42,439,144**	40,538,762
Disposals/reclassification	**(9,597,761)**	(11,263,568)
Closing balances	**129,679,107**	96,837,724
Accumulated Depreciation		
Opening balances	**(2,525,954)**	(548,485)
Additions	**(2,966,515)**	(2,341,222)
Disposals/adjustments	**7,138**	363,753
Closing balances	**(5,485,331)**	(2,525,954)
Allowance for Impairment Losses		
Opening balances	**(1,496,677)**	(1,496,677)
Provision for impairment losses	**–**	–
Closing balances	**(1,496,677)**	(1,496,677)
Net Book Value	**₱122,697,099**	₱92,815,093

Income from assets acquired recognized in the statements of profits or loss amounted to ₱ 2,640,720 in 2019 and ₱7,153,807 in 2018. Total depreciation charged to operations amounted to ₱ 2,966,515 and ₱2,341,222 for the years ended December 31, 2019 and December 31, 2018, respectively. The Bank management believes the investment properties were not further impaired as of December 31, 2019

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Note 9

Other Assets

The composition of this account is shown below:

December 31,	**2019**	2018
Deferred tax assets (*Note 19*)	**₱59,464,666**	₱59,160,871
Computerized program and product development costs	**15,706,130**	23,221,986
Prepaid expenses	**4,217,043**	5,025,734
Stationery and office supplies	**2,146,379**	2,265,301
Miscellaneous assets	**3,407,983**	3,742,139
	₱84,942,201	₱93,416,031

The computerized program and product development costs represent the cumulative costs of developing the banking software that is used in operations and are amortized over ten (10) years. The amortization incurred amounted ₱1,897,922 in 2019 and ₱3,559,033 in 2018 lodged under 'Information and Technology Expenses'.

Prepaid expenses represent expenses such as: PDIC insurance, prepaid rentals, employees' uniforms, and other expenses paid in advance but are to be consumed within one year. Subsequently, these are charged to profit or loss as they are consumed in operations or expire with the passage of time.

Note 10

Deposit Liabilities

This account is composed of the following:

December 31,	**2019**	2018
Savings and demand deposits	**₱816,789,756**	₱766,506,747
Time deposits	**854,040,157**	709,161,706
	₱1,670,829,913	₱1,475,668,453

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The deposit liabilities earn annual fixed interest of 0.50% for savings accounts, and from 1.24% to 2.96% for time deposits. Total interest incurred amounted ₱48,566,603 in 2019 and ₱47,473,218 in 2018.

Maturity Profile of Time Deposits

December 31,	**2019**	2018
Six months to one year	**₱545,071,203**	₱188,874,213
More than one year	**308,968,954**	520,287,493
	₱854,040,157	₱709,161,706

Note 11

Bills Payable

This consists of the following bills payable to:

December 31,	**2019**	2018
Land Bank of the Philippines (LBP)	**₱176,040,786**	₱226,661,541
Philippine Business for Social Progress (PBSP)	**11,999,339**	44,978,836
Small Business Corporation (SBC)	**10,285,051**	27,431,219
Peoples Credit and Finance Corporation (PCFC)	**1,558,816**	13,695,043
Social Security System(SSS)	**269,176**	789,727
UCPB Savings Bank	**–**	121,250,000
Development Bank of the Philippines (DBP)	**–**	1,798,000
Total	**200,153,168**	436,604,366
Due in more than one year	**64,411,502**	293,101,866
Due within one year and below	**₱135,741,666**	₱143,502,500

Details of Bills Payable

The loan with Land Bank of the Philippines carries interest from 5.25% to 9.25% (subject to quarterly repricing) payable annually within one year to five years. The account with PBSP represents loan under a credit line with interest rate of 4.5% to 5.5% annually and are payable within two years. These bills payable are collateralized by assignment of sub-borrower's promissory notes. The accounts with

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SBC represent the balance of bills payable arising from rediscounting of loans with interest rates ranging from 4.0% to 4.5% annually and is payable from one to five years. The loan with UCPB Savings Bank bears interest ranging from 7.5% to 8% per annum payable quarterly or semi-annually and settled in full in 2019. The loan with DBP bears interest rates from 3.75% to 4%% annually payable within one year to two years, which was also settled in 2019.

The account with PCFC carries fixed interest rates of 5.5% and secured by the assignment of sub-borrowers' promissory notes, payable in four years from 2016. The account with Social Security system (SSS) represents loan under an omnibus line with interest at 2.75% to 6.25% per annum payable within three years. These bills payable are collateralized by assignment of sub-borrower's promissory notes.

The bills payable were secured by loans receivable amounting to ₱230 million and ₱497 million as of December 31, 2019 and 2018, respectively. (See Note 5.)

Total interest incurred on bills payable amounted ₱21,332,884 in 2019 and ₱26,297,016 in 2018.

Movements of the Accounts

December 31,	**2019**	2018
Opening balances	**₱436,604,366**	₱557,939,117
Additions	**109,115,000**	547,550,847
Payments	**(345,566,198)**	(668,885,598)
Closing balances	**₱200,153,168**	₱436,604,366

Note 12

Unsecured Subordinated Debt (USD)

This represents obligation to Land Bank of the Philippines (LBP) arising from the issuance of a 10-year unsecured subordinated debt (USD) denominated in local currency eligible as Tier 2 (supplementary) capital of the Bank, with the following terms and conditions, among others: (a) the Bank pays LBP semi-annual interest with interest rate of 9.65% per annum from April 1, 2009 to March 31, 2014 and 10% per annum from April 1, 2014 until maturity date on April 1, 2019; (b) the note does not constitute a deposit by Land Bank of the Philippines and is not insured by the PDIC; it shall not have priority claim, in respect of principal and coupon payments, in the event of winding-up of the Bank, and (c) the note cannot be terminated by LBP before maturity date. As of December 31, 2019, this account has already been paid by the Bank.

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Total interest incurred on USD amounted ₱1,250,000 in 2019 and ₱5 million in 2018.

Note 13

Other Liabilities

These liabilities consist of the following:

December 31	**2019**	2018
Redeemable preference shares *(Note 14)*	**₱51,566,900**	₱51,566,900
Accounts payable	**27,647,062**	21,550,736
Accrued interest *(Notes 11 and 12)*	**23,780,820**	27,423,793
Accrued expenses (2018 as restated) *(Notes 15 and 18)*	**9,456,986**	13,534,494
Retirement benefit obligation *(Note 17)*	**8,310,938**	5,772,661
Income tax payable *(Note 19)*	**1,311,929**	205,155
Other payables	**2,678,556**	2,252,827
	₱124,753,191	₱122,306,566

Accounts and other payables are non-interest bearing are generally on a 30 to 60-day term.

Other payables account includes lease payable pertaining to the acquisition of automatic teller machines (ATM).

Total interest incurred related to the acquisition of ATM amounted to ₱0 in 2019 and ₱26,901 in 2018.

Breakdown of Accounts Payable

December 31	**2019**	2018
Payable to Bancnet	**₱14,237,869**	₱10,156,740
Payable to insurance	**4,663,493**	3,774,129
Payable to clients	**2,505,742**	1,407,421
Payable to ROPA account	**1,436,328**	901,956
Payable to separated employees	**1,033,368**	652,506

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Documentary stamps	**746,548**	804,627
Deposits from borrowers for payment for mortgages	**462,985**	398,002
Accounts payable – suppliers	**460,604**	2,448,109
Payable to collecting agency	**344,470**	–
SSS pension and remittances	**248,860**	450,799
Payable to employees	**149,036**	–
Payable to Merchant Partners	**137,122**	–
Items in litigation	**115,594**	58,426
Payable to appraisers	**14,500**	80,800
Others	**1,090,543**	417,221
	₱27,647,062	₱21,550,736

Note 14

<u>Share Capital</u>

This account consists of the following:

December 31	**2019**	2018
Preference Shares A, ₱100 par value *(Note 13)*		
Government, non-voting and convertible, cumulative		
Authorized – 251,353 shares		
Issued and outstanding – 0 shares	**₱–**	₱–
Preference Shares B, ₱100 par value		
Private – redeemable non-voting and convertible		
Authorized – 1,150,000 shares		
Issued and outstanding – 515,669 in 2019 and 2018 *(Note 13)*	**–**	–
Ordinary (Common) Shares – ₱100 par value		
Authorized – 4,000,000 shares		
Issued and outstanding – 2,741,955 in 2019 and 2,516,726 in 2018	**274,195,500**	251,672,600

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	₱274,195,500	₱251,672,600

Nature of the Shares

The preference shares have the following rights, preferences, conditions and limitations:

(a) Preference Shares "A" are issued only against government investment in the capital stock of the Bank. The shares are non-voting, convertible to common shares and shall share in the dividend distributed from the date of issuance of the rate provided under Section 8 R.A. No. 7353 which dividend shall be cumulative. The shares have preference over common shares in the assets of the Bank in the event of liquidation. Per Memorandum of Agreement executed in 1992 between the Bank and government stockholder, the Bank has fixed obligation to redeem the shares on or before the 15th year from the date of conversion the preferred shares of stock still held by the government stockholder.

(b) Preference Shares "B" shall be issued only, after the creation of sinking fund for its redemption to qualified private persons, natural or juridical, and shall have preference over common stocks in the assets of the Bank in the event of liquidation and which sinking fund shall be affected by the transfer of free surplus to restricted surplus account and shall not be available for dividends. The shares are redeemable anytime at the option of the Bank after five years from date of issuance, non-voting and convertible and shall have preference as to dividends only as may be set by the Bank's BOD, but which should not however be in the absence of sufficient undivided profits, free surplus and approval of the BSP.

Presentation of Redeemable Preference Shares as Financial Liabilities

The Bank's preference shares are presently held by the Government and private shareholders, amounting ₱100,000 and ₱51,466,900, respectively, and are presented as part of 'Other Liabilities'. (See Note 13.)

The preference shares generally have the following features: (1) the holders of preferred shares have no voting rights but are granted preferred claim status after creditors' claims and other statutory preference claims on the liquidating assets of the Bank over the common shareholders, and (2) the holders of preferred shares are granted preferred dividend rights over common shareholders with a fixed dividend rate of nine percent (9%) net of tax payable yearly on a monthly basis, cumulative.

Because the shares are redeemable at the option of the holder and the Bank is obliged to pay fixed dividends monthly, the Bank treated the preference shares as a financial liability, in accordance with the advice of BSP.

Disclosures Required Under Revised SRC Rule 68 (2019 Version)

As at December 31, 2019, the Bank has a total of 63 shareholders with 60 shareholders owning 100 or more shares each of the Bank's share capital.

Compliance with Regulatory Requirements

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Under BSP Circular No. 688, Revised Risk-Based Capital Adequacy Framework for stand-alone thrift banks, rural banks and cooperative banks which took effect on January 1, 2012, the combined capital accounts of each bank should not be less than an amount equal to ten percent (10%) of its risk assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio to total equity excludes: (a) unbooked valuation reserves and other capital adjustments as may be required by the BSP; (b) total outstanding unsecured credit accommodations to directors, officers, stakeholders and related interests (DOSRI); (c) deferred tax asset or liability; and (d) other regulatory deductions.

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regulatory net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from Philippine Financial Reporting Standards (PFRSs) in some aspect.

As at December 31, 2019, the Bank is in compliance with the minimum capital-to-risk ratio.

Significant Financial Ratios

In compliance with requirements of Section 174 of the MORB, the financial ratios of the Bank for the years 2019 and 2018 have been computed as additional disclosure requirements in the notes to the audited financial statements, as follows:

December 31	**2019**	2018
Return on Average Equity	**1.71%**	0.40%
Return on Average Assets	**0.19%**	0.04%
Net Interest Margin	**12.90%**	13.14%
Capital-to-Risk Assets	**16.29%**	13.00%
Risk-Based Capital Adequacy	**10.90%**	10.16%

Restatement of 2018 Ratios

The 2018 ratios presented were restated from ratios originally presented after effecting various expenses adjustments in 2018 as discussed in Note 15.

Capital Management Objectives, Policies and Procedures

BSP, as the Bank's lead regulator, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying capital to risk-weighted assets. Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to ten percent of its risk assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio to total equity excluding: (a) unbooked valuation reserves and other capital adjustments as may be required by the BSP; (b) total outstanding unsecured credit accommodations to DOSRI; (c) deferred tax asset

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or liability; (d) sinking fund for redemption of redeemable preferred shares, and (e) other regulatory deductions.

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP. The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

The Bank’s policy is to maintain a strong capital base as to maintain stockholders, creditors and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder’s return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

As of the *reporting dates, the Bank has complied with the requirement on the ratio of combined capital accounts against the risk assets.*

Gearing Ratio

Gearing (otherwise known as "leverage") measures **the proportion of assets invested in a business that are financed by long-term borrowing.** In theory, the higher the level of borrowing (gearing) the higher are the risks to a business, since the payment of interest and repayment of debts are not "optional" in the same way as dividends to shareholders. However, gearing can be a financially sound part of a business's capital structure particularly if the business has strong, predictable cash flows.

The Bank’s Gearing Ratios computed at the end of each year are as follows:

December 31	**2019**	2018
Borrowings (total liabilities)	**₱ 2,006,990,604**	₱2,084,579,385
Less cash and cash equivalents	**412,201,202**	294,534,674
Net Debt	**1,594,789,402**	1,790,044,711
Total equity	**258,631,748**	231,400,141
Equity and Net Debt	**₱ 1,853,421,150**	₱2,021,444,852
Gearing Ratio (Net Debt/Equity and Net Debt)	**0.86**	0.89

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The Bank will strive to reduce its gearing ratio by reducing working capital through increasing the speed of loans receivable collections and/or lengthening the days required to pay accounts payable, thereby producing cash that can be used to pay down borrowings. It will also try to increase profits through a combination of increase in market share and control of variable costs so that the Bank could generate more cash with which to pay down borrowings.

Debt to Equity Ratio

Capital for the reporting periods under review is summarized as follows:

December 31,	**2019**	2018
Total Liabilities	**₱ 2,006,990,604**	₱2,084,579,385
Total Equity	**258,631,748**	231,400,140
Overall financing	**₱ 2,265,622,352**	₱2,315,979,525
Debt-to-Equity Ratio	**7.76**	9.01

Note 15

Deficit

The beginning balances of Deficit have been restated from amounts previously reported to reflect other expenses related to 2018 transactions but settled and paid in 2019 amounting ₱9,283,778. (See Note 18.) The booking of these adjustments resulted in the increases and decreases of the following accounts in the 2018 financial statements

December 31, 2018	*From*	*To*	*Increase (Decrease)*
Accounts in the Statement of Financial Position			
Other liabilities	₱113,022,788	₱122,306,566	₱9,283,778
Deficit	(46,676,369)	(55,960,147)	(9,283,778)
Accounts in the Statement of Profit or Loss			
Commission	5,534,315	10,433,400	4,899,085
Fuel, oil, and lubricants	7,276,176	7,581,176	305,000
Security, messengerial and janitorial services	6,560,242	7,879,080	1,318,838
Communication	9,580,955	10,332,378	751,423

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Taxes and licenses	27,264,816	29,274,248	2,009,432
Profit for the year	10,307,064	1,023,286	(9,283,778)

Note 16

Details of Application Fees and Other Income

Years Ended December 31,	**2019**	2018
Application fees	**₱43,187,358**	₱44,521,048
Income from ATM operation	**12,331,916**	12,615,368
Overnight charges	**10,648,118**	8,852,533
Gain on sale from bank premises fixtures, furniture/equipment *(Note 7)*	**4,122,864**	–
Bank charges	**2,646,092**	3,331,317
Income from assets acquired *(Note 8)*	**2,640,720**	7,153,807
Inter-branch transaction fees	**2,392,350**	2,316,068
Insurance (service fees)	**1,445,314**	970,388
Check book fee	**1,070,080**	1,117,352
Income from remittance and other services	**675,172**	729,430
Income on POS	**351,518**	440,587
Inspection/appraisal fees	**332,539**	1,156,919
Recovery on charged-off assets	**246,105**	917,444
Miscellaneous	**5,669,120**	4,866,557
	₱87,759,266	₱88,988,818

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Note 17

Details of Compensation

Years Ended December 31,	**2019**	2018
Short-term employees' benefits	**₱84,056,215**	₱88,737,392
Post-employment benefits	**2,936,264**	2,603,803
	₱86,992,479	₱91,341,195

Post-Employment Benefits
In 2018, the Bank maintained a tax-qualified, noncontributory retirement plan that was being administered by a trustee (Insurance Company) covering all regular full-time employees. However, in 2019, the Bank decided not to continue the retirement plan from the Insurance Company and just to maintain and invest the allocated funds for retirement benefit with the treasury bonds with Land Bank of the Philippines. Accordingly, as of December 31, 2019, the Bank has an unfunded, non-contributory defined benefit retirement plan which provides a retirement benefit, an amount equal to 75% on one (1) month final salary for every year of service multiplied by the number of years of services. If the employee voluntarily resigns from the Bank, he shall be entitled to receive all or portion of his accrued retirement benefits in accordance with the terms of the plan.

The amount of retirement benefit obligation as of December 31, 2019 and 2018 presented under Other Liabilities in Note 13, recognized in the statement of financial position is determined as shown below.

Benefits are dependent on the years of service and the respective employee's compensation. The following principal actuarial assumptions used in determining plan obligations as of December 31, 2019 and 2018 are based on the actuarial valuation report obtained from an independent actuary in 2019 and 2018. There were no plan amendments or curtailment, recognized as of December 31, 2019.

The amounts of retirement benefits expense recognized in the statement of profit or loss are as follows:

Year Ended December 31,	**2019**	2018
Current service cost	**₱2,040,428**	₱1,538,924
Interest cost on benefit obligation	**895,836**	1,064,879
	₱2,936,264	₱2,603,803

Current service costs and interest costs on defined benefit obligations are charged to accrued fringe benefits payable established for the purpose of covering any shortfalls in the required defined benefits payable. (See Note 13.)

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The components of retirement benefit costs recognized in OCI are as follows:

December 31,	**2019**	2018
Opening balances	**₱7,257,261**	3,579,759
Actuarial loss on defined benefit obligation	**397,987**	5,253,574
Deferred income tax *(Note 19)*	**(119,396)**	(1,576,072)
Closing balances	**₱7,535,852**	₱7,257,261

Years Ended December 31,	**2019**	2018
(Gain) loss on defined benefit obligation	**₱–**	(₱5,169,449)
(Gain) loss on plan assets	**(397,987)**	(84,125)
Total Actuarial Gain	**(₱397,987)**	(₱5,253,574)

The movements in present value of the retirement benefit obligation recognized in the books follows:

December 31,	**2019**	2018
Opening balances	**₱12,088,674**	₱18,669,638
Actuarial (gain) loss	**(397,987)**	(5,169,449)
Current service cost	**2,040,428**	1,538,924
Interest cost	**895,836**	1,064,879
Benefits paid by the plan	**–**	(4,015,318)
Closing balances	**₱14,626,951**	₱12,088,674

The above understatement of retirement benefit obligation was not recorded by the Bank as at December 31, 2019.

For the determination of the retirement benefit obligation, the following actuarial assumptions were used:

December 31	**2019**	2018
Discounted rate	**4.79%**	7.53%
Expected rate of return	**–**	2.50%
Salary increase rate)	**3.00%**	5.00%
Average expected working lives of employees	**27.21**	26.92

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Assumptions regarding future mortality are based on the 1973-1978 Philippine Intercompany Mortality Table Basic. In 2018, the overall expected long-term rate of return on assets was 10%. The expected long-term rate of return was based on the portfolio as a whole and not on the sum of the returns in individual asset categories. The return was based exclusively on historical returns, without adjustments.

The reconciliation of retirement benefit obligation recognized in the statement of financial position against actuarial valuation report is determined as follows:

December 31,	**2019**	2018
Net Retirement Benefit per Actuarial Valuation Report		
Present value of obligation	**₱14,626,951**	₱12,088,674
Fair value of plan assets	**–**	(6,316,013)
Net	**14,626,951**	5,772,661
Net Retirement Benefit Obligation per FS *(Note 13)*	**8,310,938**	5,772,661
Net Understated of Retirement Benefit Obligation	**₱6,316,013**	₱–

The movement in the fair value of plan assets, which consists of various short-term placements with local banks, is presented below:

December 31	**2019**	2018
Opening Fair Value of Plan Assets	**₱6,316,013**	₱7,166,678
Expected return on plan assets	**–**	408,773
Contributions paid into the plan	**–**	2,671,755
Actuarial gain (loss)	**–**	84,125
Withdrawal of plan assets	**(6,316,013)**	–
Benefits paid by the plan	**–**	(4,015,318)
Closing Fair Value of Plan Assets	**₱–**	₱6,316,013

The sensitivity analysis below has been determined based on reasonable possible changes of each significant assumption on the defined benefit obligation as of December 31, 2019, assuming all other assumptions were held constant.

Discount Rate		*Future Salary Increase Rate*	
+1%	(₱736,938)	+1%	₱680,158

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-1%	822,165	-1%	(620,025)

The average duration of the defined benefit obligation at the end of the reporting date is 5.85 years. Shown below is the expected twenty-year benefit cash flow:

	Amount
2019	₱3,860,827
2020	2,955,736
2021	2,392,377
2022	2,003,177
2023	1,842,388
2024-2028	17,191,852

Note 18

Details of Other Operating Expenses

Years Ended December 31,	**2019**	2018
Taxes and licenses *(Note 19)*	**₱29,155,859**	₱29,274,248
Travelling expenses	**22,629,042**	15,955,204
Collection fee charges	**11,728,895**	10,433,400
Security, messengerial and janitorial services	**11,549,081**	11,086,357
Communications	**8,015,331**	10,332,378
Insurance	**7,534,876**	4,327,867
Power, light and water	**5,950,031**	6,560,242
Rent *(Note 7)*	**5,890,977**	9,422,282
Information and technology expenses	**5,708,590**	4,066,723
Management and other professional fees	**4,318,051**	5,334,828
Stationery and supplies used	**4,034,863**	5,134,190
Repairs and maintenance	**2,980,293**	3,314,163
Representation and entertainment	**2,847,963**	3,119,232
Commission	**2,723,693**	6,050,948
Fuel, oil and lubricants	**2,411,260**	7,581,176
Litigation of asset acquired	**1,013,025**	2,177,633

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Banking fees	**728,554**	708,000
Interest on lease liabilities *(Note 7)*	**516,838**	–
Miscellaneous	**3,155,515**	2,703,557
	₱132,892,737	₱137,582,428

Note 19

Computation of Income Tax Expense

Years Ended December 31,	**2019**	2018
Current		
Corporate tax at 30%	**₱2,253,342**	₱4,443,007
Final tax at 20%	**661,258**	944,948
Deferred	**(880,879)**	(888,081)
	₱2,033,721	₱4,499,874

Current Tax Expense – Normal Corporate Income Tax (NCIT) Rate at 30%

Years Ended December 31,	**2019**	2018
Profit before income tax expense, per statements of profit or loss	**₱6,463,837**	₱5,523,160
2018 adjustments (See Note 15.)	**–**	9,283,778
Profit before tax expense for computation of tax expense	**6,463,837**	14,806,938
Add (deduct) reconciling items from permanent differences:		
Interest income on bank deposits already subject to final tax	**(3,306,290)**	(4,724,744)
Non-allowable interest expense (33%)	**1,091,076**	1,559,166
Tax deficiency paid 2018 under taxes and licenses account	**–**	208,394
Add (deduct) reconciling items from temporary differences:		
Interest on lease liabilities	**516,838**	–
Depreciation of right-of-use assets	**2,912,322**	–
Rent expense	**(3,102,907)**	–
Provision for expected credit losses (ECL) *(Notes 5 and 8)*	**–**	356,467
Provision for retirement benefits *(Note 17)*	**2,936,264**	2,603,803
Taxable income	**7,511,140**	14,810,024

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Tax rate	**30%**	30%
Tax due	**2,253,342**	4,443,007
Application of deferred tax assets – written-off loans accounts *(Note 5)*	**(2,100,000)**	(1,237,516)
Application of deferred tax assets – actual retirement payment *(Note 17)*	**–**	(1,204,595)
Net Income Tax Due	**₱153,342**	₱2,000,896

Current Tax Expense – MCIT Rate of 2%

Years Ended December 31,	**2019**	2018
Gross Revenue		
Interest on loans	**₱222,726,878**	₱232,957,478
Non-deductible interest expense	**1,091,076**	1,559,166
Other income	**87,759,266**	88,988,818
Gross revenue per statements of profit or loss	**311,577,220**	323,505,462
Cost of Services		
Interest expense	**71,149,487**	78,770,234
Salaries	**50,433,729**	56,324,746
Depreciation expense	**7,332,252**	5,893,900
Other expenses	**92,879,041**	86,067,150
	221,794,509	227,056,030
Gross Profit	**89,782,711**	96,449,432
Tax rate	**2%**	2%
Tax Due at MCIT	**₱1,795,654**	₱1,928,989

The income tax expense during 2018 was computed using the regular corporate rate of 30%, a rate lower than when the income tax expense is computed using the MCIT rate of 2% of gross income.

Computation of Net Income Tax Payable

December 31,	**2019**	2018
Normal Income Tax or MCIT whichever is higher	**₱1,795,654**	₱2,000,896
Less Tax Payments/Credits:		
BIR Form No. 2307	**24,643**	

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Application of MCIT (2017)	–	1,373,116
Tax payments for the first three quarters	**459,082**	422,625
Income tax payable	**₱1,311,929**	₱205,155

Current Tax Expense - Final

This represents the final withholding taxes on interest income on bank deposits and investments.

Movements of Deferred Tax Assets

December 31,	**2019**	2018
Opening balances, as originally stated	**₱59,160,871**	₱46,476,701
30% deferred tax asset on provision for ECL *(Note 5)*	–	17,187,388
Opening balances, as restated	**59,160,871**	63,664,089
Origination of temporary differences arising from:		
Provision for ECL on loans and other receivables *(Note 5)*	–	106,940
Minimum Corporate Income Tax (MCIT)	**1,642,312**	–
Actual payment of employees' retirement	–	(1,204,595)
Application of 2017 MCIT	–	(1,373,115)
Provision for retirement benefits *(Note 17)*	**880,879**	781,141
Written-off loans receivable *(Note 5)*	**(2,100,000)**	(1,237,516)
Actuarial gain of defined benefit *(Note 17)*	**(119,396)**	(1,576,072)
Closing balances	**₱59,464,666**	₱59,160,871

Details of Taxes, Licenses and Fees

Years Ended December 31,	**2019**	2018
Business Taxes		
Gross Receipt Tax	**₱16,587,753**	₱17,211,129
Business and realty tax, vehicles registration & others	**12,568,106**	12,063,119
Sub-Total	**29,155,859**	29,274,248
Other Taxes Paid		
Compensation and Expanded withholding taxes	**5,102,637**	5,154,018
Documentary stamp taxes	**12,989,968**	11,005,769
Final taxes	**5,188,528**	2,538,289

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Sub-Total	**23,281,133**	18,698,076
Total	**₱52,436,992**	₱45,962,892

Note 20

Earnings Per Share

Years Ended December 31,	**2019**	2018
Basic		
Profit for the year	**₱4,430,116**	₱1,023,286
Weighted average number of ordinary (common) shares	**2,580,490**	2,432,431
Earnings per Share	**₱1.72**	₱0.42
Diluted Earnings Per Share		
Profit for the year	**₱4,430,116**	₱1,023,286
Weighted average number of ordinary and potential ordinary shares	**2,580,490**	2,432,431
Diluted Earnings per Share	**₱1.72**	₱0.42

Note 21

Related Party Transactions

In the ordinary course of trade or business, the Bank has transactions with related parties. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. None of the transactions with related parties incorporate special terms and conditions and no guarantee is given or received. Outstanding balances are usually settled in cash.

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The significant related party transactions are summarized below:

a) In the ordinary course of business, the Bank has loan transactions with DOSRI. The following are the information related to DOSRI:

December 31	**2019**	2018
Total Outstanding DOSRI loans	**₱6,865,211**	₱10,330,618
Percent of DOSRI loans to total loans	**0.43%**	0.59%
Percent of unsecured DOSRI loans to total DOSRI loans	**0.00%**	0.00%
Percent of past-due DOSRI loans to total DOSRI loans	**0.00%**	0.00%
Percent of non-performing DOSRI loans to total DOSRI loans	**0.00%**	0.00%

Under the Bank's policy, these loans and other transactions are to be made substantially on the same terms and conditions as with other individuals and businesses of comparable risks. Under the General Banking Act and BSP regulations, the amount of direct credit accommodations to each of the Bank's directors, officers and stockholders, of which 70% must be secured should not exceed the amount of their respective deposits and book value of their respective investments in the Bank. In addition, the aggregate DOSRI loans generally should not exceed the Bank's capital funds or 15% of the Bank's loan portfolio, whichever is lower.

As of December 31, 2019, the Bank is in compliance with these regulations.

b) The Bank also extends advances subject to liquidation to its officers and employees. Total advances to officers and employees amounted to ₱676,037 in 2019 and ₱307,705 in 2018. (See Note 5.)

c) The key management compensation consists of the following:

Years Ended December 31,	**2019**	2018
Short-term employees' benefits	**₱8,268,038**	₱9,846,520
Post-employment benefits	**240,377**	314,316
	₱8,508,415	₱10,160,836

Note 22

Fair Value Measurement

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

The following table summarizes the fair value hierarchy of the Bank's financial assets and financial liabilities which are not measured at fair value in the 2019 statement of financial position but for which fair value is disclosed.

December 31, 2019	*Level 1*	*Level 2*	*Level 3*	***Total***
Financial assets				
Cash and cash equivalents *(Note 4)*	₱412,201,202	₱–	₱–	**₱412,201,202**
Loans and other receivables *(Note 5)*	–	–	1,522,171,566	**1,522,171,566**
Investments in debt securities *(Note 6)*	–	–	38,305,317	**38,305,317**
	₱412,201,202	₱–	₱1,560,476,883	**₱1,972,678,085**

December 31, 2019	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial liabilities				
Deposit liabilities *(Note 10)*	₱1,670,829,913	₱–	₱–	**₱1,670,829,913**
Bills payable *(Note 11)*	200,153,168	–	–	**200,153,168**
Other liabilities *(Note 13)*	124,753,191	–	–	**124,753,191**
Lease liabilities *(Note 7)*	11,254,332	–	–	**11,254,332**
	₱2,006,990,604	₱–	₱–	**₱2,006,990,604**

December 31, 2018				
Financial assets				
Cash and cash equivalents *(Note 4)*	₱294,534,674	₱–	₱–	**₱294,534,674**
Loans and other receivables *(Note 5)*	–	–	1,717,126,297	**1,717,126,297**
Investments in debt securities *(Note 6)*	–	–	33,154,412	**33,154,412**
	₱294,534,674	₱–	₱1,750,280,709	**₱2,044,815,383**

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Financial liabilities

Deposit liabilities *(Note 10)*	₱–	₱–	₱ 1,475,668,453	**₱ 1,475,668,453**
Bills payable *(Note 11)*	–	–	436,604,366	**436,604,366**
Unsecured subordinated debt *(Note 12)*	–	–	50,000,000	**50,000,000**
Other liabilities *(Note 13)*	–	–	113,022,788	**113,022,788**
	₱–	₱–	₱ 2,075,295,607	**₱ 2,075,295,607**

For financial assets and financial liabilities with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments equal their fair values. The fair values of the financial assets and financial liabilities included in Level 3 above which are not traded in an active market is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counter-parties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument. When the Bank uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

Fair Value Measurement for Non-financial Assets

The table in the following page shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis as of December 31, 2019 and 2018.

December 31, 2019	*Level 1*	*Level 2*	*Level 3*	*Total*
Bank prems, etc./ROUA *(Note 7)*	₱–	₱–	₱85,304,967	**₱85,304,967**
Investment properties *(Note 8)*	–	–	122,697,099	**122,697,099**
Other assets *(Note 9)*	₱84,942,201	–	–	**84,942,201**
	₱84,942,201	₱–	₱208,002,066	**₱292,944,267**
December 31, 2018				
Bank premises, furn./fixt/eqpt *(Note 7)*	₱–	₱–	₱84,933,019	**₱84,933,019**
Investment properties *(Note 8)*	–	–	92,815,093	**92,815,093**

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Other assets *(Note 9)*	₱93,416,031	–	–	**93,416,031**
	₱93,416,031	₱–	₱177,748,112	**₱271,164,143**

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

Note 23

Risk Management Objectives and Policies

The Bank is exposed to a variety of financial risks in performing its activities. The main types of risks it is facing are market risk, credit risk and liquidity risk. The Board of Directors has overall responsibilities for the Bank's financial risk management, which includes the establishment and approval of risk strategies, policies and limits. The main objective of the financial risk management of the Bank is to minimize the adverse impact of financial risks on the Bank's financial performance and financial position.

Credit Risk Analysis

The Bank is mostly exposed to credit risk. Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the statement of financial position. Credit risk therefore is only disclosed in circumstances where the maximum potential loss differs significantly from the carrying amount of the financial assets. The Bank manages the level of credit risk by actively monitoring its portfolio to avoid significant concentrations of credit.

As at December 31, 2019, the Bank's financial assets are composed of the following:

December 31, 2019	*Neither Past Due Nor Impaired*	*Past Due But Not Impaired*	*Total*
Cash and cash equivalents *(Note 4)*	₱412,201,202	₱–	**₱412,201,202**
Loans and other receivables *(Note 5)*	1,522,171,566	–	**1,522,171,566**
Investments in debt securities *(Note 6)*	38,305,317	–	**38,305,317**

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	₱ 1,972,678,085	₱–	₱ **1,972,678,085**

The Bank manages the level of credit risk by actively monitoring all its receivables to avoid significant delinquency.

Market Risk Analysis

Market risk is the possibility that changes in equity prices or interest rates will adversely affect the value of the Bank's assets, liabilities or expected future cash flows. The Bank has no exposure arising from complex investments since it is not engaging in high risk investments, forward contracts, hedging, and the likes, whether local or foreign transactions.

(a) Price risk.

The Bank has no exposure to price risks as it has no investment in quoted equity and debt securities.

(b) Interest rate risk.

The Bank's primary business model is to collect deposits and use these funds to provide loans and other funding products and debt instruments to its customers. Interest rate risk is the impact that changes in interest rates could have on the Bank's margins, profit or loss, and equity. Interest risk arises from the mismatch of interest payable on the Bank's liabilities and the interest earned on its financial assets.

The Bank's asset-liability profile is such that interest on its financial assets has short term maturities while interest rates on its bills payable and its time deposits are primarily fixed. The Bank's loan portfolio is primarily of fixed rates instruments.

As a part of the Bank's risk management strategy, the Board established limits on the non–trading interest rate gaps for the interest rate sensitivities. These limits are consistent with the Bank's enterprise risk appetite and the Bank aligns its accounting objectives to keep exposures within those limits.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the reporting date. For liabilities with variable interest rates, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year.

The following table demonstrates the sensitivity to reasonably possible changes in interest rates, with

all other variables held constant, of the Bank's income before income tax.

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	Increase (Decrease) in Interest Rate	Effect on Equity
2019	+0.05%	₱527,096
	-0.05%	(527,096)
2018	+0.05%	572,883
	-0.05%	(572,883)

(c) *Foreign currency exchange rate risk.*

The Association is not exposed to foreign currency risks as it has no assets nor liabilities denominated in foreign currency.

Liquidity Risk Analysis

The Bank is likewise exposed to liquidity risk, the risk that it will encounter difficulty in meeting its obligations as they become due without incurring unacceptable losses or costs. The Bank's objectives to manage its liquidity profile are: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs, and c) to be able to access funding when needed at the least possible cost. The Bank manages its liquidity by carefully monitoring its scheduled debt servicing payments for long-term financial liabilities as well as its cash flows due on its day-to-day business.

Maturity Analysis of Assets and Liabilities

December 31, 2019	*Within One Year*	*Beyond One Year*	***Total***
Financial Assets			
Cash and cash equivalents *(Note 4)*	₱412,201,202	₱–	**₱412,201,202**
Loans and other receivables *(Note 5)*	1,690,362,752	(168,191,186)	**1,522,171,566**
Investments in debt securities *(Note 6)*	–	38,305,317	**38,305,317**
Nonfinancial Assets			
Bank prems, etc./ROUA *(Note 7)*	–	85,304,967	**85,304,967**
Investment properties *(Note 8)*	–	122,697,099	**122,697,099**
Other assets *(Note 9)*	84,942,201		**84,942,201**
Total Assets	₱2,187,506,155	₱78,116,197	**₱2,265,622,352**
Financial Liabilities			
Deposit liabilities *(Note 10)*	₱1,361,860,959	₱308,968,954	**₱1,670,829,913**

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Bills payable/unsecured subordntd debt *(Notes 11/12)*	135,741,666	64,411,502	**200,153,168**
Other liabilities *(Note 13)*	116,442,253	–	**116,442,253**
Lease liabilities *(Note 7)*	11,254,332	–	**11,254,332**
Nonfinancial Liabilities			
Retirement benefit obligation *(Notes 13 and 17)*	–	8,310,938	**8,310,938**
Total Liabilities	₱1,625,299,210	₱381,691,394	**₱2,006,990,604**

December 31, 2018	*Within One Year*	*Beyond One Year*	***Total***
Financial Assets			
Cash and cash equivalents *(Note 4)*	₱294,534,674	₱–	**₱294,534,674**
Loans and other receivables *(Note 5)*	1,392,959,320	324,166,977	**1,717,126,297**
Investments in debt securities *(Note 6)*	–	33,154,412	**33,154,412**
Nonfinancial Assets			
Bank premises, furn., fixt. and equipment *(Note 7)*	–	84,933,019	**84,933,019**
Investment properties *(Note 8)*	–	92,815,093	**92,815,093**
Other assets *(Note 9)*	93,416,031	–	**93,416,031**
Total Assets	₱1,780,910,025	₱535,069,501	**₱2,315,979,526**
Financial Liabilities			
Deposit liabilities *(Note 10)*	₱955,380,960	₱520,287,493	**₱1,475,668,453**
Bills payable/unsecured subordntd debt *(Notes 11/12)*	143,502,500	343,101,866	**486,604,366**
Other liabilities *(Note 13)*	107,250,127	–	**107,250,127**
Nonfinancial Liabilities			
Retirement benefit obligation *(Notes 13 and 17)*	–	5,772,661	**5,772,661**
Total Liabilities	₱1,206,133,587	₱869,162,020	**₱2,075,295,607**

Note 24

Events After Reporting Date – Onslaught of the Corona Virus Disease (2019)

The World Health Organization (WHO) declared the Coronavirus Disease (2019) (COVID-19) outbreak a pandemic on March 11, 2020 to signify its severity and global coverage and urged countries to take 'urgent and aggressive action.' The outbreak was first noticed in China and then in Europe

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(particularly in Spain, Italy and France) where multiple deaths by the thousands were reported. In the Philippines, there were already 22,992 total confirmed cases, 1,017 deaths, and 4,736 recoveries as of June 9, 2020.

As the pandemic began its spread throughout the world, several countries have taken a variety of measures from mass testing, travel/border restrictions, to lockdowns in a bid to contain the virus. Governments and central banks have likewise been adjusting the monetary and fiscal policies to mitigate the economic impact of the pandemic. It is anticipated that the pandemic will translate into a world-wide economic crisis and may eventually lead to social and political crisis.

Predicting the impact of COVID-19 pandemic in the Philippines is difficult because much will depend on the spread of the disease and whether the measures undertaken by the Government will successfully contain its spread. Initial results of the month-long community quarantine (CQ) and the extended community quarantine (ECQ) however indicated that, except for the National Capital Region (NCR), cities and provinces have so far contained the spread of the virus in their areas by extending ECQs. But a second wave of infection is anticipated as it has happened in China and Korea and the Philippine Government may continue to impose CQs or ECQs until May 2020. Whether this approach will arrest the spread of the virus remains to be seen; but the results of similar actions undertaken in China disclosed success in containing the spread of the virus.

Under the present scenario, it is anticipated that the impact on the economy will likely manifest in a sharp drop in overall domestic consumer demand for nonessential goods and services. Demand for food, medical assistance and other essential items is expected to rise, but this would not offset the lower demand for non-essential goods such as apparel and various services. Remittances from overseas Filipino workers are expected to slow down due to layoffs and delayed salary payments of Filipino OFWs especially in countries that are also affected by COVID-19. If the situation continues up to July 2020, the National Economic and Development Authority (NEDA) predicted that the Philippine's gross domestic project will lose its value by .02 to 0.04 percent. The extended ECQ in Luzon is expected to impact from 1.5 to 5.3 percent reduction of GDP.

Initially, the Bank has given grace period or moratorium on loan repayments in compliance to RA 11469. This is the bank's response to give consideration to its loan borrowers who are affected by the DOH/LGU imposed quarantine due to COVID 19.

The Bank foresees negative impact on the businesses of its borrowers who cannot operate or are forced to close business during ECQ or GCQ. Even if the signal is given to operate, recovering to normal operations will still take time where businessmen have to catch up. The Bank per feedback is anticipating this event and is making adjustment to its targets due to the impact of COVID 19 to its financed borrowers.

The Bank has determined that the impact of COVID-19 will be felt in 2020 and that there have been no adjustments necessary on its 2019 financial statements.

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Note 25

Authorization of Financial Statements

The Thrift Bank's financial statements as of and for the year ended December 31, 2019, were authorized for issue by the Bank's President on June 15, 2020.