CANTILAN BANK, INC. (A RURAL BANK)

FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

0	0	0	0	0	0	9	1	9	2	5

COMPANY NAME

CANTILAN BANK, INC. (A RURAL BANK)

PRINCIPAL OFFICE *(No./Street/Barangay/City/Town/Province)*

OROZCO STREET, MAGOSILOM, CANTILAN

SURIGAO DEL SUR

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	CRMD	N/A

COMPANY INFORMATION

Bank's Email Address	Bank's Telephone Number/s	Mobile Number
info@cantilanbank.com	(086)2212-5055 TO 56	

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
296	March 28	December 31

CONTACT PERSON INFORMATION

The designated contact person *MUST* be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
COLLEEN MARY C. BARROT	compliance@cantilanbank.com	212-5502	09399168873

CONTACT PERSON'S ADDRESS

Magosilom, Cantilan, Surigao del Sur

NOTE 1: *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2: *All Box es must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt shall not excuse the corporation from liability for its deficiencies.*

BDO Roxas Cruz Tagle and Co.
Audit | Tax | Consulting | BSO

BOA/PRC Reg. No. 0005,
December 13, 2018, valid until July 20, 2021
SEC Accreditation No. 0007-FR-5,
July 5, 2018, valid until July 4, 2021

2nd Flr Multinational Bancorporation Centre
6805 Ayala Avenue, Makati City 1226 Philippines
www.bdo-roxascruztagle.ph
Tel: + (632) 844 2016
Fax: + (632) 844 2045

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Cantilan Bank, Inc. (A Rural Bank)
Orozco St., Magosilom, Cantilan, Surigao del Sur

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Cantilan Bank, Inc. (A Rural Bank)** (the "Bank") which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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

Roxas Cruz Tagle and Co., a Philippine professional partnership, is a member of BDO International Limited, a UK Company Limited by guarantee. BDO is the brand name for the BDO network and for each of the BDO member firms.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

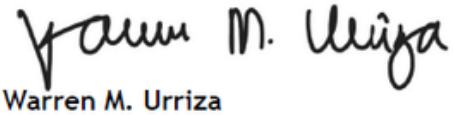
Roxas Cruz Tagle and Co., a Philippine professional partnership, is a member of BDO International Limited, a UK Company Limited by guarantee. BDO is the brand name for the BDO network and for each of the BDO member firms.

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

Report on the Supplementary Information Required by Bureau of Internal Revenue (BIR)

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information as disclosed in Note 30 to the financial statements is presented for purposes of filing with the BIR 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 a whole.

ROXAS CRUZ TAGLE AND CO.



Warren M. Urriza
Partner
CPA Certificate No.106419
Tax Identification No. 246-618-368
BIR Accreditation No. 08-001682-017-2019, issued on February 08, 2019, effective until February 07, 2022
SEC Accreditation No. 106419-SEC-A, issued on March 24, 2020, effective until March 23, 2024
BSP Accreditation No. 106419-BSP Group A, issued on March 3, 2020, effective until March 2, 2024
PTR No. 8147781, issued on January 20, 2020, Makati City

September 11, 2020
Makati City

Roxas Cruz Tagle and Co., a Philippine professional partnership, is a member of BDO International Limited, a UK Company Limited by guarantee. BDO is the brand name for the BDO network and for each of the BDO member firms.

CANTILAN BANK, INC. (A RURAL BANK)

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	Note	2019	2018
ASSETS			
Cash and other cash items	*5*	₱148,432,880	₱127,516,085
Due from Bangko Sentral ng Pilipinas	*6*	90,326,574	79,510,084
Due from other banks	*7*	309,366,525	325,749,776
Loans and receivables - net	*8*	1,456,065,033	1,385,132,493
Financial assets at amortized cost	*9*	123,998,246	164,104,357
Bank premises, furniture, fixtures and equipment - net	*10*	99,358,179	97,561,259
Right-of-use assets - net	*11*	26,099,290	-
Investment properties - net	*12*	23,864,516	23,448,113
Intangible assets - net	*13*	22,213,622	16,509,559
Retirement benefit asset	*18*	846,167	5,015,213
Deferred tax assets	*22*	77,876,209	69,396,764
Other assets - net	*14*	30,781,338	21,030,570
		₱2,409,228,579	₱2,314,974,273
LIABILITIES AND EQUITY			
Liabilities			
Deposit liabilities	*15*	₱1,656,638,055	₱1,740,618,890
Bills payable	*16*	262,175,732	48,524,609
Accrued expenses and other liabilities	*17*	76,982,481	140,631,777
Lease liabilities	*11*	27,415,482	-
Income tax payable	*22*	-	4,078,838
Total Liabilities		2,023,211,750	1,933,854,114
Equity			
Capital stock	*19*	258,888,735	246,560,735
Additional paid-in capital	*19*	2,039,392	1,641,536
Retained earnings	*19*	100,075,456	106,502,956
Remeasurement gains on retirement benefits	*18*	25,013,246	26,414,932
Total Equity		386,016,829	381,120,159
		₱2,409,228,579	₱2,314,974,273

See Notes to the Financial Statements.

CANTILAN BANK, INC. (A RURAL BANK)

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Notes	2019	2018
Interest income on			
Loans receivable	*8*	₱321,142,653	₱334,270,799
Financial assets at amortized cost	*9*	4,767,180	3,505,195
Sales contract receivable	*8*	1,560,362	987,914
Deposits with banks	*7*	831,548	369,101
		328,301,743	339,133,009
Interest expense on			
Deposits liabilities	*15*	29,166,041	43,708,463
Bills payable	*16*	3,558,227	3,747,140
Lease liabilities	*11*	2,148,950	-
		34,873,218	47,455,603
Net interest income		293,428,525	291,677,406
Provision for expected credit losses	*8*	51,281,918	73,707,872
Net interest income after provision for expected credit losses		242,146,607	217,969,534
Other operating income	*20*	63,260,865	70,101,838
Operating expenses			
Compensation and staff benefits	*21*	114,870,688	108,837,080
Depreciation and amortization	*10*	33,138,369	27,202,171
Taxes and licenses		25,370,871	25,711,779
Security, messengerial and janitorial services		19,497,027	18,063,764
Communications		9,802,849	9,830,058
Power, light and water		8,856,359	9,294,538
Travel and transportation		6,868,381	10,349,745
Insurance		6,738,819	7,269,089
Repairs and maintenance		5,431,509	4,535,756
Stationery and supplies used	*14*	4,792,921	5,892,329
Trainings and seminars		3,338,515	2,459,925
Events and promotions		2,796,130	3,494,682
Rent	*11*	1,070,620	8,057,577
Other operating expense	*21*	38,138,615	29,500,289
		280,711,673	270,498,782
Income before tax expense		24,695,799	17,572,590
Income tax expense	*22*	6,421,965	4,588,931
Net income		₱18,273,834	₱12,983,659

See Notes to the Financial Statements.

CANTILAN BANK, INC. (A RURAL BANK)

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Note	2019	2018
Net income		**₱18,273,834**	₱12,983,659
Other comprehensive income (loss)			
Items that will not be reclassified to profit or loss			
Actuarial gains (loss) on retirement benefits	*18*	**(2,002,409)**	7,154,946
Deferred tax effect	*22*	**600,723**	(2,146,484)
Other comprehensive income (loss) - net of tax		**(1,401,686)**	5,008,462
Total comprehensive income		**₱16,872,148**	₱17,992,121

See Notes to the Financial Statements.

CANTILAN BANK, INC. (A RURAL BANK)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Note	Capital stock	Additional paid-in capital	Remeasurement gains on retirement benefits	Retained earnings-free	Retained earnings-reserve	Total
Balance at January 1, 2019, as previously reported		₱246,560,735	₱1,641,536	₱26,414,932	₱74,552,069	₱31,950,887	₱381,120,159
Transitional adjustment due to Philippine Financial Reporting Standard 16	*3*	-	-	-	(45,260)	-	(45,260)
Balance at January 1, 2019, as restated		246,560,735	1,641,536	26,414,932	74,506,809	31,950,887	381,074,899
Total comprehensive income							
Net income for the year		-	-	-	18,273,834	-	18,273,834
Other comprehensive loss	*18*	-	-	(1,401,686)	-	-	(1,401,686)
Total comprehensive income		-	-	(1,401,686)	18,273,834	-	16,872,148
Transactions with owners							
Issuance of shares	*19*	12,328,000	397,856	-	-	-	12,725,856
Release of restriction on retained earnings	*19*	-	-	-	5,278,433	(5,278,433)	-
Dividend distributions	*19*	-	-	-	(24,656,074)	-	(24,656,074)
Balance at December 31, 2019		₱258,888,735	₱2,039,392	₱25,013,246	₱73,403,002	₱26,672,454	₱386,016,829
Balance at January 1, 2018		₱243,575,370	₱-	₱21,406,470	₱110,569,573	₱-	₱ 375,551,413
Total comprehensive income							
Net income for the year		-	-	-	12,983,659	-	12,983,659
Other comprehensive income	*18*	-	-	5,008,462	-	-	5,008,462
Total comprehensive income		-	-	5,008,462	12,983,659	-	17,992,121
Transactions with owners							
Issuance of shares	*19*	2,985,365	1,641,536	-	-		4,626,901
Restriction on retained earnings	*19*	-	-	-	(31,950,887)	31,950,887	-
Dividend distributions	*19*	-	-	-	(17,050,276)	-	(17,050,276)
Balance, December 31, 2018		₱246,560,735	₱1,641,536	₱26,414,932	₱74,552,069	₱31,950,887	₱381,120,159

See Notes to the Financial Statements.

CANTILAN BANK, INC. (A RURAL BANK)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before tax expense		₱24,695,799	₱17,572,590
Adjustments for:			
Provision for expected credit losses	8	51,281,918	73,707,872
Interest expense	11,15 16	34,873,218	47,455,603
Depreciation and amortization	10	33,138,369	27,202,171
Provision for retirement benefits	18	2,166,637	2,387,796
Gain from sale of investment properties	12,20	(1,993,461)	(6,469,491)
Gain from disposal of BPFFE	10	(324,719)	-
Provision for impairment losses on investment properties	12	21,641	20,477
Operating income before working capital changes		143,859,402	161,877,018
Changes in operating assets and liabilities			
Decrease (increase) in:			
Loan receivables		(125,013,354)	56,749,033
Other assets		(8,885,698)	8,800,112
Increase (decrease) in:			
Deposit liabilities		(83,980,835)	(26,215,606)
Accrued expenses and other liabilities		(61,643,545)	56,517,094
Cash generated from (used for) operating activities		(135,664,030)	257,727,651
Interest expense paid		(34,579,151)	(44,829,754)
Income taxes paid	22	(19,306,831)	(24,063,912)
Net cash provided by (used in) operating activities		(189,550,012)	188,833,985
CASH FLOWS FROM INVESTING ACTIVITIES			
Maturity of financial assets at amortized cost	9	146,804,000	316,901,000
Additions to financial asset at amortized cost	9	(106,697,889)	(360,988,929)
Additions to BPFFE	10	(24,255,779)	(22,958,627)
Additions to intangible assets	13	(9,330,789)	(900,000)
Proceeds from sale of investment properties	12	4,103,535	13,023,805
Proceeds from disposal of BPFFE	10	332,912	-
Net cash provided by (used in) investing activities		10,955,990	(54,922,751)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availments of bills payable	16	262,607,600	20,000,000
Payment of bills payable	16	(48,956,477)	(86,631,514)
Payment of dividends	19	(24,656,074)	(17,050,276)
Issuance of shares	19	12,725,856	4,626,901
Payment for lease liabilities	11	(7,776,849)	-
Net cash provided by (used in) financing activities		193,944,056	(79,054,889)
NET INCREASE IN CASH AND CASH EQUIVALENTS		15,350,034	54,856,345
CASH AND CASH EQUIVALENTS, January 1	5,6,7	532,775,945	477,919,600
CASH AND CASH EQUIVALENTS, December 31*	5,6,7	₱548,125,979	₱532,775,945

See Notes to the Financial Statements.

*Cash and cash equivalents consists of cash and other cash items, due from BSP and due from other banks.

NOTES TO FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

1. Corporate Information

Cantilan Bank, Inc. (A Rural Bank), ("the Bank"), is organized under the laws and regulations governing the establishments and regulations of Rural Banks in the Philippines under Republic Act (R.A.) No. 720, as amended by R.A. No. 7353 *(Rural Bank Act of 1992)*.

Its primary purpose is to carry and engage in the business of extending rural credit to small farmers and tenants and to deserving rural industries or enterprises; to sell, solicit or market insurance products and services as an insurance agent especially for microinsurance products issued by life and non-life insurance companies, authorized by the Insurance Commission, in accordance with Bangko Sentral ng Pilipinas (BSP) rules and regulations; to have and exercise all authority and powers, to do and perform all acts, and to transmit all businesses which may legally be had or done by rural banks organized under and in accordance with the Rural Banks' Act, as it exists or may be amended; and to do all other things incident thereto and necessary and proper in connection with said purpose within such territory, as may be determined by the Monetary Board of the BSP.

The Bank is registered with the Securities and Exchange Commission on March 20, 1980.

The Bank's registered principal place of business is Orozco Street, Magosilom, Cantilan, Surigao del Sur. As at December 31, 2019, the Bank has 26 branches and 20 branch lite units (BLUs) dispersed in the provinces of Surigao del Sur, Surigao del Norte, Agusan del Sur, Agusan del Norte, Southern Leyte, Misamis Oriental, Davao Oriental, Davao del Norte, Davao del Sur, Davao de Oro and also in the cities of Bayugan, Butuan, Tandag, Surigao, Davao, Tagum, Gingoog and Malaybalay.

The accompanying financial statements of the Bank were approved and authorized for issuance by the Board of Directors (BOD) on September 11, 2020.

2. Basis of Preparation and Statement of Compliance

Statement of Compliance

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

Basis of Measurement

The financial statements of the Bank have been prepared on the historical cost basis.

Functional and Presentation Currency

The financial statements are presented in Philippine Peso (₱), which is also the functional currency of the Bank. All values are rounded off to the nearest Peso, except when otherwise indicated.

3. Significant Accounting Policies

Adoption of New and Amended PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS which the Bank adopted effective for annual periods beginning on or after January 1, 2019:

- PFRS 16, *Leases* - PFRS 16 supersedes PAS 17 *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, Standing Interpretations Committee (SIC) Interpretation No 15 *Operating Leases-Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires almost all leases to be brought onto lessees' statement of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases.

  Lessor accounting under PFRS 16 is substantially unchanged from PAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in PAS 17. Therefore, PFRS 16 does not have an impact for leases where the Bank is the lessor.

  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 17 and IFRIC 4 and under which the cumulative effect on initial application is recognized in retained earnings at January 1, 2019.

  The details of accounting policies under PAS 17 and IFRIC 4 are disclosed separately if they are different from those under PFRS 16 and the impact of changes is disclosed under "Leases" of this note.

  Leases previously accounted for as operating leases
  As a lessee, leases previously classified as operating lease, at transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate (IBR) as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

  The Bank used the following practical expedients when applying PFRS 16 to leases previously classified as operating leases under PAS 17:

  - Applied a single discount rate to a portfolio of leases with similar characteristics.
  - Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The effect of transition to PFRS 16 as at January 1, 2019 follows (see Note 11):

	January 1, 2019 *(as previously reported)*	*Adjustments*	January 1, 2019 *(as restated)*
Assets			
Right-of-use assets	₱-	₱32,892,513	₱33,043,381
Deferred tax asset	69,396,764	(45,260)	69,351,504
Total assets	₱69,396,764	₱32,847,253	₱102,394,885
Liabilities			
Accrued expenses and other liabilities	₱77,062,071	(₱150,868)	₱76,911,203
Lease liabilities	-	33,043,381	33,043,381
Total liabilities	₱77,062,071	₱32,892,513	₱109,954,584
Equity			
Retained earnings	₱74,552,069	(₱45,260)	₱74,506,809

Based on the above, as at January 1, 2019:

- Right-of-use assets and lease liabilities of ₱32,892,513 and ₱33,043,381, respectively, were recognized and presented separately in the statements of financial position.
- Lease liabilities of ₱33,043,381 were recognized and presented separately in the statement of financial position.
- Accrued rent payable of ₱150,868 recognized under PAS 17 were derecognized and adjusted against the right-of-use assets as of January 1, 2019.
- Deferred tax asset decreased by ₱45,260 because of the deferred tax impact of the derecognition of accrued rent expense.
- The net effect of these adjustments of ₱45,260 had been adjusted to retained earnings.

When measuring the lease liabilities, the Bank discounted lease payments at IBR ranging from 7.037% to 7.50% as at January 1, 2019.

	Amounts
Operating lease commitment as at December 31, 2018*	₱40,837,525
Discounted using the IBR at January 1, 2019	(6,723,524)
Discounted operating lease commitments at January 1	34,114,001
Recognized exemption for short-term leases and low value assets:	(1,070,620)
Lease liabilities as at January 1, 2019	₱33,043,381

As a lessor, the Bank is not required to make any adjustment on transition to PFRS 16. The Bank accounted for its leases in accordance with PFRS 16 from the date of initial application.

- IFRIC Interpretation 23, *Uncertainty over Income Tax Treatment* - The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

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

The Bank determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The Bank applies significant judgement in identifying uncertainties over income tax treatments.

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

  These amendments had no impact on the financial statements of the Bank.

- Amendments to PAS 19: *Plan Amendment, Curtailment or Settlement* - The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

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

- Annual Improvements 2015-2017 Cycle

  - PAS 12, *Income Taxes* - The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income (OCI) or equity according to where it originally recognized those past transactions or events.

  - PAS 23, *Borrowing Costs* - The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

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

The adoption of the foregoing new and amended PFRS did not have any material effect on the financial statements, except for PFRS 16. Additional disclosures have been included in the notes to financial statements, as applicable.

New and Amended PFRS Issued But Not Yet Effective

Relevant new and amended PFRS which are not yet effective for the year ended December 31, 2019 and have not been applied in preparing the financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2020:

- Amendments to PAS 1 and PAS 8, *Definition of Material* - The amendments address the definition of material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Effective for annual periods beginning on or after January 1, 2021:

- PFRS 17, *Insurance Contracts* - This standard will replace PFRS 4, *Insurance Contracts*. It requires insurance liabilities to be measured at current fulfillment value and provides a more uniform measurement and presentation approach to achieve consistent, principle-based accounting for all insurance contracts. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the financial statements of the Bank.

Financial Assets and Financial Liabilities

Date of Recognition. The Bank recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition and Measurement. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction cost.

"Day 1" Difference. Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss. In cases where there is no observable data on inception, the Bank deems the transaction price as the best estimate of fair value and recognizes "Day 1" difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the "Day 1" difference.

Classification. The Bank classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at amortized cost and (c) financial assets at FVOCI. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or financial liabilities at amortized cost. The classification of a financial instrument largely depends on the Bank's business model and its contractual cash flow characteristics.

Financial Assets and Liabilities at FVPL. Financial assets and liabilities at FVPL are either classified as held for trading or designated at FVPL. A financial instrument is classified as held for trading if it meets either of the following conditions:

- it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

This category includes equity instruments which the Bank had not irrevocably elected to classify at FVOCI at initial recognition. This category includes debt instruments whose cash flows are not "solely for payment of principal and interest" assessed at initial recognition of the assets, or which are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

The Bank may, at initial recognition, designate a financial asset or financial liability meeting the criteria to be classified at amortized cost or at FVOCI, as a financial asset or financial liability at FVPL, if doing so eliminates or significantly reduces accounting mismatch that would arise from measuring these assets or liabilities.

After initial recognition, financial assets at FVPL and held for trading financial liabilities are subsequently measured at fair value. Unrealized gains or losses arising from the fair valuation of financial assets at FVPL and held for trading financial liabilities are recognized in profit or loss.

For financial liabilities designated at FVPL under the fair value option, the amount of change in fair value that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

As at December 31, 2019 and 2018, the Bank does not have financial assets and liabilities at FVPL.

Financial Assets at Amortized Cost. Financial assets shall be measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- 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.

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process.

As at December 31, 2019 and 2018, the Bank's cash and other cash items, due from BSP, due from other banks, loans and receivables - net, financial assets at amortized cost and refundable deposits are included under this category (see Notes 5, 6, 7, 8, 9 and 14).

Financial Assets at FVOCI. For debt instruments that meet the contractual cash flow characteristic and are not designated at FVPL under the fair value option, the financial assets shall be measured at FVOCI if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and selling the financial assets; and
- 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.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. After initial recognition, interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairment losses of debt instruments measured at FVOCI are recognized directly in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized in OCI are reclassified from equity to profit or loss as a reclassification adjustment.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. Foreign currency gains or losses and unrealized gains or losses from equity instruments are recognized in OCI and presented in the equity section of the statements of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent periods.

As at December 31, 2019 and 2018, the Bank does not have financial assets at FVOCI.

Financial Liabilities at Amortized Cost. Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

As at December 31, 2019 and 2018, the Bank's liabilities arising from its deposit liabilities, bills payable, lease liabilities, accrued expenses and other liabilities (excluding government liabilities) are included under this category (see Notes 11, 15, 16 and 17).

Reclassification
The Bank reclassifies its financial assets when, and only when, it changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting period following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in OCI.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at amortized cost, its fair value at the reclassification date becomes its new gross carrying amount.

For a financial asset reclassified out of the financial assets at FVOCI category to financial assets at amortized cost, any gain or loss previously recognized in OCI, and any difference between the new amortized cost and maturity amount, are amortized to profit or loss over the remaining life of the investment using the effective interest method. If the financial asset is subsequently impaired, any gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognized in profit or loss when the financial asset is sold or disposed. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at FVOCI, its fair value at the reclassification date becomes its new gross carrying amount. Meanwhile, for a financial asset reclassified out of the financial assets at FVOCI category to financial assets at FVPL, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

Impairment of financial assets at amortized cost

Overview of the Expected Credit Losses (ECL) principles

The ECL allowance is based on the credit losses expected to arise on a 12-month duration if there has been no significant increase in credit risk of the financial asset since origination. Otherwise if a significant increase in credit risk is observed, then the ECL estimation is extended until the end of the life of the financial asset. The 12-month ECL represents the losses that result from default events on a financial asset which may happen within 12 months after the reporting date. The Lifetime ECL on the other hand represents the losses that result from default events on a financial asset which may happen over its life. Both Lifetime ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The major portfolios of financial assets identified upon initial analysis of the Bank's credit exposure are loan receivables, treasury accounts, and other receivables. Loan receivables may be availed by specific individuals, corporations or organizations. Hence, these portfolios can be further segmented to commercial and consumer portfolios. After segmentation, financial assets are grouped into Stage 1, Stage 2, and Stage 3 as described below.

Definition of "default" and "cure"

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes 31 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria and has exhibited a satisfactory track record.

Treasury exposures are considered in default upon occurrence of a credit event such as but not limited to bankruptcy of counterparty, restructuring, failure to pay on agreed settlement date, or request for moratorium.

Significant increase in credit risk

In order to determine whether an instrument is subject to 12-month or Lifetime ECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's internal credit assessment, the borrower or counterparty is determined to have well-defined credit weaknesses. These may include adverse trends or developments of financial, managerial, economic or political nature, or a significant weakness in collateral. Credit weakness may be manifested by unfavorable record or unsatisfactory characteristics or may only be potential that deserves management's close attention and may lead to significant losses or may result in collection or liquidation of the outstanding loan amount to be highly improbable. For exposures without internal credit grades, if contractual payments are more than a specified day past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In subsequent reporting periods, if the credit risk of the financial asset improves such that there is no longer a significant increase in credit risks since initial recognition, the Bank shall revert to recognizing a 12-month ECL.

Staging assessment

For non-credit-impaired financial assets:

- Stage 1 is comprised of all non-impaired financial assets which have not experienced a significant increase in credit risk since initial recognition. The Bank recognizes a 12-month ECL for Stage 1 financial assets.
- Stage 2 is comprised of all non-impaired financial assets which have experienced a significant increase in credit risk since initial recognition. The Bank recognizes a lifetime ECL for Stage 2 financial assets.

For credit-impaired financial assets:

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

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

Assessment of ECL on a collective basis

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

ECL parameters and methodologies

ECL is a function of the probability of default (PD), exposure-at-default (EAD), and loss-given default (LGD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgement.

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

EAD consists of the amortized cost and any accrued interest receivable. For off-balance sheet and undrawn committed amounts, EAD includes a credit conversion factor which is an estimate of any further amount to be drawn at the time of default.

LGD is the amount that may not be recovered in the event of default and is modelled based on historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate. LGD takes into consideration the amount and quality of any collateral held. The Bank applies a simplified ECL approach for its accounts receivables wherein the Bank uses a provisioning matrix that considers historical changes in the behavior of the portfolio to predict conditions over the span of a given observation period.

Forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since its initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic inputs, such as growth of the gross domestic product, inflation rates, unemployment rates, interest rates and BSP statistical indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Debt investment securities measured at FVOCI

The ECL for debt securities at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to profit or loss upon derecognition of these financial assets.

Derecognition of Financial Assets and Liabilities
Financial Assets. A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

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

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

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Bank could raise debt with similar terms and conditions in the market. The difference between the carrying value of the original liability and fair value of the new liability is recognized in the statements of comprehensive income.

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

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

Classification of Financial Instrument between Liability and Equity
A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank; or
- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Bank does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Bank premises, furniture, fixtures and equipment
Bank premises, furniture, fixtures and equipment are stated at cost less accumulated depreciation and amortization and any impairment losses. Costs comprise its construction cost or purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to operations in the period in which costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the asset beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the asset.

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

Category	Estimated useful life
Buildings	15 years
Furniture and fixtures	2 to 5 years
Transportation equipment	5 to 10 years
Leasehold rights and improvements	5 to 10 years
Information technology	5 to 20 years

Leasehold improvements are amortized over the term of the lease or the life of the improvements, whichever is shorter.

The useful lives and depreciation and amortization methods are reviewed periodically to ensure that the period and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of bank premises, furniture, fixtures and equipment.

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

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is charged to profit or loss.

Leases

At the 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 assesses whether:

- the contract involves an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Bank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Bank has the right to direct the use of the asset. The Bank when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. The Bank has the right to direct the use of the asset if either:
    - the Bank has the right to operate the asset; or
    - the Bank designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

At the inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices (*or* has not elected to separate non-lease components and account for the lease and non-lease components as a single lease component).

For contracts entered into before January 1, 2019, the Bank determines whether an arrangement is or contains a lease based on whether of:

- fulfillment of the arrangement was dependent on the use of a specific asset or assets;
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met;
- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of output.

Bank as a lessee. The Bank recognizes a right-of-use asset and lease liability at the date of initial application for leases previously classified as an operating lease under PAS 17.

The right-of-use asset is initially measured at cost, which comprises the initial amount of lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any incentives received.

The right-of-use asset is subsequently depreciated using the straight line method over the shorter of the estimated useful life of 5 to 10 years or the lease term.

In addition, the right-of-use is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's IBR. Generally, the Bank uses its IBR as the discount rate.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments option renewal period if the Bank is reasonably to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. It is remeasured when there is a change in future lease payments or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank's changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognized in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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

The Bank presents its right-of-use assets and lease liabilities as a separate line item in the statements of financial position.

In the comparative period, leases which do not transfer to the Bank substantially all the risks and rewards of ownership of the asset are classified as operating leases and were not recognized in the Bank's statements of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the lease term. Lease incentives received were recognized as an integral part of the total lease expense over the lease term.

The Bank as a lessor. Leases where the Bank does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term.

Investment Properties

Investment properties refer to real and other properties acquired (ROPA), other than those used for banking purposes, 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.

Properties that are held either to earn rental income or for capital appreciation or both, and that are not significantly occupied by the Bank are classified as investment properties.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties, except for land, are stated at cost less accumulated depreciation and impairment losses, if any. Land is stated at cost less any impairment in value. Depreciation of building classified as investment property is calculated on a straight-line basis over its estimated useful life of 10 years from the date of acquisition.

An investment property, which consists of land and building acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured, in which case, the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified under "Investment properties" upon (a) entry of judgment in case of judicial foreclosure; (b) execution of Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or (c) notarization of the Deed of Dacion in case of dation in payment (dacion en pago).

The difference between the fair value of the asset acquired and the carrying amount of the asset given up is recognized as unrealized gain (loss) on initial recognition of investment properties in profit or loss.

Transfers to, and from, investment property are made when, and only when, there is a change in use, evidenced by:

(a) Commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
(b) Commencement of development with a view of sale, for a transfer from investment property to real properties held for sale and development;
(c) End of owner occupation, for a transfer from owner-occupied property to investment property; or
(d) Commencement of an operating lease to another party, for a transfer from real properties held for sale and development to investment property.

Transfers to and from investment property do not result in gain or loss.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any resulting gain or loss from the retirement or disposal of an investment property is included in profit or loss in the period of retirement or disposal.

Intangible assets

An intangible asset is measured initially at cost. An intangible asset is recognized if, and only if: (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the Bank; and (b) the cost of the asset can be measured reliably.

Intangible assets consist of the Bank's computer software and other licenses which were separately acquired. The cost of a separately acquired intangible asset comprises: (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and (b) any directly attributable cost of preparing the asset for its intended use.

After initial recognition, intangible assets are carried at its cost less any accumulated amortization and any accumulated impairment losses. The depreciable amount of an intangible asset with a finite useful life is allocated on a systematic basis over its useful life. Amortization begins when the asset is available for use (i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management). The Bank assesses the probability of expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Amortization is computed using the straight-line method over the estimated useful life of the asset as follows:

Category	Estimated useful life
Computer software	15 years
Other licenses	3-5 years

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortization period will be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortization method will be changed to reflect the changed pattern. Such changes are accounted for as changes in accounting estimates in accordance with PAS 8.

An intangible asset is derecognized: (a) on disposal; or (b) when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset, which is recognized in profit or loss when the asset is derecognized.

Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets such as bank premises, right-of-use assets, furniture, fixtures and equipment, investment properties and intangible assets are reviewed at each financial reporting date to determine whether there is any indication of impairment or an impairment loss previously recognized no longer exists or may have decreased. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognized in profit or loss whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount.

The recoverable amount of a non-financial asset is the greater of the asset's fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows largely independent of those assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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. Reversals of impairment are recognized in profit or loss.

Fair Value Measurements

The Bank measures a number of financial and non-financial assets and liabilities at fair value at each reporting date.

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 most advantageous market must be accessible to the Bank.

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

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 separate 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 prices (unadjusted) in active market for identical assets or liabilities;
- Level 2:inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3:inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the separate financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

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

Other assets

Other assets include stationery and supplies, prepayments, refundable deposits and petty cash fund.

Refundable deposits are classified as financial asset at amortized costs.

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

Stationery and supplies. Stationery and supplies represent items of various supplies already purchased but not yet used/consumed. These are recorded as asset and measured at the amount or cash paid. Subsequently, these are charged to profit or loss as they are consumed.

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate can be made of the amount of the obligation. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events. The amount recognized is the best estimate of the expenditure required to settle the present obligation at financial reporting date, that is, the amount the Bank would rationally pay to settle the obligation to a third party.

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed in the notes to financial statements when an inflow of economic benefits is probable. As at December 31, 2019 and 2018, the Bank had not recognized any contingencies arising from off-balance sheet items, transaction related contingencies, short-term self-liquidating trade-related contingencies arising from the movement of goods, sale and repurchase agreements not recognized in the statement of financial position, interest and foreign exchange-rate related items; and other commitments.

Revenue recognition

Revenue from contract with customers is recognized when the performance obligation in the contract has been satisfied, either at a point in time or over time. Revenue is recognized over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits as the Bank perform its obligations; (b) the Bank's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Bank's performance does not create an asset with an alternative use to the Bank and the Bank has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time.

The Bank also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Bank has assessed that it acts as a principal in all of its revenue sources.

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

Interest income on loan receivables and sales contract receivable (SCR). For all financial instruments measured at amortized cost, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income'. Loan commitment fees that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR of the loan.

When a financial asset becomes credit-impaired, the Bank calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

Interest income on bank deposits and investment. Interest income on bank deposits and investments is recognized as the interest accrues usually on a time proportion basis taking into account the effective yield on the asset or EIR. Interest income earned from investments, deposits and placements is presented net of applicable tax withheld by banks.

Service charges and fees from loans. Service charges and fees that are directly related to the acquisition and origination of loans are included in the cost of the receivable and are recognized as income over the term of the loan.

Service charges and fees from providing transaction services. Service charges and fees other than those directly related to acquisition and origination of loans or those arising from other transaction services - such as western union money transfer, conditional cash transfer and others - are recognized as income when services has been rendered.

Gains (losses) from sale/derecognition of non-financial assets. Gains (losses) on sale/derecognition of non-financial assets are determined as the difference between the net selling price and the carrying amount of the asset, which are recognized in profit or loss in the period of the retirement or disposal.

Miscellaneous income. This includes inspection and filing fees collected relative to the loans released and penalties on past due loans and other income, which are normally recorded at the time these are earned.

Interest expense

Interest expense on deposit liabilities is recognized in profit or loss when incurred. It is calculated using the effective interest method and is credited to the depositors' account regularly.

Interest incurred on bills payable and other borrowings is recognized in profit or loss when incurred.

Cost and expense recognition

Costs and expenses are recognized in profit or loss: (a) when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably; (b) on the basis of a direct association between the costs incurred and the earning of specific items of income; (c) 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 (d) immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statements of financial position as an asset. Operating expenses are costs attributable to the general and administrative activities of the Bank.

Employee benefits

Short-term employee benefits. Short-term employee benefits are recognized as expense in the period when the economic benefits are given. Unpaid benefits at the end of the accounting period are recognized as accrued expense while benefits paid in advance are recognized as prepayment to the extent that it will lead to a reduction in future payments.

Retirement benefits. The Bank has a non-contributory and of the final salary defined benefit pension plan provided based on specific level of benefit for every year of service, which comply with the minimum requirement of RA No. 7641.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current year.

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

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 profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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 profit or loss.

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 OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Termination benefits. Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits when it is demonstrably committed to either: (a) terminate the employments of current employees according to a detailed formal plan without possibility of withdrawal; or (b) provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the financial reporting date are discounted to present value.

Compensated absences. Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the financial reporting date.

Income taxes

Current income tax. Current income tax assets and liabilities for the current and the 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 substantively enacted at the financial reporting date.

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- 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.

- In respect of taxable temporary differences associated with investments in subsidiaries, 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 liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized.

The carrying amounts of deferred tax assets are reviewed at each financial reporting 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 assets to be utilized. Unrecognized deferred tax assets are reassessed at each financial reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the financial reporting date.

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

Equity

Capital stock. Capital stock is determined using the nominal value of shares that have been issued. When the Bank issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

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

Retained earnings. Retained earnings include all current and prior period results (other comprehensive income) less any dividend declaration/distribution and prior period correction/adjustment, if any.

Other comprehensive income (loss). Other comprehensive income (loss) comprises items of income and expense, including items previously presented under the separate statements of changes in equity, that are not recognized in profit or loss for the year. Other comprehensive income (loss) of the Bank pertains to remeasurement gains (losses) on retirement benefits.

Dividends on common shares

Cash dividends on common shares are recognized as a liability and deducted from the equity when approved by the BOD and the BSP. Stock dividends are deducted from equity when approved by the BOD, the stockholders and the BSP. Dividends declared during the year but are approved by the BSP after the financial reporting period is dealt with as events after the financial reporting period.

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 the financial and operating decisions. Parties are also considered to be related if they are subject to common control. Key management personnel and post-employment benefit plan are considered related parties.

Events after the reporting period

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

4. Use of Judgments, Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments

In the process of applying the accounting policies, the Bank has made the following judgments, apart from those involving estimations, which have an effect on the amounts recognized in the financial statements:

Determination Whether an Arrangement Contains a Lease. The Bank assesses whether an arrangement contains a lease based on PFRS 16, as disclosed in Note 3. On adoption of PFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied PFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under PAS 17 and IFRC 4 were not reassessed for whether there is a lease. Therefore, the definition of lease under PFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

Bank as Lessee. The Bank has entered into lease agreements as a lessee. Depreciation of right-of-use of asset and interest expense on lease liability recognized in profit or loss are disclosed in Note 11.

Bank as Lessor. The Bank has entered into lease agreements as a lessor. The Bank has determined that it retains all the significant risks and rewards of ownership of the property leased out on operating leases.

Rental income recognized in the statements of income amounted to ₱70,092 and ₱124,295 in 2019 and 2018, respectively (see Note 11).

Determining the lease term of contracts with renewal and termination options - Bank as lessee. The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

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

As a practical expedient in applying PFRS 16 to leases previously classified as operating leases under PAS 17, the Bank included the renewal period as part of the lease term for leases of buildings with shorter non-cancellable period (i.e., one to five years). The Bank typically exercises its option to renew for these leases because these are used as its branches and other offices.

Evaluating Deferred Tax. In determining the amount of current and deferred tax, the Bank takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Bank believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Classifying Financial Instruments. The Bank bases its business model in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the separate statements of financial position.

The classification of financial assets and financial liabilities is presented in Note 27.

Fair value of financial instruments. Where the fair values of financial assets and liabilities recorded in the financial reporting date cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation.

Disclosures of fair values of the Bank's financial assets and financial liabilities in a way that permit it to be compared with its carrying amounts are shown in Note 27.

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

Fair value of ROPA classified as investment properties. The Bank determines the fair value of ROPA classified as investment properties through independent and/or in-house appraisers on the basis of recent sales of similar properties in the same area as the investment properties. It also takes into account the economic conditions prevailing at the time the valuations were made as well as the physical condition of the properties.

The carrying amounts and appraised values of investment properties as at December 31, 2019 and 2018 are disclosed in Note 12.

Classification of properties acquired in settlement of loans. The Bank classifies its acquired properties as bank premises, furniture, fixtures and equipment if used in operations, as assets held for sale if expected that the properties will be recovered through sale rather than use, as investment properties if intended to be held for capital appreciation or as financial assets if qualified as such in accordance with PFRS 9.

Estimates and Assumptions

The key estimates and assumptions used in the separate financial statements are based upon the Bank's evaluation of relevant facts and circumstances as at the date of the separate financial statements. Actual results could differ from such estimates.

ECL on Financial Assets. The Bank reviews its debt financial assets subject to credit losses periodically with updating provisions made during the intervals as necessary based on the continuing analysis and monitoring of individual accounts by credit officers. The measurement of credit losses under PFRS 9 across all categories of such financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining credit losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include, among others:

- Segmentation of the portfolio, where the appropriate model or ECL approach is used
- Criteria for assessing if there has been a significant increase in credit risk and so allowances for debt financial assets should be measured on a lifetime ECL basis and the qualitative assessment
- Segmentation of debt financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomics scenarios and their probability weightings, to derive the economic inputs into the ECL models

The allowance for impairment is established through provision for impairment losses charged to current operations. Loans are written off against the allowance for impairment when management believes that the collectability of the principal is unlikely.

The carrying values of loans receivable, net of allowance for ECL and loan discount, amounted to ₱1,377,632,599 and ₱1,362,696,533 as at December 31, 2019 and 2018 respectively. Total allowance for ECL on loans receivable as at December 31, 2019 and 2018 amounted to ₱251,261,202 and ₱235,692,619, respectively (see Note 8).

The carrying values of accrued interest receivable (AIR), net of allowance for ECL amounted to ₱51,835,039 and nil as of December 31, 2019 and 2018, respectively. Total allowance for ECL on accounts receivables as at December 31, 2019 and 2018 amounted to ₱7,363,015 and nil, respectively (see Note 8).

The carrying values of accounts receivable, net of allowance for ECL amounted to ₱26,300,895 and ₱21,510,770 as of December 31, 2019 and 2018, respectively. Total allowance for ECL on accounts receivables as at December 31, 2019 and 2018 amounted to ₱157,284 and ₱140,307, respectively (see Note 8).

The carrying values of sales contract receivable (SCR), net of allowance for ECL amounted to ₱436,500 and ₱1,065,190 as of December 31, 2019 and 2018, respectively. Total allowance for ECL on SCR amounted to ₱125,000 as at December 31, 2019 and 2018 (see Note 8).

Estimation of useful lives of bank premises, furniture, fixtures and equipment, right-of-use assets, investment properties and intangible assets. The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, investment properties and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment, investment properties and intangible assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of bank premises, furniture, fixtures and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of bank premises, furniture, fixtures and equipment, right-of-use assets, investment properties and intangible assets would increase recorded operating expenses and decrease non-current assets. The estimated useful lives of bank premises, furniture, fixtures and equipment, investment properties and intangible assets are discussed in Note 3, which showed no changes in 2019 and 2018.

The carrying values of bank premises, furniture, fixtures and equipment net of accumulated depreciation amounted to ₱99,358,179 and ₱97,561,259 as at December 31, 2019 and 2018, respectively (see Note 10).

The carrying values of right-of-use assets net of accumulated depreciation amounted to ₱26,099,290 and nil as at December 31, 2019 and 2018, respectively (see Note 11).

The carrying values of investment properties net of accumulated depreciation and allowance for impairment losses amounted to ₱23,864,516 and ₱23,448,113 as at December 31, 2019 and 2018, respectively (see Note 12).

The carrying values of intangible assets net of accumulated amortization amounted to ₱22,213,622 and ₱16,509,559 as at December 31, 2019 and 2018, respectively (see Note 13).

Impairment of non-financial assets. The Bank assesses at each financial reporting date whether there is an indication that the carrying amount of all non-financial assets may be impaired. If any such indications exist, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. At the financial reporting date, the Bank assesses whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

Total allowance for impairment losses on investment properties amounted to ₱221,705 and ₱213,965 as at December 31, 2019 and 2018, respectively (see Note 12). Based on management's assessment, the net carrying amount of its other non-financial assets are recoverable as of the financial reporting date.

The net book values of bank premises, furniture, fixtures and equipment, right-of-use assets, investment properties, intangible assets and other assets are disclosed in Notes 10, 11, 12, 13, and 14 respectively.

Recognition of deferred tax assets. The Bank reviews the carrying amounts of deferred income taxes at each financial reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Estimates of future taxable income indicate that temporary differences will be realized in the future. Deferred tax assets amounted to ₱77,876,209 and ₱69,396,764 as at December 31, 2019 and 2018, respectively (see Note 22).

Estimation of retirement liability. The cost of defined retirement pension plan and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the financial reporting date.

Retirement assets amounted to ₱846,167 and ₱5,015,213 as at December 31, 2019 and 2018, respectively (see Note 18).

Contingencies. The estimate of the probable costs for the resolution of possible claims has been developed in consultation with outside counsel handling the Bank's defense in these matters and is based upon an analysis of potential results. The Bank is a party to certain lawsuits or claims involving recoveries of sum of money arising from the ordinary course of business. However, the Bank's management and legal counsel believe that the eventual liabilities under these lawsuits or claims, if any, will not have a material impact on the Bank's financial statements. These are recognized in the books only when the claims are finally settled or when judgment is rendered.

Leases - Estimating the IBR - The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

5. Cash and Other Cash Items

This account consists of:

	2019	2018
Cash in vault (CIV)	₱145,204,302	₱122,518,782
Checks and other cash items (COCI)	3,228,578	4,997,303
	₱148,432,880	₱127,516,085

6. Due from BSP

The details of this accounts follow:

	Note	2019	2018
Mandatory reserves	*15*	₱49,699,142	₱54,242,362
Other than mandatory reserves		40,627,432	25,267,722
		₱90,326,574	₱79,510,084

The account consists of Demand Deposit Accounts (DDA) maintained with BSP to meet the reserve requirements against deposit and deposit substitute liabilities in accordance with Section 252, *Composition of Reserves*, of the Manual of Regulations for Banks (MORB) which states that the required reserves shall be kept in the form of deposits placed in the Bank's DDA with the BSP.

As at December 31, 2019 and 2018, the Bank had satisfactorily complied with this BSP requirement (see Note 15).

7. Due from Other Banks

The details of this account follow:

	2019	2018
Savings deposit	₱214,348,823	₱266,039,902
Demand deposit	93,992,572	59,709,874
Time deposit	1,025,130	-
	₱309,366,525	₱325,749,776

This pertains to funds and other deposits in local currency maintained with other local banks, primarily to facilitate checks or drafts or other similar payment order collections and other banking services.

Due from other banks earn interest at the respective deposit rates ranging from 0.01% to 5% in 2019 and 2018. Interest earned amounted to ₱831,548 and ₱369,101 (net of 20% final withholding tax) in 2019 and 2018, respectively.

8. Loans and Receivables - Net

This account consists of:

	2019	2018
Loans receivable - net	₱1,377,632,599	₱1,362,696,533
Other receivables - net	78,432,434	22,435,960
	₱1,456,065,033	₱1,385,132,493

Loans receivable-net
The details of this account follow:

	2019	2018
Loans to individual for other purposes	₱1,209,785,600	₱1,190,005,496
Small and medium enterprise loans	251,155,364	239,200,706
Agrarian reform and other agricultural credit loans	71,616,696	99,526,453
Microfinance loans	128,792,095	121,120,038
	1,661,349,755	1,649,852,693
General loan loss provision	(58,609,824)	(13,653,604)
Specific loan loss provision	(192,651,378)	(222,039,015)
Unearned discounts	(32,455,954)	(51,463,541)
	(283,717,156)	(287,156,160)
	₱1,377,632,599	₱1,362,696,533

The Bank grants loans with terms ranging from one year to thirty years (see Note 25). These loan receivables carry nominal interest rates ranging from 2.25% to 24% in 2019 and 2% to 36% in 2018.

Interest earned amounted to ₱321,142,653 and ₱334,270,799 in 2019 and 2018, respectively (see Note 27).

Information about the breakdown of the Bank's loans classified as to status follows:

	December 31, 2019		
	Performing	Nonperforming	Total
Loans to individual for other purposes	₱979,777,729	₱230,007,871	₱1,209,785,600
Small and medium enterprise loans	229,596,253	21,559,111	251,155,364
Agrarian reform and other agricultural credit loans	58,414,743	13,201,953	71,616,696
Microfinance loans	92,300,805	36,491,290	128,792,095
	₱1,360,089,530	₱301,260,225	₱1,661,349,755

	December 31, 2018		
	Performing	Nonperforming	Total
Loans to individual for other purposes	₱1,008,300,602	₱181,704,894	₱1,190,005,496
Small and medium enterprise loans	229,788,360	9,412,346	239,200,706
Agrarian reform and other agricultural credit loans	79,409,516	20,116,937	99,526,453
Microfinance loans	77,320,776	43,799,262	121,120,038
	₱1,394,819,254	₱255,033,439	₱1,649,852,693

Moreover, loans with carrying amounts of ₱308,442,037 and ₱35,937,131 as at December 31, 2019 and 2018, respectively, were pledged as collateral to secure the bills payable (see Note 16).

Information on the concentration of credit as to industry/economic sector of loan receivables, gross of unearned discount and allowance for credit losses, follows:

	2019	% to Total	2018	% to Total
Salary based - general purpose consumption loans	878,322,214	52.87%	826,822,179	50.11%
Agriculture, forestry and fishing	316,219,427	19.03%	370,868,401	22.48%
Wholesale & retail trade, repair of motor vehicles, motorcycles	248,128,007	14.94%	245,731,411	14.89%
Manufacturing	44,020,566	2.65%	48,858,471	2.96%
Construction, mining and quarrying	36,344,957	2.19%	28,698,604	1.74%
Transport, storage and communications	31,604,172	1.90%	39,737,182	2.41%
Real estate activities	19,829,375	1.19%	16,765,126	1.02%
Accommodation and food Service activities	7,504,645	0.45%	11,237,238	0.68%
Other community, social and personal service activities	79,376,392	4.78%	61,134,081	3.71%
	₱1,661,349,755	100.00%	₱1,649,852,693	100.00%

The BSP considers that concentration of credit exists when the total loan exposure to a particular industry or economic sector exceeds 30% of the total loan portfolio. The Bank has more than 30% loan exposure on its 'Salary based - general purpose consumption loans' as at December 31, 2019 and 2018. The management believes that with its risk management measures, the Bank can manage the risk of credit concentration in this particular industry/economic sector.

The Bank analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, internal rating buckets, currency, term and security. To mitigate risk concentration, the Bank constantly checks for breaches in regulatory and internal limits.

One of the most traditional and common practice in mitigating credit risk is requiring security particularly for loans. The Bank implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The principal collateral types for loans are:

- Mortgages over real estate properties and chattels; and
- Hold-out on financial instruments such as debt security deposits and equities.

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

Information about the breakdown of the Bank's total unsecured and secured loans, including the type of security follows:

	2019	Percent to Total	2018	Percent to Total
Loan receivables				
Unsecured	₱1,008,152,979	60.68%	₱950,499,232	57.61%
Secured	653,196,776	39.32%	699,353,461	42.39%
	₱1,661,349,755	100.00%	₱1,649,852,693	100.00%
Secured loan receivables				
Real estate mortgage	₱367,374,814	56.24%	₱414,324,752	59.24%
Chattel mortgage and others	285,821,962	43.76%	285,028,709	40.76%
	₱653,196,776	100.00%	₱699,353,461	100.00%

Secured loans, which are secured by real estate and chattel mortgages and other collaterals, have terms ranging from less than 1 year to 30 years and with annual interest rates ranging from 2.25% to 18% in 2019 and 2% to 20% in 2018.

Unsecured loans are guaranteed by co-makers, who in the event of default will assume the loan balance. These loans have terms of less than 1 year to 7 years with annual interest rates ranging from 12% to 24% in 2019 and 9% to 36% in 2018.

The Bank does not hold any collateral which it is permitted to sell or re-pledge in the absence of default by the borrower.

In accordance with Section 345 of the MORB, the total outstanding loans, other credit accommodations and guarantees to DOSRI shall not exceed 15% of the total loan portfolio of the Bank or 100% of its net worth whichever is lower. However, in no case shall the total unsecured loans, other credit accommodations and guarantees to the said DOSRI exceed 30% of the aggregate ceiling or the outstanding loans, other credit accommodations and guarantees, whichever is lower.

Loans to DOSRI amounted to ₱10,152,517 and ₱766,500 as at December 31, 2019 and 2018, respectively, representing 0.61% and 0.05% of the total loan portfolio of the Bank. Substantial portion of DOSRI loans as at December 31, 2019 and 2018 were secured by deeds of assignment of deposits (see Note 23).

The contractual maturity dates as at December 31, 2019 and 2018 of the loan receivables follows:

	2019	Percent to Total	2018	Percent to Total
Due within 1 year	₱473,820,073	28.52%	₱584,704,836	35.44%
Due more than 1 year	1,187,529,682	71.48%	1,065,147,857	64.56%
	₱1,661,349,755	100.00%	₱1,649,852,693	100.00%

The reconciliation of allowance for ECL on loan receivables follows:

	2019	2018
Balance, January 1	₱235,692,619	₱184,345,315
Provisions	43,901,926	73,542,177
Write off	(28,333,343)	(22,045,168)
Reversal	-	(149,705)
Balance, December 31	₱251,261,202	₱235,692,619

With the foregoing level of allowance for ECL, management believes that the Bank has sufficient allowance to manage any risk from non-collection or non-realization of the Bank's loan receivables.

As at December 31, 2019 and 2018, the non-performing loans (NPLs) of the Bank follow:

	2019	2018
Total NPLs	₱301,260,225	₱255,033,439
Less: NPLs classified as Loss by BSP and are fully covered by allowance for credit losses	(183,679,951)	(213,950,278)
	₱117,580,274	₱41,083,161

NPLs represent approximately 18.13% and 15.46% of the loan portfolio as at December 31, 2019 and 2018, respectively.

Current banking regulations allow banks with no un-booked valuation reserves and capital adjustments to exclude from non-performing classification those loans to customers classified as "Loss" in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said loans shall not be accrued.

As a general rule, under BSP Circular 941, Loans, investments, receivable or any financial assets shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of the principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing. If any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement. Microfinance and other small loans with similar characteristics shall be considered non-performing after contractual due date or after it has become past due.

The Bank has yet to determine the aggregated fair values of the collateral held for NPLs as at December 31, 2019 and 2018.

Other receivables - net
The details of this account follow:

	2019	2018
Accrued interest receivable (AIR)	₱59,198,054	-
Account receivables	26,458,179	₱21,651,077
Sales contract receivable (SCR)	561,500	1,190,190
	86,217,733	22,841,267
Allowance for ECL on AIR	(7,363,015)	-
Allowance for ECL on account receivables	(157,284)	(140,307)
Allowance for fraud losses	(140,000)	(140,000)
Allowance for ECL on SCR	(125,000)	(125,000)
	(7,785,299)	(405,307)
	₱78,432,434	₱22,435,960

The Bank amended its loan product feature from advance interest collection to deferred interest collection in 2019. Accordingly, accrued interest receivable was recognized.

AIR pertain to interest income accrued on lump-sum loans. These are collectible upon maturity of the lump-sum loans receivable. Provision for ECL on AIR amounting ₱7,363,015 has been recognized in the statements of income during 2019.

Accounts receivable include amounts due from customers, employees and other parties, including staff salary and miscellaneous advances, payable in 30 days or less (those payable in more than 30 days are considered as loans). Receivables from employees include those amounts pertaining to the Conditional Cash Transfer project of the government being carried out by certain branches. These amounts are treated as receivable from responsible employees and are subject to liquidation.

SCR represents the balance of the selling price of ROPA, whereby the title will be transferred to buyer upon full payment of the selling price. Interest earned on SCR amounted to ₱1,560,362 and ₱987,914 in 2019 and 2018, respectively.

The reconciliation of allowance for ECL on other receivables follows:

	2019	2018
Balance, January 1	₱405,307	₱239,612
Provisions	7,379,992	165,695
Balance, December 31	₱7,785,299	₱405,307

9. Financial Assets at Amortized Cost

The movements of this account follow:

	2019	2018
Balance, January 1	**₱165,587,000**	₱120,016,428
Investments during the year	**105,269,000**	362,471,572
Matured during the year	**(146,804,000)**	(316,901,000)
Balance, December 31	**124,052,000**	165,587,000
Unamortized discount	**(53,754)**	(1,482,643)
Carrying amount, December 31	**₱123,998,246**	₱164,104,357

Financial assets at amortized cost represents investment in Retail Treasury Bonds through various commercial banks (including government bank) which earns interest at a coupon rate and yield-to-maturity (YTM) of 3.07% to 6.73% in 2019 and 1.57% to 5.88% in 2018.

Investments in 2018 includes placement to Small Business Corporation amounting to ₱10,000,000 an alternative compliance to the provisions of R.A. 6977, otherwise known as Magna Carta for Small Enterprises', as amended by R.A. 8289 and R.A. 9501. Accordingly, the purchase by lending institutions or any party otherwise required to make mandatory allocation of credit resources to micro, small and medium enterprises, shall be deemed as compliance with the mandated loan portfolio allocation percentage as required under Section 15. This investment has a contractual rate of 1.88% per annum and has matured in 2018.

Investment income earned from the investments amounted to ₱4,767,180 and ₱3,505,195 in 2019 and 2018, respectively, and are presented as interest income on financial assets at amortized cost in the statements of income.

10. Bank Premises, Furniture, Fixtures and Equipment - Net

The details of bank premises, furniture, fixtures and equipment (BPFFE) follow:

2019	Land	Building	Furniture and fixtures	Transportation equipment	Information technology	Leasehold rights and improvements	Construction in progress	Total
Costs								
At January 1	₱27,007,820	₱80,360,636	₱93,468,813	₱45,069,716	₱30,595,253	₱25,735,638	₱1,194,696	₱303,432,572
Additions	2,880,600	1,714,396	5,024,739	2,826,014	2,917,765	4,418,899	4,473,366	24,255,779
Disposals	-	-	(1,933,531)	(448,608)	-	-	-	(2,382,139)
At December 31	29,888,420	82,075,032	96,560,021	47,447,122	33,513,018	30,154,537	5,668,062	325,306,212
Accumulated depreciation								
At January 1	-	46,011,775	87,482,757	35,278,528	21,694,337	15,403,915	-	205,871,312
Depreciation	-	6,246,550	3,237,101	4,263,422	5,829,014	2,874,579	-	22,450,666
Disposals	-	-	(1,925,350)	(448,595)	-	-	-	(2,373,945)
At December 31	-	52,258,325	88,794,508	39,093,355	27,523,351	18,278,494	-	225,948,033
Net book values								
At December 31	₱29,888,420	₱29,816,707	₱7,765,513	₱8,353,767	₱5,989,667	₱11,876,043	₱5,668,062	₱99,358,179

2018	Land	Building	Furniture and fixtures	Transportation equipment	Information technology	Leasehold rights and improvements	Construction in progress	Total
Costs								
At January 1	₱26,999,522	₱79,110,583	₱93,263,298	₱40,608,950	₱22,646,692	₱22,982,189	₱-	₱285,611,234
Additions	8,298	1,250,053	4,329,439	4,519,066	8,037,141	3,842,154	1,194,696	23,180,847
Disposals	-	-	(4,123,925)	(58,300)	(88,580)	(1,088,705)		(5,359,510)
At December 31	27,007,820	80,360,636	93,468,812	45,069,716	30,595,253	25,735,638	1,194,696	303,432,571
Accumulated depreciation								
At January 1	-	40,194,848	84,298,788	30,299,690	19,726,978	12,914,149	-	187,434,453
Depreciation	-	5,816,927	7,332,786	4,784,517	3,174,941	2,464,978	-	23,574,149
Disposals	-	-	(4,123,925)	(58,300)	(88,580)	(1,088,705)	-	(5,359,510)
Adjustments		-	(24,892)	252,621	(1,119,002)	1,113,493		222,220
At December 31	-	46,011,775	87,482,757	35,278,528	21,694,337	15,403,915	-	205,871,312
Net book values								
At December 31	₱27,007,820	₱34,348,861	₱5,986,055	₱9,791,188	₱8,900,916	₱10,331,723	₱1,194,696	₱97,561,259

Depreciation and amortization is composed of the following:

	Note	2019	2018
BPFFE	10	₱22,450,666	₱23,574,149
Right-of-use asset	11	6,793,223	-
Intangible assets	13	3,626,726	3,351,404
Investment properties	12	267,754	276,618
		₱33,138,369	₱27,202,171

Fully depreciated assets amounting to ₱2,382,139 and ₱5,359,510 were retired by the Bank as of December 31, 2019 and 2018, respectively.

Proceeds from the disposals of BPFFE amounted to ₱332,912 and nil for 2019 and 2018, respectively, which resulted from gains on disposals of BPFFE, included in 'other operating income' in the statements of income, amounting to ₱324,719 and nil in 2019 and 2018, respectively (see Note 20).

Moreover, certain land and buildings with net book values of ₱4,955,882 and ₱5,627,023 as at December 31, 2019 and 2018, respectively, were pledged as collateral to secure the bills payable (see Note 16).

Under BSP rules, investments in real estate and improvements thereon, including equipment, should not exceed 50% of the Bank's net worth. As at December 31, 2019 and 2018 the total investments of the Bank to its BPFFE were 35.08% and 34.25% respectively, of its net worth.

11. Leases

The Bank as a Lessee
The Bank leases the premises for some of its branches and other offices from various lessors at escalating rentals every 2 to 10 years.

Right-of-use assets
Set out below are the carrying amounts of right-of-use assets recognized and its movements:

	Note	2019
Balance, January 1		₱32,892,513
Depreciation	10	(6,793,223)
Balance, December 31		₱26,099,290

Lease liabilities
Set out below are the carrying amounts of lease liabilities and its movements:

	2019
Balance, January 1	₱33,043,381
Accretion of interest	2,148,950
Payments	(7,776,849)
Balance, December 31	₱27,415,482

When measuring the lease liabilities, the Bank discounted lease payments at IBR ranging from 7.037% to 7.50% as at January 1, 2019.

Analysis of the contractual undiscounted cash flows of the leases are shown below.

	2019	2018
Due not later than 1 year	₱7,988,136	₱9,996,090
Due later than 1 year but not later than 5 years	23,583,949	29,512,177
Due later than 5 years	206,684	258,638
	₱31,778,769	₱39,766,905

**used hindsight and includes extension options reasonably certain to be exercised*

Refundable deposits related to leases amounted to ₱1,377,835 and ₱538,840 as at December 31, 2019 and 2018, respectively (see Note 14).

Short-term and leases of low-value assets
In 2018, rent expense of ₱8,057,577 recognized as part of "operating expenses" in the statement of income pertains to payments classified as operating leases. In 2019, rent expense account pertains to payments classified as short-term leases and leases of low-value assets which amounted to ₱1,070,620.

The Bank as lessor
Rental income on investment properties, included in 'other operating income' in the statements of income, amounted to ₱70,092 and ₱124,295 in 2019 and 2018, respectively (see Note 20). No direct operating expenses were incurred for the rental of these investment properties.

12. Investment Properties - Net

The details of this account follow:

2019	*Note*	Land	Building	Total
Costs				
At January 1		₱21,396,520	₱2,766,176	₱24,162,696
Additions		2,815,872	-	2,815,872
Disposals		(2,041,856)	(88,778)	(2,130,634)
At December 31		22,170,536	2,677,398	24,847,934
Accumulated depreciation				
At January 1		-	500,618	500,618
Depreciation	*10*	-	267,754	267,754
Disposals		-	(6,659)	(6,659)
At December 31		-	761,713	761,713
Accumulated impairment				
At January 1		-	213,965	213,965
Provision	*21*	-	21,641	21,641
Disposals		-	(13,901)	(13,901)
At December 31		-	221,705	221,705
Net book values				
At December 31		₱22,170,536	₱1,693,980	₱23,864,516

2018	*Note*	Land	Building	Total
Costs				
At January 1		₱26,013,492	₱2,620,000	₱28,633,492
Additions		2,047,711	722,676	2,770,387
Disposals		(6,664,683)	(576,500)	(7,241,183)
At December 31		21,396,520	2,766,176	24,162,696
Accumulated depreciation				
At January 1		-	841,223	841,223
Depreciation	*10*	-	276,618	276,618
Disposals		-	(617,223)	(617,223)
At December 31		-	500,618	500,618
Accumulated impairment				
At January 1		-	263,135	263,135
Provision	*21*	-	20,477	20,477
Disposals		-	(69,647)	(69,647)
At December 31		-	213,965	213,965
Net book values				
At December 31		₱21,396,520	₱2,051,593	₱23,448,113

Provision for impairment losses on investment properties is recognized as part of "other operating expenses" recognized in miscellaneous expense in the statements of income (see Note 21).

Appraised values of investment properties as at December 31, 2019 and 2018 amounted to ₱47,545,000 and ₱42,719,444, respectively, as determined by BSP-accredited or in-house appraisers on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

In accordance with Section 382 of the MORB, if the carrying amount of Real Properties Acquired (ROPA) exceeds ₱5.0 million, the appraisal of the foreclosed/purchased asset shall be conducted by an independent appraiser acceptable to the BSP. As at December 31, 2019 and 2018, the Bank did not have any ROPA with carrying amounts in excess of ₱5.0 million.

Gain from sale of investment properties amounted to ₱1,993,461 and ₱6,469,491 in 2019 and 2018, respectively (see Note 20). On the other hand, proceeds on the sale of investment properties amounted to ₱4,103,535 and ₱13,023,805 in 2019 and 2018, respectively.

Real property taxes and other taxes paid related to maintaining these investments amounted to ₱761,303 and ₱2,612,742 and in 2019 and 2018, respectively, which were recognized under 'taxes and licenses' account.

13. Intangible Assets - Net

Intangible assets consist of the Bank's computer software and other licenses. The details and the movement of the account follow:

	Note	2019	2018
Cost			
Balance, January 1		**₱33,062,410**	₱32,162,410
Additions		**9,330,789**	900,000
Balance, December 31		**42,393,199**	33,062,410
Accumulated amortization			
Balance, January 1		**16,552,851**	13,201,447
Amortization	*10*	**3,626,726**	3,351,404
Balance, December 31		**20,179,577**	16,552,851
Net carrying values		**₱22,213,622**	₱16,509,559

14. Other Assets - Net

This account consists of:

	Note	2019	2018
Stationery and supplies		**₱12,142,913**	₱10,470,096
Prepaid expenses		**8,828,368**	1,771,994
Refundable deposits	*11*	**1,377,835**	538,840
Prepaid income tax	*22*	**882,046**	-
Petty cash fund		**129,500**	121,500
Insurance		**-**	875,655
Others		**7,420,676**	7,252,485
		₱30,781,338	₱21,030,570

Stationery and supplies include office supplies, certificates of time deposit, official receipts, among others. Total amount of supplies used and charged to profit or loss amounted to ₱4,792,921 and ₱5,892,329 in 2019 and 2018, respectively.

Prepaid expenses include prepayments on annual subscription for core banking software, insurance, medical, uniform and other taxes. These are amortized over the period of less than one year.

Refundable deposits pertain to deposits that will be reimbursed by the lessor upon the termination of the lease contracts (see Note 11).

Insurance pertains to life insurance coverage made by the Bank on behalf of certain employees which is amortized over a period of less than one year.

Miscellaneous assets include cash bond to certain filed case, advance payments made for the acquisition of supplies and equipment.

15. Deposit Liabilities

This account consists of:

	2019	2018
Savings deposit	₱1,180,257,105	₱1,041,296,773
Time deposit	376,612,684	598,132,364
Demand deposit	99,768,266	101,189,753
	₱1,656,638,055	₱1,740,618,890

The interest earning deposit liabilities of the Bank earn annual fixed interest rates ranging from 0.5% to 4.5% in 2019 and 0.5% to 6.75% in 2018. While demand deposits do not earn interest, the total interest expense on interest earning deposit liabilities amounted to ₱29,166,041 and ₱43,708,463 in 2019 and 2018, respectively.

The savings accounts include dormant accounts of ₱35,763,282 and ₱75,536,398 as at December 31, 2019 and 2018, respectively.

Maturity profile of time deposit follows:

	2019	2018
Matures within 1 year	₱166,652,583	₱393,968,201
Matures beyond 1 year	209,960,101	204,164,163
	₱376,612,684	₱598,132,364

In December 2019, the BSP issued Circular No. 1063 reducing the required reserves against deposit and deposit substitute liabilities to 3% for savings, demand, and time deposits.

Total statutory/legal reserves as reported to the BSP follows:

		2019	2018
Savings deposit		₱1,180,257,105	₱1,041,296,773
Time deposit		376,612,684	598,132,364
Total		1,556,869,789	1,639,429,137
Reserve rate		3%	3%
Required statutory/legal reserve for time and savings deposit liabilities		46,706,094	49,182,874
Demand deposit		₱99,768,266	₱101,189,753
Reserve rate		3%	5%
Required statutory/legal reserve for demand deposit liabilities		2,993,048	5,059,488
Total required statutory/legal reserve	*6*	₱49,699,142	₱54,242,362

The Bank is compliant with the regulations as at December 31, 2019 and 2018.

16. Bills Payable

The movements of this account follow:

	2019	2018
Balance, January 1	₱48,524,609	₱115,156,123
Availments	262,607,600	20,000,000
Payments	(48,956,477)	(86,631,514)
Balance, December 31	₱262,175,732	₱48,524,609

This pertains to loans obtained from Land Bank of the Philippines, People's Credit and Finance Corporation, Philippine Business for Social Progress, United Coconut Planters Bank, and Small Business Corporation.

The bills payable are secured by deed of continuing assignment of loans receivables with carrying amounts of ₱308,442,037 and ₱35,937,131 as at December 31, 2019 and 2018, respectively (see Note 8), and real estate mortgage on certain land and buildings with net book values of ₱4,955,882 and ₱5,627,023 as at December 31, 2019 and 2018, respectively (see Note 10).

Interest rates per annum for these loans ranges from 2.0% to 6.0% in 2019 and 3.0% to 11.0% in 2018. Interest expense on bills payable in 2019 and 2018 amounted to ₱3,558,227 and ₱3,747,140 respectively (see Note 27). There were no defaults or breaches in the repayment of the bills payable during the year ended December 31, 2019 and 2018.

The contractual maturities of the Bank's bills payable follow:

	2019	2018
Due within 1 year	₱198,437,044	₱20,000,000
Due beyond 1 year	63,738,688	28,524,609
	₱262,175,732	₱48,524,609

17. Accrued Expenses and Other Liabilities

This account consists of:

	Note	2019	2018
Accrued interest	*15,16*	₱37,890,752	₱39,745,635
Accounts payable		24,363,450	82,594,216
Accrued other expenses		11,837,210	15,115,611
SSS, BIR, Philhealth, Employer's Compensation Premiums and Pag-IBIG Contributions Payable		2,382,013	2,270,751
Other payables		509,056	905,564
		₱76,982,481	₱140,631,777

Accrued interest represents amounts of interest expense accrued for time deposits and bills payable.

Accounts payable are payable to customers and employees. The account includes funds received for the CCT program not yet distributed to qualified beneficiaries. These are payable within one year.

Accrued other expenses include accrued taxes and licenses (gross receipts tax), and others (e.g. power, light and water, communications, etc.) that are payable the following year. As at December 31, 2018, this includes accrued rent expense amounting ₱150,868 which was adjusted against retained earnings during January 1, 2019 as a result of transition to PFRS 16.

18. Retirement Benefits

The Bank's retirement plan is non–contributory and of the final salary defined benefit type. The Plan provides a retirement benefit ranging from one hundred twenty-five percent (125%) to one hundred seventy-five percent (175%) of plan salary for every year of credited service. Benefits are paid in a lump sum upon retirement or separation in accordance with the terms of the plan.

The latest actuarial valuation report is as at and for the year ended December 31, 2019 obtained on December 12, 2019. There was no plan amendment, curtailment, or settlement recognized in the financial year ended December 31, 2019.

Below is the reconciliation of balances:

	Defined benefit obligation		Fair value of scheme assets		Retirement benefit asset	
	2019	2018	2019	2018	2019	2018
Balance, January 1	₱26,136,157	₱25,887,569	₱31,151,370	₱26,135,632	(₱5,015,213)	(₱248,063)
Contributions	-	-	-	-	-	-
Benefits paid:						
(a) Plan assets	(6,673,806)	-	(6,673,806)	-	-	-
(b) Book reserves	-	-	-	-	-	-
	(6,673,806)	-	(6,673,806)	-	-	-
Service cost - current	2,293,014	2,401,936	-	-	2,293,014	2,401,936
Interest cost/income	1,916,852	1,474,785	2,043,229*	1,488,925*	(126,377)	(14,140)
Included in profit or loss	4,209,866	3,876,721	2,043,229	1,488,925	2,166,637	2,387,796
Actuarial loss (gain) from:						
- Financial assumptions	4,568,910	(7,405,682)	-	-	4,568,910	(7,405,682)
- Demographic assumptions	(799,804)	658,459	-	-	(799,804)	658,459
- Adjustments due to experience	432,859	2,453,275	-	-	432,859	2,453,275
Remeasurement loss (gain)	(688,275)	665,815	1,511,281	3,526,813	(2,199,556)	(2,860,998)
Included in OCI	3,513,690	(3,628,133)	1,511,281	3,526,813	2,002,409	(7,154,946)
Balance, December 31	₱27,185,907	₱26,136,157	₱28,032,074	₱31,151,370	(₱846,167)	(₱5,015,213)

**includes changes in the effect of the asset ceiling*

The retirement benefit asset is represented as follows:

	2019	2018
Present value of DBO	₱27,185,907	₱26,136,157
Fair value of plan asset*	(28,032,074)	(31,151,370)
	(₱846,167)	(₱5,015,213)

**includes changes in the effect of the asset ceiling*

The remeasurement gain (loss) recognized in OCI as at and for the years ended December 31 follows:

	2019	2018
Accumulated remeasurement gains, beginning**	₱26,414,932	₱21,406,470
Remeasurement gain (loss) recognized for the year	(1,401,686)	5,008,462
Cumulative remeasurement gains, ending**	₱25,013,246	₱26,414,932

***Amounts of remeasurement gains (losses) presented in the statements of changes in equity are net of tax*

Sensitivity analysis, year-end defined benefit obligation

	2019	2018
a. Decrease in DBO due to 100 bps, increase in discount rate	(3,686,281) ; (13.6%)	(3,116,057) ; (12.2%)
b. Increase in DBO due to 100 bps, decrease in discount rate	4,456,103 ; 16.4%	3,733,828; 14.7%
c. Increase in DBO due to 100 bps, increase in salary increase rate	4,467,098 ; 16.4%	3,792,922; 14.9%
d. Decrease in DBO due to 100 bps, decrease in salary increase rate	(3,758,948) ; (13.8%)	(3,212,442) ; (12.6%)
e. Increase in DBO, no attrition rates	20,143,321 ; 74.1%	14,044,575 ; 55.2%

Defined benefit obligation - actuarial assumptions

The principal actuarial assumptions used to determine retirement benefits obligation of the Bank follows:

	2019	2018
Discount rate	5.17%	7.53%
Salary increase rate	4.00%	5.00%

Maturity analysis: Expected future benefit payments

	2019	2018
Year 1	₱826,217	₱623,716
Year 2	750,991	459,252
Year 3	182,888	894,328
Year 4	216,604	4,028,921
Year 5	1,964,810	279,468
Year 6-Year 10	7,201,822	8,182,556

Allocation of plan assets follows:

	2019	2018
Debt Instruments - Government Bonds	37.16%	40.49%
Cash & Cash Equivalents	29.74%	27.74%
Equity Instruments	25.89%	2.89%
Unit Investment Trust Funds	6.68%	19.59%
Debt Instruments - Other Bonds	-	11.70%
Others	0.53%	-2.41%
	100.00%	100.00%

19. Equity

Capital funds consist of:

	Note	2019	2018
Authorized capital stock			
Preferred - 10,000 shares (₱500 par value)		₱5,000,000	₱5,000,000
Common - 590,000 shares (₱500 par value)		295,000,000	295,000,000
		₱300,000,000	₱300,000,000
Common - issued and outstanding - 517,777 shares in 2019 and 493,121 shares in 2018		₱258,888,735	₱246,560,735
Additional paid-in capital		2,039,392	1,641,536
Remeasurement gains on retirement benefits	18	25,013,246	26,414,932
Retained earnings-free		73,553,870	74,552,069
Retained earnings-reserve		26,672,454	31,950,887
		₱386,167,697	₱381,120,159

Common shares are capital instruments which represent ownership in the Bank.

Preferred shares are available only for subscription by the government and, in case of sale to private shareholders, shall automatically become convertible to common shares as provided under R.A. No.720, as amended. Preferred shares are non-voting and preferred only as to assets upon liquidation and share in dividend distribution up to a maximum of 2% without preference.

The reconciliation of the common stock for the period follows:

	2019	2018
Balance, January 1	₱246,560,735	₱243,575,370
Issuance of shares	12,328,000	2,985,365
Balance, December 31	₱258,888,735	₱246,560,735

On February 14, 2019, the BOD approved the declaration of cash dividends of 10% of the subscribed stockholdings as of December 31, 2018 amounting to ₱24,656,074. This was paid in 2019.

On March 16, 2018, the BOD approved the declaration of cash dividends of 2.5% of the subscribed stockholdings as of December 31, 2017 amounting to ₱17,050,276. This was paid in 2018.

On its BOD meeting dated May 4, 2018 with BOD resolution 18-119, the Bank has restricted portion of its retained earnings for future purpose.

Presented as part of the common stocks are fractional shares aggregating to ₱69,235 and ₱67,735 as at December 31, 2019 and 2018, respectively. These fractional shares which were temporarily issued with scrip certificates arose from the reverse share split in 2011, stock dividend declarations in 2015, and the additional subscriptions in 2019 and 2018. The scrip certificates may be redeemed in cash or the stockholders holding such scrip certificates may negotiate with other stockholders for the purchase or sale of such shares to convert them into full shares.

The movement and the reconciliation of the number of issued and outstanding shares (including fractional shares) as at December 31, 2019 and 2018 follow:

	Number of whole shares issued	Equivalent amount (a)	Equivalent number of fractional shares	Equivalent amount (b)	Total (a + b)
Balance, December 31, 2017	487,014	₱243,507,000	136.74	₱68,370	₱243,575,370
Additional subscriptions for 2018	5,970	2,985,000	0.73	365	2,985,365
Fractional shares converted to full shares	2	1,000	(2)	(1,000)	-
Balance, December 31, 2018	492,986	₱246,493,000	135.47	₱67,735	₱246,560,735
Additional subscriptions for 2018	24,553	12,276,500	103	51,500	12,328,000
Fractional shares converted to full shares	100	50,000	(100)	(50,000)	-
Balance, December 31, 2019	**₱517,639**	**₱258,819,500**	**₱138.47**	**₱69,235**	**₱258,888,735**

20. Other Operating Income

The details of this account follow:

	Note	2019	2018
Service charges, fees and commissions		₱27,579,702	₱33,470,560
Penalties on past due loans		15,566,489	9,706,371
Insurance commission		7,707,099	8,532,650
Gain on sale of investment properties	*12*	1,993,461	6,469,491
Gain on disposal of BPFFE	*10*	324,719	-
Other income		10,089,395	11,922,767
		₱63,260,865	₱70,101,838

Service charges, fees and commission income are from services offered by the Bank such as for utility and other bills (e.g. ATM, telecommunication, electric and water companies) and taxes. These also include fees and commissions income from intermediation services such as those relating to deposit and lending services.

Other income includes ATM, incidental income from investment properties, dormancy, fund transfers, Western Union fees, and appraisal fees and other fees collected relative to the loans released and others, which are normally recorded at the time these are collected.

21. Compensation and Staff Benefits and Other Operating Expenses

The breakdown of compensation and staff benefits follows:

	2019	2018
Salaries and wages	₱70,294,329	₱72,316,509
Staff benefits	31,791,422	23,765,765
SSS, Medicare and Pag-ibig premium	7,388,950	6,645,025
Directors' and committee fees	3,104,000	3,322,586
Retirement expense	2,166,637	2,387,796
Mutual relief contribution	124,575	115,300
Provident fund contribution	775	284,099
	₱114,870,688	₱108,837,080

The breakdown of other operating expenses follows:

	2019	2018
Information and technology expenses	₱12,148,876	₱9,175,921
Fuel and lubricants	5,700,703	5,312,580
Fees and commission expense	2,626,851	3,054,434
Management and other professional fees	2,536,821	1,163,451
Litigation expense	2,485,319	2,262,139
Representation expense	368,523	577,833
Miscellaneous expense	12,271,522	7,953,931
	₱38,138,615	₱29,500,289

Miscellaneous expense pertains to expenses not classified as those above which includes fines, penalties, provision for impairment losses on investment properties, donations, advertising fees, supervision fees, membership fees, and other expenses.

22. Income Taxes

The provision for income tax consists of:

	2019	2018
Current	₱14,345,947	₱20,736,994
Deferred	(7,923,982)	(16,148,063)
	₱6,421,965	₱4,588,931

The components of the Bank's deferred tax assets follow:

	2019	2018
Allowance for ECL on loans receivable	₱75,378,360	₱70,707,786
Allowance for ECL on AIR	2,208,905	-
Excess of lease expenses over payments	349,597	-
Retirement benefits assets	(253,850)	(1,504,564)
Allowance for impairment losses on investment properties	66,512	64,190
Allowance for ECL on account receivables	47,185	42,092
Allowance for fraud losses	42,000	42,000
Allowance for ECL on SCR	37,500	-
Accrued rent payable	-	45,260
	₱77,876,209	₱69,396,764

The Bank believes that it is reasonably probable that the tax benefits of these temporary differences will be realized in the future.

The reconciliation of the provision for income tax computed at the statutory tax rate to the provision for income tax shown in the statements of income follow:

	2019	2018
Income before income tax expense	₱24,695,799	₱17,572,590
Tax computed at statutory rate of 30%	7,408,740	5,271,777
Tax effects of:		
Income subjected to final tax	(1,679,618)	(1,162,289)
Non-deductible items	692,843	479,443
	₱6,421,965	₱4,588,931

The reconciliation of income tax payable (prepaid income tax) is as follow:

	2019	2018
Balance, January 1	₱4,078,838	₱7,405,755
Provisions	14,345,947	20,736,995
Payments	(19,306,831)	(24,063,912)
Balance, December 31	(₱882,046)	₱4,078,838

23. Related Party Transactions

The Bank, in the normal course of business, has various transactions with its related parties, as described below.

Related Party	Nature of Transactions	Year	Transactions during the Year	Loans receivable (Note 8)	Transactions during the Year	Deposit liabilities (Note 15)
BOD and officers	Borrowings and deposit /withdrawal taking	2019	₱9,386,017	₱10,152,517	₱4,220,908	₱27,095,695
		2018	(₱21,570,276)	₱766,500	₱5,399,407	₱22,874,787

As at December 31, 2019 and 2018, information about the loans and other credit transactions with certain directors, officers, stockholders and their related interests (DOSRI) and related parties follow:

	2019	2018
Loans and other credit transactions with certain DOSRI/related party (Note 7)	₱10,152,517	₱766,500
Outstanding total loan portfolio	₱1,661,349,755	₱1,649,852,693
Percent of DOSRI/related party loans to total loan portfolio	0.61%	0.05%
Percent of unsecured DOSRI/related party loans to total DOSRI/related party loans	0.21%	18.07%
Percent of past due DOSRI/related party loans to total DOSRI/related party loans	0.00%	0.00%
Percent of non-performing DOSRI/related party loans to total DOSRI/related party loans	0.00%	0.00%

The loans granted to DOSRI/related parties as at December 31, 2019 and 2018 are subject to interest rates ranging from 14.04% to 22% per annum with maturity periods of 3 months to 7 years. Substantial portion of the DOSRI/related party loans as at December 31, 2019 and 2018 were secured by hold-out on Certificate of Time Deposits of the respective DOSRI/related party-borrowers.

24. Basic Quantitative Indicators of Financial Performance and Liquidity Ratios

The following basic ratios measure the financial performance and the minimum liquidity of the Bank. These ratios are presented in compliance with Section 174, disclosure requirements in the notes to the audited financial statements, of the MORB, as amended by BSP Circular no. 1074.

	2019	2018
Return on average equity	4.76%	3.39%
Return on average assets	0.77%	0.54%
Net interest margin	15.80%	15.04%
Minimum liquidity ratio	49.76%	35.63%
Capital to risk assets ratio	12.48%	12.85%

25. Financial Risk Management Objectives and Policies

Risk is inherent in the Bank's activities but it is managed through process of ongoing identification, measurement and monitoring subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure
The BOD is ultimately responsible for the formulation of written policies and procedures relating to the management of risks throughout the Bank. The risk management policy includes: a comprehensive risk management approach; a detailed structure of limits; guidelines and other parameters used to govern risk-taking; a clear delineation of lines of responsibilities for managing risks; an adequate system for measuring risks; and effective internal controls and a comprehensive risk-reporting process.

Risk management committee
The Risk Management Committee has the overall responsibility for the development and oversight of the Bank's Risk Management Program and Development of the risk management strategies geared towards loss prevention or minimization to preserve the Bank's earnings and capital in the short term, increase shareholder value in the medium term and capital allocation across all risk-taking activities in the long-term.

Risk management
The initial activity in identifying and facilitating the activities needed by the Risk Management Committee to undertake its risk management program development and oversight function rests with Risk Management (RM).

Bank treasury
Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also responsible for the funding and liquidity risks of the Bank.

Internal audit
Risk management processes throughout the Bank are audited regularly by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures, adequacy of the Bank's internal control and compliance with existing laws, rules and regulations. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

Credit risk
Credit risk refers to the risk that counterparty will default and/or fail to honor its financial or contractual obligations, resulting in financial loss to the Bank.

The Bank drives credit risk fundamentally via its credit policies which are regularly reviewed and updated to reflect changing risk conditions. The credit policies include the Bank's credit structure, target markets, and credit evaluation, administration, monitoring and collection guidelines. Moreover, the Bank monitors credit exposures, and continually assesses the creditworthiness of borrowers. It also obtains sufficient security, enters into collateral arrangements, and limits the duration of exposures, where appropriate.

The Bank's maximum exposure to credit risk before collateral held or other credit enhancements as at December 31 follows:

	Note	2019	2018
Financial assets at amortized costs			
COCI	*5*	₱3,228,578	₱4,997,303
Due from BSP	*6*	90,326,574	79,510,084
Due from other banks	*7*	309,366,525	325,749,776
Loans receivable - net	*8*	1,377,632,599	1,362,696,533
Financial assets at amortized costs	*9*	123,998,246	164,104,357
Other receivables - net	*8*	78,572,434	22,575,960
Refundable deposits	*14*	1,377,835	538,840
		₱1,984,502,791	₱1,960,172,853

Excessive risk concentration
Credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics and are affected similarly by changes in economic or other conditions. The Bank analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, internal rating buckets, and security. For risk concentration monitoring purposes, the financial assets are broadly categorized as loans and receivables. To mitigate risk concentration, the Bank constantly checks for breaches in regulatory and internal limits.

Concentration of risks of financial assets with credit risk exposure
An analysis of concentrations of credit risk by industry at the reporting date based on the carrying amount (gross of allowance for credit losses and unearned interest and discounts) is shown in the following page:

December 31, 2019

Concentration by industry	Loans receivable (Note 8)	Due from BSP and other banks (Notes 6 & 7)	COCI (Note 5)	Financial assets at amortized cost (Note 9)	Other assets (Note 14)	Total
Salary based - general purpose consumption loans	₱878,322,214	₱-	₱-	₱-	₱-	₱878,322,214
Agriculture, forestry and fishing	316,219,427	-	-	-	-	316,219,427
Wholesale & retail trade, repair of motor vehicles, motorcycles	248,128,007	-	-	-	-	248,128,007
Manufacturing	44,020,566	-	-	-	-	44,020,566
Construction, mining and quarrying	36,344,957	-	-	-	-	36,344,957
Transport, storage and communications	31,604,172	-	-	-	-	31,604,172
Real estate activities	19,829,375					19,829,375
Accommodation and food service activities	7,504,645					7,504,645
Other community, social and personal service activities	79,376,392		-	-	-	79,376,392
Financial intermediaries	-	399,693,099	3,228,578	123,998,246		526,919,923
Others	86,217,733	-	-	-	1,377,835	87,595,568
	₱1,747,567,488	₱399,693,099	₱3,228,578	₱123,998,246	₱1,377,835	₱2,275,865,246

December 31, 2018

Concentration by industry	Loan receivable (Note 8)	Due from BSP and other banks (Notes 6 & 7)	COCI (Note 5)	Financial assets at amortized cost (Note 9)	Other assets (Note 14)	Total
Salary based - general purpose consumption loans	₱826,822,179	₱-	₱-	₱-	₱-	₱826,822,179
Agriculture, forestry and fishing	370,868,401	-	-	-	-	370,868,401
Wholesale & retail trade, repair of motor vehicles, motorcycles	245,731,411	-	-	-	-	245,731,411
Manufacturing	48,858,471	-	-	-	-	48,858,471
Transport, storage and communications	39,737,182	-	-	-	-	39,737,182
Construction, mining and quarrying	28,698,604	-	-	-	-	28,698,604
Real estate activities	16,765,126	-	-	-	-	16,765,126
Accommodation and food service activities	11,237,238	-	-	-	-	11,237,238
Other community, social and personal service activities	61,134,081		-	-	-	61,134,081
Financial intermediaries	-	405,259,860	4,997,303	164,104,357		574,361,520
Others	22,841,267	-	-	-	538,840	23,380,107
	₱1,672,693,960	₱405,259,860	₱4,997,303	₱164,104,357	₱538,840	₱2,247,594,320

The aging analyses of financial assets follow:

	December 31, 2019						
		Neither past due nor	Past due but not impaired				
	Total	impaired	Less than 30 days	30-90 days	90-180 days	180-360 days	Impaired
Financial assets at amortized costs							
COCI (Note 5)	₱3,228,578	₱3,228,578	₱-	₱-	₱-	₱-	₱-
Due from BSP (Note 6)	90,326,574	90,326,574	-	-	-	-	-
Due from other banks (Note 7)	309,366,525	309,366,525	-	-	-	-	-
Loans receivable (Note 8)	1,661,349,755	1,311,717,500	23,157,874	25,214,156	32,113,048	53,154,904	215,992,273
Financial assets at amortized costs (Note 9)	123,998,246	123,998,246	-	-	-	-	-
Other Receivables (Note 8):							
AIR	59,198,054	39,483,058	1,139,977	1,203,221	2,149,620	4,508,449	10,713,729
Accounts receivables	26,458,179	26,300,895	-	-	-	-	157,284
SCR	561,500	436,500	-	-	-	-	125,000
Refundable deposits (Note 14)	1,377,835	1,377,835	-	-	-	-	-
	₱2,275,865,246	1,906,235,711	₱24,297,851	₱26,417,377	₱34,262,668	₱57,663,353	₱226,988,286

	December 31, 2018						
		Neither past due nor	Past due but not impaired				
	Total	impaired	Less than 30 days	30-90 days	90-180 days	180-360 days	Impaired
Financial assets at amortized costs							
COCI (Note 5)	₱4,997,303	₱4,997,303	₱-	₱-	₱-	₱-	₱-
Due from BSP (Note 6)	79,510,084	79,510,084	-	-	-	-	-
Due from other banks (Note 7)	325,749,776	325,749,776	-	-	-	-	-
Loans receivable (Note 8)	1,649,852,693	1,281,175,796	17,846,011	28,794,150	34,103,752	52,090,660	235,842,324
Financial assets at amortized costs (Note 9)	164,104,357	164,104,357	-	-	-	-	-
Other receivables (Note 8):							
Accounts receivables	21,651,077	21,510,770	-	-	-	-	140,307
SCR	1,190,190	1,065,190	-	-	-	-	125,000
Refundable deposits (Note 14)	538,840	538,840	-	-	-	-	-
	₱2,247,594,320	1,878,652,116	₱17,846,011	₱28,794,150	₱34,103,752	₱52,090,660	₱236,107,631

With respect to credit risk arising from the other financial assets, such as cash and cash equivalents (excluding cash on hand), the Bank's exposure to credit risk which arises from possible default of other counterparties, with a maximum exposure equal to the carrying amounts of these instruments is addressed by investing its excess funds with various credit worthy universal / commercial banks.

Credit quality per class of financial assets
The credit quality of financial assets is determined based on the Bank's historical experience with the corresponding parties as follows:

Due from BSP, due from other banks, cash and cash equivalents, financial assets at amortized costs - based on the nature of the counterparty and the Bank's internal rating system.

Loans receivable - high grade pertains to fully secured loans with least likelihood of default; standard grade consists of fully secured loans with relatively low defaults; and substandard grade pertains to either secured or clean loans with history of default payments.

The tables below show the credit quality by class of neither past due nor impaired financial assets (gross of allowance for credit losses and unearned discounts as at December 31, 2019 and 2018):

	December 31, 2019			
	High grade	Standard grade	Substandard grade	Total
Financial assets at amortized costs				
COCI (Note 5)	₱-	₱3,228,578	₱-	₱3,228,578
Due from BSP (Note 6)	90,326,574	-	-	90,326,574
Due from other banks (Note 7)	309,366,525	-	-	309,366,525
Loans receivable (Note 8)	1,311,717,500	-	-	1,311,717,500
Financial assets at amortized costs (Note 9)	123,998,246			123,998,246
Other receivables (Note 8):				
AIR	39,483,058	-	-	39,483,058
Accounts receivables	26,300,895	-	-	26,300,895
SCR	436,500	-	-	436,500
Refundable deposits (Note 14)	1,377,835	-	-	1,377,835
	₱1,903,007,133	₱3,228,578	₱-	₱1,906,235,711

	December 31, 2018			
	High grade	Standard grade	Substandard grade	Total
Financial assets at amortized costs				
COCI (Note 5)	₱-	₱4,997,303	₱-	₱4,997,303
Due from BSP (Note 6)	79,510,084	-	-	79,510,084
Due from other banks (Note 7)	325,749,776	-	-	325,749,776
Loans receivable (Note 8)	1,281,175,796	-	-	1,281,175,796
Financial assets at amortized costs (Note 9)	164,104,357	-	-	164,104,357
Other receivables (Note 8):		-	-	
Accounts receivables	21,510,770	-	-	21,510,770
SCR	1,065,190	-	-	1,065,190
Refundable deposits (Note 14)	538,840	-	-	538,840
	₱1,873,654,813	₱4,997,303	₱-	₱1,878,652,116

Liquidity risk

Liquidity risk refers to the risk that the Bank will not be able to meet its financial obligations as they fall due.

The Bank seeks to manage its liquidity profile to be able to finance its operations, capital expenditures and deposit liability withdrawal requirements. To cover its financing requirements, the Bank intends to use internally generated funds and to maintain credit facility with certain creditors.

Since the Bank's financial liabilities are principally short-term, the Bank manages and matches its financial assets by investing its excess funds in ordinary bank deposits, and granting its loan receivables at short-term periods maturing within 1 year.

The table below summarizes the maturity profile of financial liabilities based on its contractual undiscounted cash flows. The maturity grouping of financial liabilities is based on the remaining period from the end of the reporting period to the contractual maturity date. When counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Bank can be required to pay.

December 31, 2019	Note	Total	On demand	Due within 1 year	Due within 1 to 5 years	Due beyond 5 years
Deposit liabilities	15	₱1,656,638,055	₱1,280,025,371	₱166,652,583	₱42,338,979	₱167,621,122
Bills payable	16	262,175,732		198,437,044	61,638,688	2,100,000
Accrued expenses and other liabilities*	17	74,600,468	74,600,468	-	-	-
Lease liabilities	11	27,415,482	-	6,259,545	20,953,787	202,150
		₱2,020,829,737	₱1,354,625,839	₱371,349,172	₱124,931,454	₱169,923,272

December 31, 2018	Note	Total	On demand	Due within 1 year	Due within 1 to 5 years	Due beyond 5 years
Deposit liabilities	15	₱1,740,618,890	₱1,142,486,526	₱393,968,201	₱16,342,713	₱187,821,450
Bills payable	16	48,524,609	-	20,000,000	17,444,609	11,080,000
Accrued expenses and other liabilities*	17	138,361,026	-	138,361,026	-	-
		₱1,927,504,525	₱1,142,486,526	₱552,329,227	₱33,787,322	₱198,901,450

**excluding government liabilities*

Market risks
Market risk refers to the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Bank is subject to certain market risks, including risks from changes in interest rates and currency exchange rates. There have been no changes to the Bank's exposure to market risks or the manner in which it manages and measures the risk.

Foreign currency risk
Currency risk arises when transactions are denominated in foreign currencies.

The Bank is not exposed to significant foreign currency risk given that financial assets and liabilities are denominated in the Bank's functional currency.

Interest rate risks
Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

Cash flow interest rate risk exposure, particularly on the Bank's loan receivables is managed within parameters approved by the management. Currently, loans had been offered at the approved fixed interest rates, ranging from 2.25% to 24% in 2019 and 2% to 36% in 2018.

The annual interest rates for the interest-bearing financial instruments in 2019 follow:

	Note	Within 1 Year	2 - 5 Years
Due from other banks	7	0.01% to 0.25%	-
Loans receivable	8	2.25% to 24.00%	2.25% to 19.80%
Financial assets at amortized cost	9	3.07% to 6.73%	3.50% to 6.25%
Deposit liabilities	15	0.50% to 4.00%	1.25% to 4.50%
Bills payable	16	2.00% to 6.00%	2.00% to 6.00%

The annual interest rates for the interest-bearing financial instruments in 2018 follow:

	Note	Within 1 Year	2 - 5 Years
Due from other banks	7	0.01% to 5.00%	-
Loans receivable	8	2.00% to 36.00%	2.00% to 18.00%
Financial assets at amortized cost	9	1.57% to 1.90%	1.88% to 5.88%
Deposit liabilities	15	0.50% to 4.00%	4.00% to 6.75%
Bills payable	16	3.0% to 11.0%	3.0% to 11.0%

The cash flow interest rate risk of the Bank's financial instruments *(principally composed of loans receivable and deposit liabilities)*, are highly controllable by the Bank. Any changes, thereof, have been subjected to thorough review and approval by the BOD.

The following table demonstrates the sensitivity of net profit before tax for the years ended December 31, 2019 and 2018 to a reasonably possible change in interest rates, with all other variables held constant:

	2019		2018	
Increase/(decrease) in market basis points	1%	(1%)	1%	(1%)
Effect on income before tax	246,958	246,958	175,726	(175,726)
Effect on equity	172,871	(172,871)	123,008	(123,008)

The maturity profile of the Bank's interest-bearing financial instruments follows:

December 31, 2019	Note	Total	On demand	Due within 1 year	Due within 1 to 5 years	Due beyond 5 years
Financial assets						
Due from other banks	7	₱309,366,525	₱309,366,525	₱-	₱-	₱-
Loan receivables	8	1,661,349,755	230,646,695	525,233,248	868,912,762	36,557,050
Financial assets at amortized cost	9	123,998,246	-	59,998,246	40,000,000	24,000,000
SCR	8	561,500	-	561,500	-	-
		₱2,095,276,026	₱540,013,220	₱585,792,994	₱908,912,762	₱60,557,050
Financial liabilities						
Deposit liabilities	15	₱1,656,638,055	₱1,280,025,371	₱166,652,583	₱42,338,979	₱167,621,122
Bills payable	16	262,175,732	-	198,437,044	61,638,688	2,100,000
Lease liabilities	11	27,415,482	-	6,259,544	20,953,788	202,150
		₱1,946,229,269	₱1,280,025,371	₱371,349,171	₱124,931,455	₱169,923,272

December 31, 2018	Note	Total	On demand	Due within 1 year	Due within 1 to 5 years	Due beyond 5 years
Financial assets						
Due from other banks	7	₱325,749,776	₱325,749,776	₱-	₱-	₱-
Loan receivables	8	1,649,852,693	297,729,676	338,438,798	643,400,566	370,283,653
Financial assets at amortized cost	9	164,104,357	-	-	164,104,357	-
SCR	8	1,190,190	-	1,190,190	-	-
		₱2,140,897,016	₱623,479,452	₱339,628,988	₱807,504,923	₱370,283,653
Financial liabilities						
Deposit liabilities	15	₱1,740,618,890	₱1,142,486,526	₱393,968,201	₱16,342,713	₱187,821,450
Bills payable	16	48,524,609	-	20,000,000	17,444,609	11,080,000
		₱1,789,143,499	₱1,142,486,526	₱413,968,201	₱33,787,322	₱198,901,450

26. Capital Risk Management

The primary objective of the Bank's capital management is to ensure that it complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholder's value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year profit and deferred income tax. Certain adjustments are made in PFRS-based results and reserves, as prescribed by the BSP to come up with the Tier 1 capital. The other component of regulatory capital is Tier 2 capital, which includes general loan loss provision (limited to 1.00% of credit risk weighted assets) and preferred shares.

The following table shows the required regulatory capital analysis as at December 31, 2019 and 2018 (in millions):

	Note	2019	2018
Tier 1 capital		₱283.257	₱284.845
Tier 2 capital		19.455	13.654
Total qualifying capital		₱302.712	₱298.499
Risk-weighted assets		₱2,424.954	₱2,323.724
Common equity tier 1 (CET1) capital ratio		14.89%	15.26%
Tier 1 capital ratio		11.67%	12.26%
Total capital ratio	24	12.48%	12.85%

Regulatory capital consists of Tier 1 capital and Total qualifying capital which comprises the following (in millions):

	Note	2019	2018
Share capital	*19*	₱258.889	₱246.561
Additional paid-in capital	*19*	2.039	1.641
Retained earnings	*19*	100.226	106.503
CET1 capital		361.003	354.705
Unsecured credit accommodation to DOSRI		(0.021)	(0.463)
Deferred tax asset	*22*	(77.876)	(69.397)
Tier 1 capital		283.106	284.845
General loan loss provision	*8*	19.455	13.653
Total qualifying capital		₱302.561	₱298.498

Total risk-weighted assets comprise the following (in millions):

Total risk-weighted assets comprise the following (in millions):

	2019	2018
Total credit risk-weighted assets	₱1,905.207	₱1,808.504
Total operational risk-weighted assets	519.747	515.220
	₱2,424.954	₱2,323.724

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting policies which differ from PFRS in some aspects.

Under existing banking regulations, the combined capital accounts of each rural bank should not be less than an amount equal to 10% of its risk assets. Risk weighted assets are defined as total assets less cash on hand, due form 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 determined by the Monetary Board of the BSP.

Revised risk-based capital adequacy framework for stand-alone thrift banks, rural banks and Cooperative banks
The monetary board in its Resolution No. 232 dated February 7, 2015 approved the amendments to Appendix 63c and other related provisions of the MORB on the revised risk-based capital adequacy framework for stand-alone thrift banks, rural banks and Bank banks. The implementing guidelines of the revised risk-based capital adequacy are contained in Circular No. 827 dated February 28, 2015 which shall take effect starting with the CAR reporting period ending March 31, 2015.

Minimum capitalization
Pursuant to the BSP Circular No. 854 series of 2015 dated October 29, 2015, the required minimum capitalization for a rural bank whose head office is located in "all cities up to 3rd class municipalities with 11 to 50 branches" is ₱40M.

The Bank and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

27. Fair Value Measurement

Categories of financial assets and financial liabilities

The following table summarizes the carrying values and fair values of the Bank's financial assets and financial liabilities by class:

	Note	December 31, 2019 Carrying values	December 31, 2019 Fair values	December 31, 2018 Carrying values	December 31, 2018 Fair values
Financial assets at amortized cost					
Cash and other cash items	5	₱148,432,880	₱148,432,880	₱127,516,085	₱127,516,085
Due from BSP	6	90,326,574	90,326,574	79,510,084	79,510,084
Due from other banks	7	309,366,525	309,366,525	325,749,776	325,749,776
Loans receivable - net	8	1,377,632,599	1,468,262,903	1,362,696,533	1,311,555,937
Financial assets at amortized cost	9	123,998,246	123,998,246	164,104,357	164,104,357
Other receivables:	8				
AIR-net		51,835,039	51,835,039	-	-
Accounts receivables-net		26,300,895	26,300,895	21,510,770	21,510,770
SCR-net		436,500	436,500	1,065,190	1,065,190
Refundable deposits	14	1,377,835	1,377,835	538,840	538,840
		₱2,129,707,093	₱2,220,337,397	₱2,082,691,635	₱2,031,551,039
Financial liabilities					
Deposit liabilities	15	₱1,656,638,055	₱1,638,472,840	₱1,740,618,890	₱1,709,741,492
Bills payable	16	262,175,732	269,592,254	48,524,609	48,489,212
Accrued expenses and other liabilities*	17	74,600,468	74,600,468	138,361,026	138,361,026
Lease liabilities	11	27,415,482	27,415,482	-	-
		₱2,020,829,737	₱2,010,081,044	₱1,927,504,525	₱1,896,591,730

**excluding statutory payables*

The methods and assumptions used by the Bank in estimating the fair value of financial instruments are as follow:

Cash and other cash items, due from BSP and other banks, other assets (accounts receivable, sales contract receivable and refundable deposits), and accrued expenses and other liabilities - Carrying amounts approximate its fair values in view of the relatively short-term maturities of these financial instruments.

Loans receivable, deposit liabilities, bills payable, and lease liabilities - Fair values of the Bank's loan receivables are estimated using the discounted cash flow methodology, using current incremental lending rates for similar types of instruments. Where the instrument re-prices on a quarterly basis or has a relatively short maturity, the carrying amounts approximated fair values.

Financial assets at amortized costs - Fair values of debts securities are generally based on quoted market prices. Where the debt securities are not quoted or market prices not readily available, the Bank applies discounted cash flow methodology.

Items of income, expense, gains or losses on financial assets and financial liabilities

Items of income, expense, gains or losses recognized with respect to financial assets and financial liabilities in the statements of income were as follow:

	Note	2019	2018
Total interest income on financial assets measured at amortized cost			
Loans receivable	8	₱321,142,653	₱334,270,799
Financial assets at amortized cost	9	4,767,180	3,505,195
SCR	14	1,560,362	987,914
Due from other banks	7	831,548	369,101
		₱328,301,743	₱339,133,009
Total interest expense on financial liabilities measured at amortized cost			
Deposit liabilities	15	₱29,166,041	₱43,708,463
Bills payable	16	3,558,227	3,747,140
Lease liabilities	11	2,148,950	-
		₱34,873,218	₱47,455,603
Fee income and expense arising from financial assets measured at amortized cost			
Service charges, fees and commissions	20	₱27,579,702	₱33,470,560
Impairment losses			
Loans receivable	8	₱43,901,926	₱73,542,177
AIR	14	7,363,015	-
Accounts receivable	14	16,977	40,695
SCR	14	-	125,000
		₱51,281,918	₱73,707,872

Fair value of assets and liabilities

The following tables summarize the carrying values and fair values of the Bank's non-financial assets and liabilities which fair values are disclosed (not measured at fair value):

	December 31, 2019				
		Fair Value			
	Carrying value	Level 1	Level 2	Level 3	Total Fair Value
ASSETS FOR WHICH FAIR VALUES ARE DISCLOSED					
Non-financial assets					
Investment properties (Note 12)	₱23,864,516	₱-	₱-	₱47,545,000	₱47,545,000

	December 31, 2018				
		Fair Value			
	Carrying value	Level 1	Level 2	Level 3	Total Fair Value
ASSETS FOR WHICH FAIR VALUES ARE DISCLOSED					
Non-financial assets					
Investment properties (Note 12)	₱23,448,113	₱-	₱-	₱42,719,444	₱42,719,444

Fair value measurement of non-financial assets

Investment properties - Fair value of investment properties was determined by in-house appraisers on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made. The in-house appraisers provide the fair value of the Bank's investment properties at least every other year as required under: provided, that immediate re-appraisal shall be conducted on items which materially decline in value.

The Bank's investment properties with fair values disclosed fall under level 3 category as at December 31, 2019 and 2018. There were no transfers from and out of level 3 to other category levels in both years.

28. Reconciliation of Liabilities Arising From Financing Activities

Changes in the Bank's liabilities arising from financing activities consist of cash and non-cash activities. Liabilities arising from financing activities are those for which cash flows were or future cash flows will be classified in the Bank's statements of cash flows as cash flows from financing activities.

Liabilities arising from financing activities of the Bank are from bills payable from a rediscounting credit line of the Bank's loans receivable and from lease liabilities (Note 8 and 11).

Movements of bills payable for the period are as follow:

	2019	2018
Balance, January 1	₱48,524,609	₱115,156,123
Changes from cash flow		
Availments	262,607,600	20,000,000
Payments	(48,956,477)	(86,631,514)
	₱262,175,732	₱48,524,609

Movements of lease liabilities for the period follow:

	2019
Balance, January 1	₱33,043,381
Accretion of interest	2,148,950
Payments	(7,776,849)
Balance, December 31	₱27,415,482

29. Event after the Reporting Period

On March 11, 2020, the World Health Organization (WHO) declared the novel strain of coronavirus (COVID-19) as a global pandemic and recommended quarantine and mitigation measures worldwide. In response, the government-imposed quarantine lockdowns and other mitigation measures that restricted the movement of people and limited the commercial transactions to only the essentials.

The effects of the pandemic are considered by the Bank as a non-adjusting subsequent event because these have no impact to the financial statements as at and for the year ended December 31, 2019. The management, as of the date of approval of these financial statements, cannot yet reasonably estimate the impact of these quarantine and other mitigation measures to its financial statements for the year ending December 31, 2020. Management believes that the Bank will continue as a going concern despite the effects of the pandemic.

30. Supplementary Information Required by the Bureau of Internal Revenue (BIR)

Revenue Regulations (RR) No. 15-2010

1. **The amount of VAT output tax declared during the year and the account title and amount/s upon which the same was based**

   The Bank is a non-VAT registered company engaged in the business of rural banking and paid and/or accrued the total amount of **₱20,804,091** as percentage (gross receipt) tax pursuant to Section 121 of the Tax Code, as amended by RA 9238 effective January 1, 2004, and RA 9337 effective November 1, 2005 and based on the amount of the taxable gross receipts of **₱4,406,306, ₱16,497,785** and **nil** with percentage tax rate of 7%, 5% and 1%, respectively.

2. **Documentary stamp tax (DST)**

   The DST paid/accrued amounted to ₱6,635,462 and ₱981,208, respectively.

3. **Withholding taxes**

   The amount of withholding taxes paid and/or accrued for the year amounted to:

	Paid	Accrued
Final withholding tax	₱6,675,121	₱588,858
Expanded withholding tax	784,716	110,572
Withholding tax on compensation	568,307	193,464
Total	**₱8,028,144**	**₱892,894**

4. **Other taxes and licenses**

	2019
Local	
Business permit, etc.	₱2,223,640
Real estate tax	831,534
Other local taxes	206,095
National	
Gross receipts tax	20,804,091
Other national tax	1,218,267
Transfer taxes	63,744
BIR annual registration	23,500
	₱25,370,871

5. **Periods covered and amounts of deficiency tax assessments, whether protested or not and tax cases, and amounts involved, under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR**

   In 2019, the Bank settled a deficiency tax assessment per electronic Letter of Authority (eLA) No. 201500035010 for the taxable period January 1 to December 31, 2017 amounting to ₱4,359,936.

CANTILAN BANK

YOUR FRIENDLY COMMUNITY BANK

Orozco Street, Magosilom,
Cantilan, Surigao del Sur
8317 Philippines
Tel no (+63) 086 212 5056
E-mail: info@cantilanbank.com
helpdesk@cantilanbank.com

www.cantilanbank.com