CTBC BANK (PHILIPPINES) CORPORATION

Annual Report Year 2019

Our Purpose

To achieve sustainable growth and to be a trustworthy brand
that provides a uniquely personal and fulfilling customer experience
through differentiated products and services within our global network.

Our Strategy

We will provide a stable source of revenue for the Bank
by being the preferred financial products provider for our customers
and by optimizing the earning potential of our resources.
We will innovate products and services
that will delight our customers and address their needs.
We will promote a culture of entrepreneurship
where our employees become partners
in pursuing sustainable business growth.
We will remain committed to uplifting the lives of the people
in our communities by sharing our resources and encouraging employee volunteerism.

CTBC Bank (Philippines) Corp.

CTBC Bank (Philippines) Corp. was established in 1995, when the country opened up to the entry of foreign banks. Amid an intensely competitive arena, CTBC Bank (Philippines) Corp. distinguished itself with a niche-based strategy that demonstrated its efficiency, innovativeness, and customer focus. We drew strength from the global reputation and track record of CTBC, our Parent Bank in Taiwan, and complemented these with our own unique touch of local service and innovation.

In the Philippines, our brand promise "We are Family" has gained new meaning while also holding true to the tradition set by our Parent Bank. CTBC Bank (Philippines) Corp. has achieved this balance by focusing effectively on our chosen markets and developing active partnerships with customers. The results may be seen in our Bank's solid financial performance, innovative products, and responsive services enabled by technology. More importantly, it has shown in the growth that our clients have attained with the Bank by their side.

As we chart our future, we continue to leverage on our Parent Bank franchise and reinforce our efforts to become truly global in our Bank's vision, products and services, systems, and operations. Equally significant has been our emphasis on good corporate governance, keeping pace with international standards and exercising prudence in managing our Bank's resources and risk-taking activities. We remain firmly committed to these goals toward realizing long-term growth while we build our clients' investments, develop our employees' talents and skills, and nurture the communities around us. In directing our capabilities toward these directions, we move closer to our promise of a future secured.

We are Family. We are Caring, Trustworthy, and Professional. We are CTBC Bank.

2019 Annual Report

Summary of Main Contents:

Annual Report Year 2019

Submitted to

Securities and Exchange Commission (SEC)

COVER SHEET

AS95088814A
S.E.C. Registration Number

CTBC BANK (PHILIPPINES)
CORP.
Company's Full Name

Fort Legend Towers Third
Avenue corner 31st Street
Bonifacio Global City
Taguig City
(Business Address: No. Street/ City/ Town / Province)

Atty. Maritess Parilla-Elbinias
Contact Person

88889287
Company Telephone Number

12 31
Month Day
Fiscal Year

SEC 17-A (2019 AMENDED ANNUAL REPORT)
Form Type

05 4
Month Day
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

sye/jps

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

**ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended ------------------ December 31, 2019

2. SEC Identification Number ------------------ AS9508814A

3. BIR Tax Identification No. ------------------ 004-665-166-000

4. Exact name of issuer as specified in its charter ---------

   CTBC BANK (PHILIPPINES) CORP.

5. Philippines
   Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
   Industry Classification Code:

7. Fort Legend Towers, Third Avenue corner 31st Street, Bonifacio Global City, Taguig City — 1634
   Address of Principal Office — Postal Code

   (632) 9889 287
8. Issuer's telephone number, including area code

   Not applicable
9. Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock, P10 par value	300,000,000

11. Are any or all of these securities listed on a Stock Exchange?

    Yes [ ]   No [x]

    If yes, state the name of such stock exchange and the classes of securities listed therein:

**The Philippine Stock Exchange in its Memorandum No. 2012-0010 dated February 20, 2012 approved the Bank's Petition for Voluntary Delisting effective February 24, 2012.*

Check whether the Issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [x]   No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [x]   No [ ]

13. The aggregate market value of the voting stock held by non-affiliates of the registrant.

Number of shares held by non-affiliates multiplied by share price as of February 20, 2012: Php29,457,160.00.

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission. ***Not Applicable.***

Yes [ ]   No [ ]

DOCUMENTS INCORPORATED BY REFERENCE

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(a) Any annual report to security holders ------------- Not applicable

(b) Any proxy or information statement filed pursuant to SRC Rule 20 and 17.1(b)------Not applicable

(c) Any prospectus filed pursuant to SRC Rule 8.1-1--------- Not applicable

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PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

(1) Description of Business

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

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

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

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

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

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

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

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

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

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

On July 25, 2019, the Bank's shareholders elected the following as members of the Board: Messrs. Jack Lee, William B. Go, Y.G. Chen, C.C. Huang, and Erh-Chang Wei; Messrs. Edwin B. Villanueva, Alexander A. Patricio and Stephen D. Sy were elected as independent directors. Messrs. Jack Lee and William B. Go were elected Chairman and Vice-Chairman, respectively. On the same day, the shareholders approved the amendment to Article Seventh of the Articles of Incorporation increasing the authorized capital stock from 3 Billion Pesos to 4 Billion Pesos and increasing the common stock from 300,000,000 to 400,000,000, in connection with the Bank's Capital Build Up Program to comply with the Bangko Sentral Ng Pilipinas Circular No. 854 Series of 2014 on Minimum Capitalization of Banks. The shareholders also approved the issuance to Parent Bank CTBC Bank Co., Ltd. of the following shares at the share price of Php29.755: the 484,920 Treasury Shares, the remaining 51,031,269 from the unissued common shares, and 48,307,202 common shares from the increase in the authorized capital stock subject to the approval of the Securities and Exchange Commission to said amendment in the Bank's articles of incorporation. The Bank entered into a subscription agreement dated September 12, 2019 with CTBC Bank Ltd. The subscriptions were fully paid. The Treasury shares and the remaining unissued common shares had been issued by the Bank so that the shareholdings of CTBC Bank Ltd. increased from 99.60% to 99.67% of the Bank's outstanding shares

During the Organizational Meeting of the Board on July 25, 2019, Mr. Peter Wei, voluntarily resigned as director. On the same day, Mr. Oliver Jimeno was elected as member of the Board and appointed OIC-President and CEO. On December 2, 2019, the Board appointed Mr. Oliver D. Jimeno as full-fledged President and CEO.

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

(2) Business of Issuer

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

PESO DEPOSITS
Savings Account
Checking Account
- Regular
- CheckLite
- Ultimate Earner

Time Deposit

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

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

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

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

CASH MANAGEMENT SERVICES
Account Information Management
- NetBanking (Retail and Corporate)
- E-Mail Statement

Disbursement Management
- Payroll
- Ultimate CheckWriter
- Customs Duties
- BIR eFPS
- BancNet eGov
- MC Bulk Preparation

Receivables Management
- Post-Dated Check Warehousing
- Ultimate Money Mover (Deposit Pick-up)
- BancNet Bills Payment
- Bills Payment (Merchant Biller)

Merchant Acquiring
- BancNet Point-of-Sale (POS)

TREASURY SERVICES
Foreign Exchange
- Spot, Forward, Swap & Options

Peso Fixed Income
- Treasury Bills
- Fixed Rate Treasury Notes
- Retail Treasury Bonds
- Global Peso Notes
- Peso Corporate Bonds
- Peso Short Term Commercial Papers

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

TRUST AND INVESTMENT SERVICES
CTBC Bank Peso Unit Investment Trust Fund
- Money Market Fund
- Balanced Feeder Fund
- Stock Index Feeder Fund

Employee Benefit Plan Management
Investment Management Account
Personal Management Trust
Escrow Agency
Mortgage Trust Indenture

REMITTANCE SERVICES
Inward Remittances
Outward Remittances

TRADE SERVICES
Letters of Credit
- Import Letters of Credit
- Domestic Letters of Credit
- Standby Letters of Credit

Shipping Guarantee
Import Bills Negotiation
Loans Against Trust Receipts
Documentary Collections – Import and Domestic
- Document Against Payment (D/P)
- Document Against Acceptance (D/A)
- Open Account (O/A)
- Direct Remittance (D/R)
- Advance Import Payments (AIP)

Export LC Advising
Export Bills Negotiation (LC and Non-LC)

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

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

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

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

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

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

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

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

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

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

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

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

Number of Employees. As of December 31, 2019, the Bank had six hundred eighty nine (689) employees composed of 393 officers and 296 staff, with 652 regular employees and 37 probationary employees. The Bank has no existing employees' union. It has also no collective bargaining agreement.

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

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

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

Credit risk is the risk that a borrower /obligor, guarantor, debtor or counterparty, or issuer of a security held by the Bank will not pay the obligation when it falls due. The Bank manages its credit risk by setting limits for individual borrowers and group of borrowers. It also places a cap on exposures to top borrowers, specific products, identified market segments, selected industries and loan tenors. The Bank likewise monitors borrower-specific credit exposures, and continually assesses the creditworthiness of counterparties. In addition, the Bank obtains security where appropriate, enters into collateral arrangements with counterparties and limits the duration of the exposures.

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

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

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

Item 2. Properties

Properties Owned

	Type of Property	Property Address	Remarks
1	Condo	Unit 17F, 17TH Floor, 20 Lansbergh Place Condominium, No. 170 Tomas Morato, Ave., cor. Scout Castor St., Brgy. Sacred Heart, Q.C.	consolidated under CTBC
2	Condo	Unit 16-P 16th Floor, Eastwood Parkview Tower 1, Eastwood City, Libis, Q.C.	consolidated under CTBC
3	Condo	Unit E23B Gueventville II Condominium, Calbayog cor. Libertad Sts., Brgy. Highway Hills, Mandaluyong City	consolidated under CTBC
4	Condo	Unit 17A Tower A Kingswood Towers Condominium, Chino Roces Ave. corner Vito Cruz Ext., Makati City	consolidated under CTBC

5	House & Lot**	Lot 9,11, 18 & 20 Block 5 Diana Street, Metro Royale Subdivision Phase 1 Brgy. Burgos Rodriguez Rizal	Consolidation under BSP Circular #858 ongoing
6	House & Lot**	Lot 16 Block 1 Juniper Street, Milflora Villas, Sabang, Baliuag Bulacan	Consolidation under BSP Circular #858 ongoing
7	House & Lot**	Lot 8 & 9, Block 2, Albany Street, Golden Meadows Subd, Phase 2-A Brgy Sinalhan, Sta. Rosa Laguna	Consolidation under BSP Circular #858 ongoing
8	House & Lot**	Lot 8 Block 3, Chiavenna Street, Courtyard of Maia Alta Subd., Brgy. Dalig Antipolo City	Consolidation under BSP Circular #858 ongoing
9	House & Lot**	Lots 16 & 18, Block 3 Johnson Street corner Ivory Street, Sarrael Village Phase 1, Brgy Bucandala 1, Imus Cavite	Consolidation under BSP Circular #858 ongoing
10	House & Lot**	Lot 12 Block 2 H. Poblador Street, BF Resort Village Brgy. Talon Dos, Las Pinas City	Consolidation under BSP Circular #858 ongoing
11	House & Lot**	Lot 5178-D-6-A Paseo Ramon, White Sands Resort Villas, Brgy. Maribago, Lapu-Lapu City, Cebu	Consolidation under BSP Circular #858 ongoing
12	House & Lot**	Lot 11 Block 8 Sparta Drive, Olympia Park Subd., Brgy. Labas Sta Rosa Laguna	Consolidation under BSP Circular #858 ongoing
13	House & Lot**	Lot 4-A (Unit A), San Felipe Street, San Antonio Valley 2, Barangay San Isidro, Paranaque City	Consolidation under BSP Circular #858 ongoing
14	House & Lot**	Lot 9 Block 8 (No. 30) Cairo Street, Multinational Village, Barangay Moonwalk, Paranaque City	Consolidation under BSP Circular #858 ongoing
15	House & Lot**	Lot 5 Block 2 (No. 429), Turquoise Street, Palmera Homes II-C, Brgy. San Isidro, Taytay Rizal	Consolidation under BSP Circular #858 ongoing
16	House & Lot**	Lots 9 & 10 Block 4, Saint Benedict Street, Camella Homes VI, Brgy Pulang Lupa, Las Pinas City	within redemption
17	House & Lot**	#25, Lot 10-A Block 10, Manggahan Street, Zone 4, Signal Village, Taguig City	within redemption
18	House & Lot**	Lots 39, 40, 41, 42, 43 & 44 Block 12 Road Lot 13, Bahayang Pilipino Village, Brgy. Sabang, Lipa City Batangas	within redemption
19	House & Lot**	Lot 27, Block 2, Cresta Ola Street, Holiday Homes, Phase 1, Barangay San Antonio, San Pedro Laguna	within redemption

20	House & Lot**	Lot 7, (LRC) PCS-31394, Gumamela Street, Green Rose Subdivision, Phase 3 Brgy. Geronimo, Rodriguez Rizal	within redemption
21	Condo	Units 404 & 503 Xavierville City Condominium, Echavez., Brgy. Lorega Cebu City	within redemption
22	House & Lot**	Lot 2 Block 10 Terrazas De Punta Fuego, Barangay Natipuan, Nasugbu Batangas	Consolidation under BSP Circular #858 ongoing
23	House & Lot**	Lot 18 Block 2, Oak Drive Street, Brentwood Subdivision, Phase 2, Brgy. Mambungan, Antipolo City	within redemption
24	House & Lot**	Lot 12 Block 2 #212 Aries Street, Annex 45, Better living Subdivision, Barangay Sun Valley, Paranaque City	within redemption
25	House & Lot**	Lot 4 Block 7, Falcon Street, Rosewood Village, Barangay Niog Bacoor City Cavite	within redemption
26	House & Lot**	Lot 8 Block 2, Road 4 (Alba Street), Corona Del Mar Subdivision - Phase 2, Barangay Pooc, Talisay City, Cebu	within redemption
27	Commercial Unit	the entire 12th Floor, BA Lepanto Building, Paseo de Roxas, Makati City	

** Bank acquired properties under C858 accounts - CTBC is the winning bidder.

Description of Property the Bank intends to acquire in the next 12 months. There are no plans to acquire properties within the next twelve (12) months. However, the Bank may lease properties to serve as sites for its branches.

Properties Leased

a. Offices

OFFICE	LOCATION	TERM	MONTHLY [AGGREGATE] RENTAL	EXPIRY DATE	RENEWAL TERM
16th to 19th Floors of Fort Legend Towers	Bonifacio Global City, Taguig City 1634	10 years	PhP3,141,509.64	14-Apr-20	90 days notification
22nd Floor of Fort Legend Towers	Bonifacio Global City, Taguig City 1634	4 years	PhP594,951.33	30-Apr-20	90 days notification

b. Condominium Units

LEASED PREMISES	LOCATION	TERM	MONTHLY RENTAL	EXPIRY DATE	RENEWAL TERM
8Forbestown Road Condominium	Taguig City	1 year	PhP100,000.00	11-Mar-20	60 days notification
One Serendra Condominium	Taguig City	1 year	PhP98,560.00	31-Oct-19	30 days notification
Two Serendra Condominium	Taguig City	1 year	PhP123,000.00	07-Aug-20	30 days notification
One Serendra Condominium	Taguig City	1 year	PhP153,000.00	30-Jun-20	30 days notification
One Serendra Condominium	Taguig City	1 year	PhP118,000.00	07-Sep-20	30 days notification
Hyatt Grand Landmark Residences	Taguig City	1 year	Php132,000.00	24-Jun-20	30 days notification
The Luxe Residences	Taguig City	6 months	PhP122,000.00	08-Apr-20	N/A
Crescent Park Residences	Taguig City	1 year	Php147,000.00	13-Dec-20	30 days notification

c. Branches Business Centers

NAME OF BRANCH	LOCATION	TERM	MONTHLY RENTAL	EXPIRY DATE	RENEWAL TERM
Alabang	Muntinlupa City	5 years	PhP312,004,08	28-Feb-22	90 days notification
Angeles	Angeles City	5 years	PhP185,798.82	14-Jun-21	60 days notification
Ayala	Makati City	5 years	PhP147,495.18	31-Mar-21	90 days notification
Bonifacio Global City	Taguig City	10 years	PhP149,997.19	14-Apr-20	90 days notification
Binondo	Manila	5 years	PhP213,418.43	31-May-21	90 days notification
Buendia	Makati City	5 years	PhP181,198.08	31-May-23	60 days notification
Cagayan de Oro	Cagayan de Oro	5 years	PhP202,920.72	31-Oct-21	60 days notification
Carmona	Cavite	5 years	PhP104,251.69	31-Dec-20	60 days notification
Cavite	Cavite	5 years	PhP80,562.82	31-Dec-22	60 days notification
Cebu-Banilad	Cebu City	5 years	PhP292,723.20	31-Jul-20	60 days notification
Cebu-Magallanes	Cebu City	5 years	PhP247,302.21	30-Sep-21	60 days notification
Cebu-Mandaue	Mandaue City	5 years	PhP185,178.89	31-Jul-21	60 days notification
Davao	Davao City	5 years	PhP218,670.17	30-Jun-21	60 days notification
Dela Costa	Makati City	5 years	PhP306,877.95	14-Oct-21	90 days notification
Del Monte	Quezon City	5 years	PhP141,240.00	1-Jul-22	60 days notification

Greenhills	San Juan City	5 years	PhP269,581.80	31-Jul-23	60 days notification
Iloilo	Iloilo City	5 years	PhP115,346.00	31-Jan-21	60 days notification
Las Piñas	Las Piñas City	5 years	PhP211,821.12	31-May-22	60 days notification
Mabini	Manila	5 years	PhP182,776.03	30-Jun-24	60 days notification
Marikina	Marikina City	5 years	PhP94,374.00	31-Dec-20	60 days notification
Ortigas	Pasig City	5 years	PhP397,517.23	7-Jul-24	60 days notification
Rada	Makati City	5 years	PhP209,344.96	30-Jun-21	90 days notification
Subic	Zambales	5 years	$1,480.22	3-Aug-24	90 days notification
Sucat	Paranaque City	5 years	PhP131,798.84	28-Feb-20	180 days notification
Taytay	Taytay Rizal	5 years	PhP89,604.14	20-Jan-24	60 days notification

All lease contacts have renewal options upon the terms and conditions mutually acceptable to the Bank and the lessors.

Item 3. Legal Proceedings

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

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of the security holders during the fourth (4^{th}) quarter of the year covered by the report.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

1. Market Information

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

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

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

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

2. Holders

The number of shareholders of record as of December 31, 2019 is 112.

Common Shares outstanding as of December 31, 2019 are 300,000,000.

The Top 20 Stockholders of record as of December 31, 2019 are as follows:

Name	Number of Shares Held	% to Total
CTBC Bank Co., Ltd.	299,012,001	99.67
Ma. Asuncion M. Ortoll	241,551	00.08
Alfonso Lao	185,150	00.06
Arlene Ravalo Ulanday &/Or Bethel Ann Ravalo &/Or Eliodoro Ravalo	75,000	00.03
Chen Li Mei	65,992	00.02
Bettina V. Chu	31,078	00.01
Martin M. Ortoll	26,838	00.01
Jose Antonio M. Ortoll	26,838	00.01
Carlos M. Ortoll	26,838	00.01
Ma. Marta M. Ortoll	26,838	00.01
Ma. Beatriz Ortoll-Manahan	26,838	00.01
Ma. Teresa Ortoll-Garcia	26,838	00.01
Ma. Elena Ortoll-Mijares	26,838	00.01
Regan C. Sy	26,450	00.01
PCD Nominee Corporation (Filipino)	13,795	00.00

Ching L. Tan	13,225	00.00
Razul Z. Requesto	13,225	00.00
Guat Tioc Chung	13,225	00.00
Bernardito U. Chu	13,225	00.00
Oliverio Guison Laperal	13,225	00.00

3. Dividends

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

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

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

4. Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction

In accordance with the Bank's Capital Build Up Program to comply with the Bangko Sentral Ng Pilipinas Circular No. 854 Series of 2014 on Minimum Capitalization of Banks, and as approved by the shareholders in its July 25, 2019 regular meeting, and the subscription agreement dated September 12, 2019 between the Bank and its majority shareholder CTBC Bank Co. Ltd, the following shares were issued to the latter at the share price of Php29.755: the 484,920 Treasury Shares, the remaining 51,031,269 from the unissued common shares. All subscriptions were fully paid. The subscription of CTBC Bank Ltd. increased from 99.60% to 99.67% of the Bank's outstanding shares.

Item 6. Management's Discussion and Analysis or Plan of Operation.

FY 2019 Compared to FY 2018

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

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

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

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

FY 2018 Compared to FY 2017

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

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

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

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

FY 2017 Compared to FY 2016

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

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

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

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

Asset quality showed better ratios in 2017. Non-performing loans (NPL) ratio as of December 31, 2017 slightly increased to 0.72% from 0.70% in December 2016 while NPL coverage is at 95% from 98% as of end of last year. Further, the Bank once again manifested its financial strength with a high capital adequacy ratio, which stood at 19.4% for 2017. This ratio is considerably above industry as well as the regulatory requirement of 10%.

Comparison of Interim Periods

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

Key Financial Indicators

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

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

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

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

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

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2019

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

In thousands	**2019**	2018
Current assets	**P30,857,533**	P31,950,789
Current liabilities	**41,038,988**	42,351,497
Ratio of current assets to current liabilities	**75.2%**	75.4%
Net liquid assets[1]	**P14,527,691**	P11,435,445
Total deposits	**37,685,525**	36,361,391
Ratio of net liquid assets to total deposits	**38.5%**	31.4%

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

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

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

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

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

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

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

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

[1/] Net liquid assets consist of cash, due from BSP, due from other banks, interbank loans, securities held for trade and available for sale less derivatives liabilities and interbank borrowings.

[2/] Average balances were determined as the average of the current and previous calendar balances of the respective statements of financial position accounts.

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

Balance Sheet –

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Balance Sheet –

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Plan of Operations

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

Item 7. Financial Statements

The consolidated financial statements and schedules are filed as part of the Form 17-A.

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

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

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

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

There are no other assurance and related services by the external auditor that are reasonably related to the performance of the audit or review of the Bank's financial statements other than those described above.

(b) Tax & All Other Fees

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

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

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

The Audit Committee also evaluates and determines any non-audit service provided to the Bank by the external auditor who is handling the financial audit of the Bank and keeps under review the non-audit fees paid to the external auditor both in relation to their significance to the auditor and in relation to the Bank's total expenditure on consultancy.

The Audit Committee also reviews and recommends to the Bank's Board of Directors any appropriate action to ensure the external auditor's independence.

A reconciliation of retained earnings available for dividend declaration which shall present the prescribed adjustments as indicated in Annex 68-C

Schedule I of Exhibit 2, the Bank's Audited Financial Statements for the fiscal year ended as of December 31, 2019, shows such reconciliation and the corresponding footnotes. Schedule II is reproduced on the succeeding page. As mentioned earlier, the Bank's retained earnings are currently fully restricted.

CTBC BANK (PHILIPPINES) CORPORATION
Fort Legend Towers, Third Avenue corner 31st Street,
Bonifacio Global City, Taguig City

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2019

Unappropriated retained earnings, as adjusted to available for dividend declaration, beginning[1]	**P -**
Net income during the year closed to retained earnings	**360,211,660**
Less: Non-actual/ unrealized income net of tax	
Equity in net income of associate/ joint venture	**-**
Unrealized foreign exchange gain-net (except those attributable to cash and cash equivalents)	**(59,525,816)**
Unrealized actuarial gain	**-**
Fair value adjustment (marking to market gains)	**443,328**
Deferred tax expense	**150,665,692**
Fair value adjustment of Investment Property/AR- ICCS resulting in gain	**7,636,138**
Adjustment due to deviation from PFRSs/GAAP - gain	**-**
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRSs	**3,429,867**
Add: Non-actual losses	
Depreciation on revaluation increment (after tax)	
Adjustment due to deviation from PFRSs/GAAP - loss	**-**
Loss on fair value adjustment of investment property (after tax)	**-**
Net income actually earned during the year	**257,562,450**
Add/Less:	
Dividend declaration during the period	
Appropriations of Retained Earnings during the period	
Trust operations	
Treasury shares[1, 2]	
Minimum capital requirements per BSP Circular No. 854, BASEL III requirements, and ICAAP[1]	**(257,562,450)**
Reversal of appropriations	
Effects of prior period adjustments	
Total retained earnings, available for dividend declaration[1], ending	**P -**

[1] - At the regular meeting of the BOD held on June 23, 2015, the BOD approved the restriction of the full amount of retained earnings for the following purposes:
i.) to comply with minimum capital requirement set forth under BSP Circular No. 854.
ii.) to comply with the requirements of the ICAAP pursuant to BSP Circular No. 639;
iii.) to cover the resulting treasury shares acquired in relation to the Bank's delisting and share buyback exercise; and
iv.) to provide for buffer in preparation for BASEL III requirements
[2] - Amount includes transaction cost.

Item 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

For the calendar years 2018 and 2019, RGM, the local firm of KPMG International has been appointed as the Bank's external auditor.

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

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer-

1. Directors

The following directors shall hold office from date of elections until the next annual shareholders meeting or their resignation unless sooner terminated or removed in accordance with law:

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

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

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

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

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

Independent Directors

STEPHEN D. SY, Filipino, is an independent director, who was elected to the Board on July 25, 2019. He obtained his Master of Science in Management from Stanford University, U.S.A. and his Bachelor of Science in Industrial Engineering from the University of the Philippines. He is currently President and CEO of the following companies: Focus Global Inc. from 1991 to present, SLA Prime Ventures Corp. from 2007 to present, and Focus Palantir Inc. from 2013 to present. He is also member of the Board of Director of Lian Hong Co., Inc. from 1980 to present. He is 69 years old.

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

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

The independent directors have met and continue to meet all the qualifications and possess none of the disqualifications of an Independent Director under the Bank's

Code of Corporate Governance, Section 38 of the Securities Regulation Code and relevant BSP rules.

2. *Executive Officers*

The following are the Bank's executive officers:

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

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

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

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

JOSEPH B. ESTAVILLO, Filipino, earned his Business Administration degree, Major in Economics from San Sebastian College. He currently holds the position of Senior Vice President and Head of the Banking Operations Group. He joined CTBC Bank in 2011 as First Vice President and Head of Branch Operations. Prior to joining CTBC Bank, he was Vice President and Operational Risk Management Head of Bank of Commerce. From 2007 to 2010, he was Assistant Vice President and Head of Export and Industry Bank's Operations Division under Audit Group. In 2001, he joined Rizal Commercial Banking Corporation (RCBC) as Head of Operational Risk. From 1994 to

2000, he was with Solidbank Corporation as Senior Manager of its Audit and Credit Examination Group until its acquisition by Metrobank in 2011. Mr. Estavillo is 58 years old.

REMO ROMULO M. GARROVILLO, JR., Filipino, holds an AB Economics degree from Ateneo de Manila University. He is Senior Vice President and Head of Retail Banking Group. He joined CTBC Bank on December 09, 2014 as Head of Global Transaction and Other Banking Channels followed by his appointment as full-fledged Retail Banking Group Head effective July 25, 2019. Prior to CTBC Bank, he was Director of Merchant Acquisition of Globe Telecom. He started his banking career at Union Bank of the Philippines in 1999, initially as Customer Service Officer and later on as Cash Solutions Manager. In 2003, he joined Philippine National Bank (PNB) as Assistant Vice President and Head of its e-Business Solutions Division. After his three-year stint with PNB, he moved to East West Banking Corporation in 2006 where he was Head of the Product Development and Marketing Support Division. In 2007, he joined Rizal Commercial Banking Corporation (RCBC) as Assistant Vice President of Channel Management and Product Development. He left RCBC as Senior Vice President and Head of Global Transactions Services. Mr. Garrovillo is 41 years old.

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

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

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

MARVIN I. TIBURCIO, Filipino, obtained his Bachelor of Arts in Management Economics from Ateneo De Manila University. He is currently Senior Vice President and Head of Middle Market Department of Institutional Banking Group. Mr. Tiburcio joined CTBC Bank in 2008. Prior to joining CTBC Bank, he served as Assistant Vice President/Corporate Banking Division Head of EastWest Banking Corp., a position he held for five years. While at EastWest, he was exposed to branch banking when he performed the role of Head of Binondo Business Center for three years. Previous to this position in EastWest, he was a Manager/Credit and Compliance Officer with Philippine Banking Corporation. Mr. Tiburcio is 48 years old.

3. Legal Proceedings

None of the directors and executive officers is personally involved in any material pending legal proceedings in any court or administrative agency of the government.

4. Significant Employee

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

5. Family Relationship

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

Item 10. Executive Compensation

1. Summary Compensation Table of Executive Officers

	IN MILLION PESOS			
Name	Annual Salary	Bonus	Others	Total
2018				
Executives (5)	36.20	3.28	23.80	63.28
2019				
Executives (5)	37.38	4.65	29.69	71.72
2020				
Executives (5)	34.40	3.89	20.15	58.44
(Estimate)				

In 2019, the Bank paid approximately P71.72 million as a total compensation to the following executive officers:

Erh-Chang (Peter) Wei	President and CEO (outgoing effective 18 March 2019
Frederick E. Claudio	Executive Vice President for the period January to 26 June 2019; President and CEO for the period 26 June to 10 July 2019
Oliver D. Jimeno	Executive Vice President from January to 02 December 2019 President and CEO effective 02 Dec 2019

Nengshih (Arthur) Wang	Executive Vice President
Lolito Ramon A. Cerrer, Jr.	Senior Vice President
Maria Gretchen S. Macabasco	Senior Vice President
Remo Romulo M. Garrovillo, Jr.	Senior Vice President

For the year 2020, it is estimated that approximately P58.44 million will be paid to the following executive officers:

Oliver D. Jimeno	President and CEO
Nengshih (Arthur) Wang	Executive Vice President
Lolito Ramon A. Cerrer, Jr.	Senior Vice President
Maria Gretchen S. Macabasco	Senior Vice President
Remo Romulo M. Garrovillo, Jr.	Senior Vice President

2. Compensation of Directors

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

3. Employment Contract

There is no employment contract between bank and the named Executive Officers.

4. Warrants and Options

There are no warrants or options held by Bank's President, the named executive officers and all officers and directors as a group.

5. Standard Agreements

Except for the per diem for attendance in the Board and Committee meetings and the Director's Fee under Sections 9 and 10, Article III of the Bank's By-Laws, as amended, there is no other standard arrangement by which the directors are compensated, or are to be compensated, directly or indirectly, for any services provided as a director for the last completed fiscal year and the ensuing year.

6. Other Arrangements

There are no other arrangement, including consultancy contracts pursuant to which any director of the registrant was compensated, or is to be compensated, directly or indirectly, during the registrant's last completed fiscal year, and the ensuing year, for any service provided as a director.

Item 11. Security Ownership of Certain Beneficial Owners and Management

The following is the person or entity known to the Bank as owning more than 5% of the Bank's shares:

Title of Class	Name and address of Record Owner and relationship with issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage Held
Common	CTBC Bank Co., Ltd. No. 168 Jingmao 2nd Road, Taipei, Taiwan, R.O.C.	CTBC Bank Co., Ltd.	Taiwanese	299,012,001	99.67%

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

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

1. Group Owning More Than 5% of Registrant's Voting Securities

Except for CTBC Ltd., there is no other person or group known to the Bank to be directly or indirectly the record or beneficial owner of more than 5% of any class of registrant's voting securities.

2. Security Ownership of Management as of December 31, 2019

a. Directors

Title of Class	Name, address of record owner and relationship with issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	Jack Lee 13F, No. 3 Sung Shou Rd., Taipei 110, Taiwan, R.O.C.	Jack Lee	Taiwanese	1	0.00
Common	William B. Go 2277 Magnolia St., Dasmariñas Village, Makati City	William B. Go	Filipino	52	0.00
Common	Oliver D. Jimeno 4 Calanthe St., Pacific Village, Alabang, Muntinlupa, Metro Manila	Oliver D. Jimeno	Filipino	1	0.00
Common	C.C. Huang Fl. 12, No. 168, Jingmao 2nd Rd., Nangkang Dist., Taipei City, Taiwan	C.C. Huang	Taiwanese	1	0.00
Common	Chen Yeun-Ginn 7F., No. 13, Ln.23, Minyou E. Rd., Taoyuan District, Taoyuan City, Taiwan (R.O.C.)	Chen Yeun-Ginn a.k.a. James Chen a.k.a. Y.G. Chen	Taiwanese	1	0.00
Common	Stephen D. Sy 7 Agoho Road, Makati City, Metro Manila	Stephen D. Sy	Filipino	1	0.00

Common	**Edwin B. Villanueva 173 Lauan Street, Muntinlupa City 1702**	**Edwin B. Villanueva**	**Filipino**	**1**	**0.00**
Common	**Alexander A. Patricio 17 Duhat Street, Valle Verde 1 Pasig MM 1600**	**Alexander A. Patricio**	**Filipino**	**1**	**0.00**
				59	

b. Executive Officers as of December 31, 2019

Title of Class	Name, address of record owner and relationship with issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	**Oliver D. Jimeno 4 Calanthe St., Pacific Village, Alabang, Muntinlupa, Metro Manila**	**Oliver D. Jimeno**	**Filipino**	**1**	**0.00**

c. Directors and Officers

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

d. Change in Control.

There is no change in control of registrant and no change in control has occurred since the beginning of the last fiscal year.

There are also no arrangements known to the Bank, which may result in a change of control of registrant.

Item 12. Certain Relationships and Related Transactions

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

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

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

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

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

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

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

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

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

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

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

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

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

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

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

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

PART V - EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

Exhibits

The exhibits are incorporated by reference as set forth in the index attached hereto.

Reports on SEC Form 17-C

The following reports on SEC Form 17-C were filed during the last six (6) months period covered by this report:

Date Filed	Item
July 12, 2019	Item 4. Resignation, Removal or Election of Registrant's Directors or Officers
July 15, 2019	Item 4. Resignation, Removal or Election of Registrant's Directors or Officers (Amended)
July 16, 2019	Item 4. Resignation, Removal or Election of Registrant's Directors or Officers
July 30, 2019	Item 9. Other Events
August 1, 2019	Item 9. Other Events (Amended)
September 16, 2019	Item 9. Other Events
December 4, 2019	Item 4. Resignation, Removal or Election of Registrant's Directors or Officers

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Taguig 8 June 2020.

By:

OLIVER D. JIMENO
President and CEO
Principal Executive Officer
TIN: 149-947-849

ANDREW A. FALCON, FVP
Principal Financial Officer, Comptroller &
Principal Accounting Officer
TIN: 229-140-289

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

The Bank has no Principal Operating Officer.

SUBSCRIBED AND SWORN to before me this ___ day of June 2020 affiants exhibiting to me their Passport/SSS ID Nos., as follows:

NAMES	SSS I.D. NO.	DATE/PLACE OF ISSUE
Oliver D. Jimeno	SSS ID No. 33-3651156-1	
Andrew A. Falcon	SSS ID No. 33-8761568-1	
Atty. Maritess P. Elbinias	SSS ID No. 03-8177518-0	

Doc. No. ____________;

Page No. ____________;

Book No. ____________;

Series of 2020.

EXHIBITS AND ANNEXES

1. **STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

2. **AUDITED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2019 and 2018**

CTBC BANK
中國信託銀行

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **CTBC BANK (PHILIPPINES) CORP.** (the Bank) is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2019, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

R.G. Manabat & Co., the independent auditor, appointed by the stockholders, has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

WILLIAM B. GO
Vice Chairman

OLIVER D. JIMENO
President and Chief Executive Officer

ANDREW A. FALCON
First Vice-President
Chief Financial Officer

Signed this June 3, 2020.

SUBSCRIBED AND SWORN to before me this _______ day of __________ 2020 affiants exhibiting to me their Government Issued I.D., as follows:

NAMES	**GOVERNMENT ISSUED I.D. / TIN**	**DATE/PLACE OF ISSUE**
WILLIAM B. GO	Passport # P4044525A	issued on 08.15.17 at Manila
OLIVER D. JIMENO	SSS ID 33-3651156-1 TIN 149-947-879	
ANDREW A. FALCON	SSS ID 33-8761568-1 TIN 229-140-289	

Doc. No. ______;

Page No. ______;

Book No. ______;

Series of 2020.

CTBC BANK (PHILIPPINES) CORPORATION

FINANCIAL STATEMENTS
December 31, 2019 and 2018

With Independent Auditors' Report

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

REPORT OF INDEPENDENT AUDITORS

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

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

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

Emphasis of Matter

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 29 and Revenue Regulations 15-2010 in Note 30 to the financial statements is presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of the Bank. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.

Vanessa P. Macamos

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

June 3, 2020
Makati City, Metro Manila

R.G. Manabat & Co.
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Website home.kpmg/ph
Email ph-inquiry@kpmg.com

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

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

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

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

R.G. MANABAT & CO.

Vanessa P. Macamos

VANESSA P. MACAMOS
Partner
CPA License No. 0102309
BSP Accreditation No. 102309-BSP, Group A, valid for 5-year audit period (2019 to 2023)
SEC Accreditation No. 1619-A, Group A, valid until June 30, 2020
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June 3, 2020
Makati City, Metro Manila

KPMG

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Website	home.kpmg/ph
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REPORT OF INDEPENDENT AUDITORS TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE SECURITIES AND EXCHANGE COMMISSION

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

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

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

R.G. MANABAT & CO.

Vanessa P. Macamos

VANESSA P. MACAMOS
Partner
CPA License No. 0102309
BSP Accreditation No. 102309-BSP, Group A, valid for 5-year audit period (2019 to 2023)
SEC Accreditation No. 1619-A, Group A, valid until June 30, 2020
Tax Identification No. 920-961-311
BIR Accreditation No. 08-001987-38-2019
Issued September 25, 2019; valid until September 24, 2022
PTR No. MKT 8116770
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June 3, 2020
Makati City, Metro Manila

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REPORT OF INDEPENDENT AUDITORS TO ACCOMPANY SUPPLEMENTARY INFORMATION FOR FILING WITH THE SECURITIES AND EXCHANGE COMMISSION

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

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

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

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

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

R.G. MANABAT & CO.

Vanessa P. Macamos

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

June 3, 2020
Makati City, Metro Manila

CTBC BANK (PHILIPPINES) CORPORATION
STATEMENTS OF FINANCIAL POSITION

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

Forward

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

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

See Notes to the Financial Statements.

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

CTBC BANK (PHILIPPINES) CORPORATION
STATEMENTS OF INCOME

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

See Notes to the Financial Statements.

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

CTBC BANK (PHILIPPINES) CORPORATION
STATEMENTS OF OTHER COMPREHENSIVE INCOME

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

See Notes to the Financial Statements.

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

CTBC BANK (PHILIPPINES) CORPORATION
STATEMENTS OF CHANGES IN EQUITY

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

Forward

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

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

See Notes to the Financial Statements.

CTBC BANK (PHILIPPINES) CORPORATION
STATEMENTS OF CASH FLOWS

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

Forward

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

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

See Notes to the Financial Statements.

CTBC BANK (PHILIPPINES) CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

1. Organization

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

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

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

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

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

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

2. Basis of Preparation and Statement of Compliance

Statement of Compliance

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

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

Basis of Measurement

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

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

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

Functional and Presentation Currency

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

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

Presentation of Financial Statements

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

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

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

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

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

3. Summary of Significant Accounting Policies

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

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

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

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

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

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

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

Impact on Transition

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

The Bank measured on a lease-by-lease basis, the right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statements of financial position immediately before the date of initial application. The impact on transition [(increase (decrease)] is summarized below:

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

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

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

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

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

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

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

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

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

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

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

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

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

Foreign currency-denominated non-monetary items that are measured at historical cost are translated using the exchange rate at the transaction date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

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

Financial Instruments

Recognition and Initial Measurement

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

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

Classification and Measurement

Financial Assets

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

Debt Instruments

Financial Assets at Amortized Cost

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

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

- the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest (SPPI).

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

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

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

Financial Assets at FVOCI

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

b. Financial assets at FVOCI which shall consist of:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- excess assets no longer required for regulatory purposes; and

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

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

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

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

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

Financial Liabilities

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

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

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

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

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

Reclassification of Financial Assets and Financial Liabilities

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

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

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

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

Financial liabilities are not reclassified.

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

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

The definitions of the stages are as follows:

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

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

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

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

The Bank uses three variables in computing the ECL:

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

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

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

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

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

Modification of Financial Assets and Financial Liabilities

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

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

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

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

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

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

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

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

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

Derecognition of Financial Instruments

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

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

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

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

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

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

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

Policies on Financial Instruments Affecting the 2017 Financial Statements

Classification and Measurement

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

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

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

Impairment of Financial Instruments

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

Determination of Fair Value
'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

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

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

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

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

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

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

Cash and Cash Equivalents

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

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

Repurchase and Reverse Repurchase Agreements

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

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

Property and Equipment

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

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

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

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

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

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

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

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

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

Investment Properties

Investment properties are measured initially at cost including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of the asset cannot be measured reliably, in which case the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified under “Investment properties - net” in the statements of financial position from foreclosure date. Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and impairment loss, if any.

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

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

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

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

Computer Software Costs

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

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

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

Impairment of Non-financial Assets

Property and Equipment, Investment Properties, and Computer Software Costs

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

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

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

On-balance Sheet Financial Guarantees

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

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

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

<u>Revenue Recognition</u>

Interest Income

Policies Applicable

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

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

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

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

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

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

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

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

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

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

Policy on Interest Income Affecting the 2017 Financial Statements

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

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

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

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

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

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

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

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

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

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

- on the basis of a direct association between the costs incurred and the earning of specific items of income;

- on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or

- immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statements of financial position as an asset.

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

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

Leases

Policy Applicable from January 1, 2019

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

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

Bank as Lessee

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

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

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

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

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

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

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

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

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

Policy Applicable before January 1, 2019

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Provisions

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

Income Taxes

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

Current Income Tax

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

Deferred Tax

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- The unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract;
- There is BOD's approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation);
- There is stockholders' approval of said proposed increase; and
- The application for the approval of the proposed increase has been filed with the SEC.

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

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

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

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

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

To be Adopted on January 1, 2020

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

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

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

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

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

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

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

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

4. Significant Accounting Judgments and Estimates

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

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

<u>Judgments</u>

Judgment Applicable from January 1, 2019 only

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

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

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

Judgments Applicable in both 2019 and 2018

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

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

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

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

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

Significant Increase in Credit Risk

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

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

Going Concern

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

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

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

Determining whether a Financial Instrument is Quoted in an Active Market

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

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

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

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

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

Judgment Applicable before January 1, 2019

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

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

<u>Estimates</u>

Estimates Applicable from January 1, 2019 only

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

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

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

Estimates Applicable in both 2019 and 2018

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

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

In addition to specific allowance against individually significant loans and receivables, the Bank also provides a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is done by considering information that is indicative of significant increases in credit risk on a group or sub-group of financial instruments.

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

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

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

Determining Inputs into ECL Measurement Model

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

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

Determining Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

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

Estimates Applicable before January 1, 2018

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

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

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

5. Financial Risk and Capital Management Objectives and Policies

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

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

- Credit Risk
- Market Risk
- Liquidity Risk

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

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

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

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

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

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

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

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

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

The core responsibilities of the RMC are:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Office of the CRO;

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

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

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

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

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

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

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

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

(b) assist in structuring appropriate credit facilities;

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

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

(e) conduct regular meetings to discuss problem accounts;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Procedures and Working Manual:

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

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

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

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

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

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

Counterparty Credit Risk

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

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

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

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

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

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

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

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

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

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

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

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

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

Credit-Related Commitments Risks

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

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

Further details on these commitments are disclosed in Note 29.

Risk Concentrations of the Maximum Exposure to Credit Risk

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

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

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

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

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

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

**Financial intermediaries include investment in Landbank Bonds classified as 'Unquoted debt securities'.*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

It is the Bank’s policy to maintain accurate and consistent risk ratings across the credit portfolio. These facilitates focused management of major potential risk and the comparison of credit exposures across all lines of business, demographic and products.

The table below shows the credit risk rating comprising each category of credit quality and the equivalent external grades for each internal credit risk rating applied for comparison purposes only.

	ORR Internal Credit Risk Ratings (Institutional Banking)	Moody's Equivalent Grades**
Investment grade	0	Applicable to only the central government, central bank and their agencies of the Republic of China and sovereign states with S&P medium- and long-term ratings at AA- or higher, or multilateral development banks with risk weights at 0.0% approved by the Basel Committee on Banking Supervision.
	1	Aa3 or higher
	2	A1 to A3
	3	Baa1
	4	Baa2
	5	Baa3
Sub-investment grade	6	Ba1
	7	Ba2
	8	Ba2*
	9	Ba3
High-risk	10	B1
	11	B2
	12	B3
	13	Caa1 - Ca
Watch-list	14	C
Default	15	C
	16	C
	17	C

**already equivalent to substandard status*
***equivalent Standard and Poor's ratings apply*

Financial assets with ORR categorized under investment grade includes:

- government, central bank, central government or their related bureaus and entities whose S&P ratings are higher than or equal to AA-;
- multilateral development banks risk weighted at 0.0% by Basel Committee;
- superior multinational banks;
- top multinational corporations;
- above average to exceptionally high quality jumbo firms; and
- exceptionally good middle market and small and medium enterprises.

Financial assets with ORR categorized under sub-investment grade includes:

- below to typically above average jumbo firms,
- below average to very high quality middle market firms, and
- average to very high quality small and medium enterprises.

High risk financial assets represent counterparties that include poor, weak, far below average jumbo firms, middle market, and small and medium enterprises. Obligors demonstrating initial warning signals and credit concerns also fall under this category. Watchlist to default grade financial assets are classified loans by the BSP.

For Retail Banking, credit quality is monitored using internal ratings. For public personal loans, risk differentiation or risk rating is established by scorecard models. Scorecard variables are assigned scores based on their discriminative power to differentiate good-bad factors. Higher scores assigned to a loan applicant denote better risk and therefore lower propensity to default. For corporate personal loans, the employer's repayment management and performance within its defined default ratio caps is salient to measuring risk.

For mortgage portfolio, risk differentiation is tied to income classification. Performance review of the mortgage portfolio identifies income as a good risk indicator, such that, higher income segments denotes better risk as manifested in the risk-ranking of customers by income bands.

For SME loans, the Bank's internal credit rating is composed of a numeric rating which provides an assessment of the creditworthiness and outlook of the account. According to different size of loan amount, either Credit Scoring Rating (CSR) or ORR is used to measure the risk level. CSR is designed for the evaluation of lower loan amount, and considers factors such as character and management assessment, business consideration and conditions, and financial performance and repayment indicators to differentiate the risk.

The table below shows the credit score rating comprising each category of credit quality.

CSR	Credit Scoring Rating	Credit Quality Description
57 - 62	1	Excellent
51 - 56	2	Strong
45 - 50	3	Good
39 - 44	4	Satisfactory
31 - 38	5	Acceptable
Below 31	6	Risky/Watchlist
	7	Special Mention
	8	Substandard
	9	Doubtful
	10	Loss

For SME loans with higher loan amount, ORR, the model used by Institutional Banking is adopted to adequately measure the risk.

The credit quality of trading and financial investment securities is generally monitored through the internal and external ratings which are provided by eligible external credit rating agencies.

Impairment Assessment

With the implementation of PFRS 9 alongside BSP Circular 1011, the Bank adopted the ECL methodology to estimate provisions for loans and other credit accommodations.

The ECL model considers losses from initial recognition and at each reporting date. Three stages of impairment are used for the entire financial asset that serves as an objective basis in determining significant increase in credit risk (SIICR).

Definition of Stages

Institutional Banking

DETERIORATION IN CREDIT QUALITY			
	Stage 1	**Stage 2**	**Stage 3**
Impairment Stage	No significant increase in credit risk	Significant increase in credit risk	Credit impaired
Recognition of expected credit losses	Collective 12-month ECL when credit risk is low or risk of default has not increased significantly	Collective or Individual Lifetime ECL when credit quality deteriorates significantly but not credit impaired	Individual Lifetime ECL when credit losses are incurred or asset is credit impaired
Staging Criteria	Early Warning (EW) tagging = EW1a ORR 1 to 13 (normal)	Collective = ∆Annualized PD variance >=2% Individual = EW tagging = EWb or EW2 (ORR 14)	EW tagging = EW3 (ORR 15 to 17)

The qualitative and quantitative definitions of stages for ECL assessment above apply to institutional banking items which include loans and advances, accounts receivables, unused portion of committed and uncommitted facilities, off-balance sheet credit commitments and contingencies, and to treasury items which include interbank loans receivables, debt investment securities at FVOCI and investment securities at amortized cost.

Collective impairment is applied for assets classified into Stage 1. Assets classified under Stage 2 (with SIICR) are assessed either for collective or individual impairment.

Under the Stage 2 concept, lifetime expected credit losses shall be recognized when there are significant increases in credit risk since initial recognition. Expected credit losses are updated at each reporting date for new information and changes in expectations even if there has not been a significant increase in credit risk.

The three variables under the ECL structure: PD, LGD, and EAD assume the following for the ECL computation:

		PD X	**LGD** X	**EAD**	= **ECL**
Collective	Stage 1	1-Year PD	1-Discounted Recovery	• Principal • Accrued Interest • Contingencies • Unused FAC	1-Year ECL
Collective	Stage 2.1 SIICR	Lifetime PD	1-Discounted Recovery	• Principal • Accrued Interest • Contingencies • Unused FAC	Lifetime ECL
Individual	Stage 2.2 SIICR	100%	Individual Estimation	Individual Estimation	Lifetime ECL
Individual	Stage 3 Objective Impairment	100%	Individual Estimation	Individual Estimation	Lifetime ECL

Stage 3 classified assets will be individually assessed under the Individual Impairment methodology.

Similar to previous model definitions, individual impairment is recognized when (1) an objective evidence of a specific loss event has been observed and (2) the financial asset's carrying value exceeds the present value of the asset's estimated cash flow.

Retail Banking
For Retail, impairment losses are recognized depending on type of impairment applicable, as follows:

a. Specific Impairment
   Specific provision shall be applied to accounts with objective evidence that a specific impairment is applicable (e.g., behavior is different from the rest of the portfolio, etc.). Such accounts will no longer be assessed as part of collective impairment. Qualifications are defined on a per product basis, and are reflected accordingly in respective Product Guidelines.

   Depending on applicability, specifically impaired accounts shall be subject to either: (1) full provisioning (100% provision), or (2) discounting of cash flow methodology (with provision less than 100% of OB).

b. Collective Impairment
   All retail loans accounts not subject to specific impairment shall be subject to collective impairment.

   Collectively impaired accounts shall be subject to the ECL Model applicable to Retail Loans portfolio. ECL Model is a function of the PD, LGD, and EAD computed as follows:

   ECL = PD x LGD x EAD

   Similar to corporate loans, three stages of impairment are used for the entire financial asset of retail loans that serve as an objective basis in determining significant increase in credit risk as shown below. Further, one-year ECL is applied among exposures with no significant increase in credit risk (stage 1); otherwise, lifetime ECL shall be applied.

Definition of stages for retail loans are as follows:

Retail Credit Stage Definition			
	Impairment Stage	**Staging Criteria**	**Loss Period**
Stage 1	No significant increase in credit risk	▪ Low credit risk	12- month ECL
Stage 2	Significant increase in credit risk	▪ Minimum requirement: 31 to 90 days past due ▪ High risk indicator: • Quantitative - ΔPD>(product interest -funding cost) - PD equivalent to overdue (CRR of 20) • Qualitative - OLTV>90.0% and ΔCLTV>20.0% - OLTV<=90.0% and CLTV>100.0% ▪ Stage 2 standard • hit minimum requirement; or • hit 2 high risk indicators	Lifetime ECL
Stage 3	Credit impaired	▪ NPL definition during model development pre-BSP Circular 941 • 91+ days past due • items in litigation • matured with balance • 20.0% unpaid principal and interest ▪ Charge-off ▪ Restructured ▪ Rescheduled	Lifetime ECL

OLTV is the original loan-to-value.
CLTV is the current loan-to-value.

To test the sensitivity of the ECL variables to macro-economic factors for both corporate and retail loans the forward-looking methodology is adopted where:

- probability of default uses the Bank's internal default data adjusted by macro-economic factors such as GDP growth, inflation and unemployment rate; and

- loss given default (LGD) applies the two-stage adjustment approach.

There is a rebuttable presumption that default does not occur even when the financial asset is 90 days past due as defined above provided that the Bank has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

For credit losses from other financial assets not assessed using the ECL model, the Bank uses a simplified approach where loss allowance always equals to lifetime ECL.

The tables below show the credit quality by class of the Bank's financial assets, including loans and receivables (gross of loss allowance and unearned interest discount, in thousands):

	ECL				Simplified		
	Stage 1	Stage 2	Stage 3	POCI	Approach	2019	2018
Financial Assets at Amortized Cost							
Due from BSP							
High grade	**P4,277,491**	**P -**	**P -**	**P -**	**P -**	**P4,277,491**	P5,001,860
	4,277,491	**-**	**-**	**-**	**-**	**4,277,491**	5,001,860
Due from Other Banks							
High grade	**1,591,079**	**-**	**-**	**-**	**-**	**1,591,079**	1,266,760
	1,591,079	**-**	**-**	**-**	**-**	**1,591,079**	1,266,760
Interbank Loans Receivable							
High grade	**1,518,594**	**-**	**-**	**-**	**-**	**1,518,594**	6,143,547
	1,518,594	**-**	**-**	**-**	**-**	**1,518,594**	6,143,547
Investment Securities at Amortized Cost							
Quoted Debt							
High grade	**2,852,384**	**-**	**-**	**-**	**-**	**2,852,384**	2,790,519
	2,852,384	**-**	**-**	**-**	**-**	**2,852,384**	2,790,519
Loans and Discounts							
Institutional Banking							
High grade	**4,756,602**	**-**	**-**	**-**	**-**	**4,756,602**	4,217,234
Standard grade	**14,291,947**	**-**	**-**	**-**	**-**	**14,291,947**	13,389,020
High risk	**7,872,336**	**906,738**	**9,631**	**-**	**-**	**8,788,705**	9,204,312
Watchlist	**-**	**167,078**	**-**	**-**	**-**	**167,078**	-
Default	**-**	**-**	**192,560**	**-**	**-**	**192,560**	12,622
Unrated	**-**	**-**	**-**	**-**	**-**	**-**	-
PD but not individually impaired	**-**	**-**	**-**	**-**	**-**	**-**	-
Specifically impaired	**-**	**-**	**330,114**	**-**	**-**	**330,114**	336,157
	26,920,885	**1,073,816**	**532,305**	**-**	**-**	**28,527,006**	27,159,345
Retail Banking							
High grade	**4,569,131**	**-**	**-**	**-**	**-**	**4,569,131**	4,396,685
Standard grade	**-**	**127,105**	**-**	**-**	**-**	**127,105**	3,682
High risk	**-**	**-**	**-**	**-**	**-**	**-**	-
Watchlist	**-**	**-**	**-**	**-**	**-**	**-**	-
Default	**-**	**-**	**-**	**-**	**-**	**-**	-
Unrated	**-**	**-**	**-**	**-**	**-**	**-**	-
PD but not individually impaired	**-**	**-**	**260,776**	**-**	**-**	**260,776**	76,765
Specifically impaired	**-**	**-**	**115,332**	**-**	**-**	**115,332**	272,076
	4,569,131	**127,105**	**376,108**	**-**	**-**	**5,072,344**	4,749,208
Mortgage Banking							
High grade	**1,851,199**	**610**	**171**	**-**	**-**	**1,851,980**	1,928,702
Standard grade	**420,190**	**414**	**139**	**-**	**-**	**420,743**	-
High risk	**35,252**	**-**	**14**	**-**	**-**	**35,266**	-
Watchlist	**-**	**-**	**-**	**-**	**-**	**-**	-
Default	**-**	**-**	**-**	**-**	**-**	**-**	-
Unrated	**-**	**-**	**-**	**-**	**-**	**-**	-
PD but not individually impaired	**-**	**8,376**	**6,896**	**-**	**-**	**15,272**	27,077
Specifically impaired	**-**	**-**	**2,949**	**-**	**-**	**2,949**	15,180
	2,306,641	**9,400**	**10,169**	**-**	**-**	**2,326,210**	1,970,959
Small Business Loans							
High grade	**1,305,660**	**-**	**-**	**-**	**-**	**1,305,660**	-
Standard grade	**57,000**	**-**	**-**	**-**	**-**	**57,000**	1,405,705
High risk	**-**	**-**	**-**	**-**	**-**	**-**	-
Watchlist	**-**	**-**	**-**	**-**	**-**	**-**	-
Default	**-**	**-**	**-**	**-**	**-**	**-**	-
PD but not individually impaired	**-**	**-**	**35,450**	**-**	**-**	**35,450**	-
Specifically impaired	**-**	**-**	**-**	**-**	**-**	**-**	-
Unrated	**-**	**-**	**-**	**-**	**-**	**-**	-
	1,362,660	**-**	**35,450**	**-**	**-**	**1,398,110**	1,405,705

Forward

	ECL				Simplified		
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Approach**	**2019**	2018
Accrued Interest Receivable							
High grade	**P125,017**	**P55**	**P76**	**P -**	**P -**	**P125,148**	P141,659
Standard grade	**35,008**	**209**	**15**	**-**	**-**	**35,232**	35,345
High risk	**24,414**	**2,343**	**11**	**-**	**-**	**26,768**	5,219
Watchlist	**-**	**-**	**-**	**-**	**-**	**-**	-
Default	**-**	**-**	**-**	**-**	**-**	**-**	-
Unrated	**77,069**	**-**	**-**	**-**	**-**	**77,069**	69,540
PD but not individually impaired	**-**	**-**	**-**	**-**	**-**	**-**	-
Specifically impaired	**-**	**-**	**-**	**-**	**-**	**-**	-
	261,508	**2,607**	**102**	**-**	**-**	**264,217**	251,763
Other Receivables							
Unrated	**-**	**-**	**-**	**-**	**266,429**	**266,429**	418,113
PD but not individually impaired	**-**	**-**	**-**	**-**	**-**	**-**	157
	-	**-**	**-**	**-**	**266,429**	**266,429**	418,270
Other Assets*	**-**	**-**	**-**	**-**	**37,355**	**37,355**	38,570
Subtotal	**45,660,373**	**1,212,928**	**954,134**	**-**	**303,783**	**48,131,219**	51,196,508
Financial Assets at FVTPL							
Quoted Debt							
High grade	**-**	**-**	**-**	**-**	**4,125**	**4,125**	59,418
Derivative Assets							
High grade	**-**	**-**	**-**	**-**	**77,016**	**77,016**	39,768
Unrated	**-**	**-**	**-**	**-**	**-**		28,176
	-	**-**	**-**	**-**	**77,016**	**77,016**	67,944
Subtotal	**-**	**-**	**-**	**-**	**81,141**	**81,141**	127,362
Financial Assets at FVOCI							
Quoted Debt							
High grade	**-**	**-**	**-**	**-**	**6,420,539**	**6,420,539**	2,399,898
Standard grade	**-**	**-**	**-**	**-**	**12,441**	**12,441**	12,441
Quoted Equity							
High grade	**-**	**-**	**-**	**-**	**680**	**680**	880
Subtotal	**-**	**-**	**-**	**-**	**6,433,660**	**6,433,660**	2,413,219
Total	**P45,660,373**	**P1,212,928**	**P954,134**	**P -**	**P6,818,584**	**P54,646,020**	P53,737,089

**Includes returned checks and other cash items and rent deposit*

Corporate Loans

For corporate loans, obligors are considered non-performing even without any missed contractual payments once there are objective indicators of impairment (per MORB Section 304). However for revolving lines, all other loan accounts of an obligor are considered non-performing if any principal and/or interest remains unpaid for more than thirty (30) days from contractual due date while for term loans, all other loan accounts are considered non-performing if any principal and/or interest remains unpaid in accordance with the following schedule:

Mode of Payment	Classification to NPL
Monthly	91 days after 1st installment in arrears
Quarterly	31 days after 1st installment in arrears
Semi-annual	31 days after 1st installment in arrears

Retail Loans

In the case of retail loans, the total outstanding balance thereof shall be considered nonperforming if any principal/interest are unpaid for more than ninety (90) days from contractual due date for Personal Loans and Mortgage Loans, or if any principal/ interest are unpaid for more than thirty (30) days from contractual due date for retail SME.

For both corporate and retail loans, non-performing loans, investments, receivables, or any financial asset, shall remain classified as such until: (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least 6 months; or (b) written-off.

The table below shows the aging analysis of past due but not specifically impaired loans and discounts by class (in thousands).

	2019			2018		
	Less than 30 Days	**31 to 90 Days**	**Total**	Less than 30 Days	31 to 90 Days	Total
Loans and Discounts						
Institutional banking	**P -**	**P -**	**P -**	P -	P -	P -
Retail banking	**109,660**	**-**	**109,660**	76,765	-	76,765
Mortgage banking	**9,274**	**-**	**9,274**	27,077	-	27,077
Small business loans	**-**	**35,450**	**35,450**	-	-	-
Other receivables	**-**	**-**	**-**	158	-	158
Accrued interest receivable	**-**	**-**	**-**	-	-	-
Total	**P118,934**	**P35,450**	**P154,384**	P104,000	P -	P104,000

The above aging analysis already excludes accounts that have been assessed to be specifically impaired. Further, the definition of past due follows that of PFRS 7, which states that a financial asset is past due when the counterparty has failed to make a principal or interest payments when due.

The detailed information with respect to the Bank's loss allowance on loans and receivables are disclosed in Note 12.

Included in specifically impaired financial assets are the Bank's restructured loan receivables. The table below shows the carrying amounts of restructured loan receivables by class (in thousands):

	2019	2018
Institutional banking:		
Performing	**P -**	P -
Non-performing	**78**	2,599
Personal loans:		
Performing	**-**	-
Non-performing	**18,018**	14,379
Mortgage banking:		
Performing	**-**	-
	P18,096	P16,978

Restructured performing and non-performing loans (NPLs) of the Bank, net of specific impairment allowances as at December 31, 2019 and 2018 amounted to P18.1 million and P17.0 million, respectively.

<u>Non-performing Loans</u>
The Bank monitors its NPLs ratio as part of its credit risk monitoring and reporting to the BSP. Shown below are the Bank's NPL:

	2019	2018
Secured	**P98,151,320**	P296,832,051
Unsecured	**710,965,464**	336,156,582
	P809,116,784	P632,988,633

Collateral and Credit Risk Mitigation Techniques
The amount and type of collateral required depends on the assessment of the credit risk of the borrower or counterparty. The Bank follows guidelines on the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained for loans and receivables are as follows:

- For Institutional Lending - cash, guarantees, securities, physical collaterals (e.g., real estate, chattels, inventory, etc.); and

- For Retail Lending - cash, securities, mortgages on residential and commercial properties.

Management regularly monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement. The existing market value of collateral is considered during the review of the adequacy of the loss allowance. For unsecured lending, the Bank performs comprehensive credit evaluation process before each loan is approved.

The following table shows information relating to loans and receivables (at gross amounts) broken down into secured and unsecured, with types of collateral being shown for the secured portion:

	2019		2018	
	Amount	**%**	Amount	%
Secured by:				
Real estate	**P3,535,085,389**	**9.3**	P4,413,728,340	12.3
Hold-out on deposits	**3,682,814,952**	**9.7**	3,293,493,116	9.2
Mortgage trust indenture	**236,865,705**	**0.6**	410,688,802	1.1
Government bonds	**65,324,650**	**0.2**	68,772,200	0.2
Chattel	**46,429,895**	**0.1**	88,724,644	0.2
Stand by letter of credit (LC)	**17,469,075**	**0.1**	16,036,900	0.0
Government guarantee	**-**	**0.0**	-	0.0
	7,583,989,666	**20.0**	8,291,444,002	23.0
Unsecured	**30,270,326,796**	**80.0**	27,663,807,614	77.0
	P37,854,316,462	**100.0**	P35,955,251,616	100.0

As at December 31, 2019 and 2018, the fair values of real estate collaterals held for past due and impaired loans and discounts, amounted to P62.7 million and P20.7 million, respectively. There were no other types of collaterals held during 2019 and 2018.

Fair values were determined by the Bank's internal appraisers, or by accredited external appraisers. Normally, there are three approaches available to the Bank in arriving at the fair value of collateral (i.e., real estate and chattel). These are the cost approach, market data approach and income approach.

The cost approach takes into consideration the current cost of reproducing a property less depreciation from all sources (i.e., deterioration, functional and economic obsolescence). On the other hand, the market data approach takes into consideration the value indicated by recent sales of comparable properties in the market. Lastly, income approach takes into consideration the value which the property's net earning power will support based upon a capitalization of net income.

The Bank utilizes all three approaches to determine the fair values of the collateral and chooses the appropriate valuation approach on a case-to-case basis.

As at December 31, 2019 and 2018, no collaterals were subjected to repurchase and reverse repurchase agreements with BSP.

Liquidity Risk

Liquidity risk is the risk of loss to earnings or capital due to the inability to meet funding requirements within a reasonable period of time at a reasonable price.

The Bank applies a liquidity risk management strategy of maintaining sufficient cash and marketable securities, ensuring the availability of funding through an adequate amount of committed credit facilities and having the ability to close out market positions.

The MRMD is responsible in managing liquidity risk. The MRMD is independent of the risk-taking unit and in charge of formulating Asset and Liability Management Policy and establishing implementation guidelines as needed; developing the methods of identification, measurement, monitoring and reporting of risk and pushing for the implementation; and studying asset and liability management related issues.

The table below shows the maturity profile of the Bank's financial liabilities, based on undiscounted contractual cash flows (in millions):

	2019					
	On Demand	**1 to 3 Months**	**3 to 6 Months**	**6 to12 Months**	**Greater than One Year**	**Total**
Deposit liabilities:						
Demand	**P8,023**	**P -**	**P -**	**P -**	**P -**	**P8,023**
Savings	**7,306**	**-**	**-**	**-**	**-**	**7,306**
Time	**10,986**	**9,327**	**1,099**	**475**	**471**	**22,358**
Bills payable	**-**	**-**	**-**	**-**	**4,774**	**4,774**
Outstanding acceptances	**55**	**-**	**-**	**-**	**-**	**55**
Manager's checks	**74**	**-**	**-**	**-**	**-**	**74**
Accrued interest, taxes and other expenses*	**466**	**-**	**-**	**-**	**-**	**466**
Lease liabilities	**-**	**21**	**12**	**28**	**55**	**116**
Other liabilities**	**1,451**	**-**	**-**	**-**	**-**	**1,451**
	28,361	**9,348**	**1,111**	**503**	**5,300**	**44,623**
Financial liabilities at FVTPL:						
Forward contract payable	**4,638**	**-**	**-**	**-**	**-**	**4,638**
Forward contract receivable	**(8,007)**	**-**	**-**	**-**	**-**	**(8,007)**
	(3,369)	**-**	**-**	**-**	**-**	**(3,369)**
	P24,992	**P9,348**	**P1,111**	**P503**	**P5,300**	**P41,254**

**Excludes retirement liability, accrued taxes and other non-financial accruals.*

*** Excludes withholding taxes payable, provision liability, lease liabilities and deposits for future stock subscription.*

	2018					
	On Demand	1 to 3 Months	3 to 6 Months	6 to12 Months	Greater than One Year	Total
Deposit liabilities:						
Demand	P7,647	P -	P -	P -	P -	P7,647
Savings	7,597	-	-	-	-	7,597
Time	10,288	6,849	1,614	1,621	745	21,117
Bills payable	2,945	1,052	-	-	3,913	7,910
Outstanding acceptances	194	-	-	-	-	194
Manager's checks	80	-	-	-	-	80
Accrued interest, taxes and other expenses*	385	-	-	-	-	385
Other liabilities**	1,929	-	-	-	-	1,929
	31,065	7,901	1,614	1,621	4,658	46,859
Financial liabilities at FVTPL:						
Forward contract payable	10,071	-	-	-	-	10,071
Forward contract receivable	(10,178)	-	-	-	-	(10,178)
	(107)	-	-	-	-	(107)
	P30,958	P7,901	P1,614	P1,621	P4,658	P46,752

**Excludes retirement liability, accrued taxes and other non-financial accruals.*

***Excludes withholding taxes payable, provision liability and deposits for future stock subscription.*

The above maturity table shows the undiscounted cash flows whose expected maturities are not the same as the asset-liability gap. The Bank does not expect all time depositors to require repayment on the earliest date the Bank could be required to pay. Further, the maturity table does not reflect expected cash flows based on deposit behavior and historical retention rate.

Accrued interest and other expenses exclude taxes, payroll-related balances and other non-financial items. Other liabilities exclude non-financial liabilities such as withholding taxes payable.

Financial liabilities at FVTPL pertain to the notional amounts of the outstanding forward contract as at year end.

The table below shows the contractual expiry by maturity of the Bank's off-balance sheet commitments (in thousands).

	2019					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Beyond 1 Year**	**Total**
Commitments	**P -**	**P -**	**P -**	**P -**	**P1,246,887**	**P1,246,887**
Contingent liabilities	**92,144**	**1,942,869**	**500,519**	**7,996**	**-**	**2,543,498**
Total	**P92,144**	**P1,942,869**	**P500,519**	**P7,996**	**P1,246,887**	**P3,790,415**

	2018					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	Total
Commitments	P -	P -	P -	P421,538	P -	P421,538
Contingent liabilities	115,110	2,448,194	648,847	84,215	-	3,296,366
Total	P115,110	P2,448,194	P648,847	P505,753	P -	P3,717,904

As required by the BSP, the Bank sets aside funds in due from BSP as liquidity reserves. These funds are withdrawable on demand and are used as financial assets held for managing liquidity risk (see Note 13).

To ensure that adequate liquidity is maintained at all times, the Bank's Liquidity and Balance Sheet Management Unit diversifies funding sources and evaluates cash flows and future funding needs on a daily basis. This involves projecting the Bank's liquidity position under current market conditions. MRMD, in close coordination with Treasury, also conduct liquidity stress testing to evaluate the potential effects of a set of specified changes in liquidity risk factors on the Bank's financial position under a severe but plausible scenario to assist the Board and senior management in decision making.

In addition to its core deposit base, the Bank maintains a portfolio of marketable assets that can be readily liquidated in the event of an unforeseen interruption of cash flows. Additional funding may be secured from the interbank market by tapping the Bank's credit facilities. Further, the Bank maintains with the BSP statutory reserves on its non-FCDU deposits.

Liquidity risk control entails primarily the setting of risk limits, which define management's tolerance for liquidity risk. Specifically, limits are set on the maximum cumulative outflow and level of interbank borrowings. Liquidity risk is also monitored through the use of liquidity ratios. One of the more important liquidity ratios is the ratio of net liquid assets to total deposits. Net liquid assets consist of the sum of cash, due from BSP, due from other banks, interbank loans receivable, financial assets at FVTPL, financial assets at FVOCI, and investment securities at amortized cost with remaining maturities of less than one month, less derivative liabilities and interbank borrowings. The ratios for the year 2019 and 2018 were as follows:

	2019	2018
December 31	**28.5%**	20.7%
Average during the year	**22.9%**	23.6%
Highest	**29.0%**	32.0%
Lowest	**14.3%**	12.1%

The analysis on net liquidity using undiscounted contractual cash flows (in thousands) are as follows:

	2019									
	Carrying Value	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	2 Years	3 Years	4 Years	Greater than 5 Years	Total
Assets										
Financial assets at amortized cost:										
Cash and other cash items	P725,063	P725,063	P -	P -	P -	P -	P -	P -	P -	P725,063
Due from BSP	4,277,491	4,277,491	-	-	-	-	-	-	-	4,277,491
Due from other banks	1,591,079	1,591,079	-	-	-	-	-	-	-	1,591,079
Interbank loans receivable - gross	1,518,431	1,518,594	-	-	-	-	-	-	-	1,518,594
Investment securities - gross	2,852,384	-	-	100,000	19,505	257,571	-	-	2,475,853	2,852,929
Loans and discounts - gross	36,987,482	7,458,759	6,552,036	4,158,244	2,831,358	10,714,673	3,224,673	679,598	2,234,975	37,854,316
Other assets*	37,355	1,442	622	18,860	1,514	8,142	4,077	2,084	614	37,355
Subtotal	47,989,286	15,572,428	6,552,658	4,277,104	2,852,377	10,980,386	3,228,750	681,682	4,711,442	48,856,827
Financial assets at FVTPL	81,141	81,141	-	-	-	-	-	-	-	81,141
Financial assets at FVOCI	6,433,660	6,420,539	-	-	-	-	-	-	13,121	6,433,660
Total Financial Assets	54,504,087	22,074,108	6,552,658	4,277,104	2,852,377	10,980,386	3,228,750	681,682	4,724,563	55,371,628
Liabilities										
Financial liabilities at FVTPL	99,175	99,175	-	-	-	-	-	-	-	99,175
Other financial liabilities at amortized cost:										
Deposit liabilities	37,685,525	26,314,675	9,326,513	1,098,619	474,844	250,077	220,797	-	-	37,685,525
Bills payable	4,774,481	-	-	-	-	3,779,087	995,394	-	-	4,774,481
Outstanding acceptances	54,618	54,618	-	-	-	-	-	-	-	54,618
Manager's checks	73,938	73,938	-	-	-	-	-	-	-	73,938
Accrued interest, taxes and other expenses**	466,121	466,121	-	-	-	-	-	-	-	466,121
Other liabilities***	1,567,041	1,567,041	-	-	-	-	-	-	-	1,567,041
Total Financial Liabilities	44,720,899	28,575,568	9,326,513	1,098,619	474,844	4,029,164	1,216,191	-	-	44,720,899
Net Liquidity Gap	P9,783,188	(P6,501,460)	(P2,773,855)	P3,178,485	P2,377,533	P6,951,222	P2,012,559	P681,682	P4,724,563	P10,650,729

**Includes returned checks and other cash items and rent deposit.*
***Excludes retirement liability, accrued taxes and other non-financial accruals.*
**** Excludes withholding taxes payable, provision liability and deposits for future stock subscription.*

	2018									
	Carrying Value	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	2 Years	3 Years	4 Years	Greater than 5 Years	Total
Assets										
Financial assets at amortized cost:										
Cash and other cash items	P505,000	P505,000	P -	P -	P -	P -	P -	P -	P -	P505,000
Due from BSP	5,001,860	5,001,860	-	-	-	-	-	-	-	5,001,860
Due from other banks	1,266,760	1,266,760	-	-	-	-	-	-	-	1,266,760
Interbank loans receivable - gross	6,142,779	6,143,547	-	-	-	-	-	-	-	6,143,547
Investment securities - gross	2,790,519	-	-	-	19,459	99,999	271,712	-	2,399,349	2,790,519
Loans and discounts - gross	35,197,027	7,637,155	5,158,767	3,410,507	2,473,653	9,820,673	2,438,877	3,334,466	1,681,154	35,955,252
Other assets*	38,570	2,655	668	1,325	1,360	2,900	17,859	8,256	3,547	38,570
Subtotal	50,942,515	20,556,977	5,159,435	3,411,832	2,494,472	9,923,572	2,728,448	3,342,722	4,084,050	51,701,508
Financial assets at FVTPL	127,362	127,362	-	-	-	-	-	-	-	127,362
Financial assets at FVOCI	2,413,219	2,399,898	-	-	-	-	-	-	13,321	2,413,219
Total Financial Assets	53,483,096	23,084,237	5,159,435	3,411,832	2,494,472	9,923,572	2,728,448	3,342,722	4,097,371	54,242,089
Liabilities										
Financial liabilities at FVTPL	25,453	25,453	-	-	-	-	-	-	-	25,453
Other financial liabilities at amortized cost:										
Deposit liabilities	36,361,393	25,532,025	6,848,733	1,613,928	1,621,512	396,952	348,241	-	-	36,361,391
Bills payable	7,910,301	2,944,480	1,051,600	-	-	-	3,914,221	-	-	7,910,301
Outstanding acceptances	194,467	194,467	-	-	-	-	-	-	-	194,467
Manager's checks	80,275	80,275	-	-	-	-	-	-	-	80,275
Accrued interest, taxes and other expenses**	384,830	384,830	-	-	-	-	-	-	-	384,830
Other liabilities***	1,928,685	1,928,685	-	-	-	-	-	-	-	1,928,685
Total Financial Liabilities	46,885,404	31,090,215	7,900,333	1,613,928	1,621,512	396,952	4,262,462	-	-	46,885,402
Net Liquidity Gap	P6,597,692	(P8,005,978)	(P2,740,898)	P1,797,904	P872,960	P9,526,620	(P1,534,014)	P3,342,722	P4,097,371	P7,356,687

**Includes returned checks and other cash items and rent deposit.*
***Excludes retirement liability, accrued taxes and other non-financial accruals.*
****Excludes withholding taxes payable, provision liability and deposits for future stock subscription.*

Liquidity Coverage Ratio (LCR)
The ratios for 2019 and 2018 are as follows:

	2019	2018
High-quality liquid assets	**P13,998,528,792**	P12,175,418,967
Net cash outflows	**10,935,650,479**	8,731,355,977
Liquidity coverage ratio	**128.01%**	139.44%

High-quality liquid assets consist of cash or assets that can be converted into cash at little or no loss of value in private markets. LCR is being measured in accordance with BSP Circular 905 and 996.

Net Stable Funding Ratio (NSFR)
The ratios for the years 2019 and 2018 are as follows:

	2019	2018
Available stable funding (ASF)	**P36,364,117,362**	P33,539,073,440
Required stable funding (RSF)	**30,438,191,060**	26,920,753,958
Ratio of ASF to RSF	**119.47%**	124.58%

NSFR is being measured in accordance with BSP Circular 1007.

<u>Market Risk</u>
Market risk is the risk that the Bank's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level, volatility or correlation of market risk factors, such as interest rates (including credit spread), foreign exchange, equities and commodities. The Bank's market risk originates from its holdings in its foreign exchange instruments, debt securities, and derivatives.

MRMD is responsible in managing market risk. MRMD performs the second line of defense. It is responsible for designing and executing appropriate identification, measurement, monitoring, control and reporting of market risk; and developing the market risk management policy and relevant procedures; and monitoring and reporting overall market risk profile and limit utilization.

The Bank classifies exposures to market risk into either trading or non-trading portfolios.

It is exposed to the potential loss in its trading portfolio because the values of its trading positions are sensitive to changes in the market prices and rates. Similarly, it is also exposed to market risk in its non-trading portfolio.

The Bank sets its market risk limits by considering market predictions, capital and annual budgets. It takes into account the correlation among different market risk factors to estimate potential loss using Value-at-Risk (VaR) approach and also determines if this potential loss is appropriate in light of the size of its annual budget. The Bank also determines its market risk limits by considering the experience of its risk-taking units and its risk appetite.

The Bank utilizes market risk factor sensitivities as a tool to manage market risk. Market risk factor sensitivities of a position are defined as a change in the value of a position caused by a unit shift in a given market factor. Market risk factor sensitivities include interest rate and foreign exchange factor sensitivities. The calculation of the factor sensitivities is obtained by measuring the effect of a one (1) unit increase in current interest rates or current foreign exchange rates upon various product types.

The Bank uses the VaR methodology in managing probable losses arising from potential changes in the market price of underlying assets. In deriving the VaR, the Bank employs the historical simulation approach, which estimates potential losses by assuming that future price movements will mimic historical trends.

The VaR methodology is a statistical estimate based on a historical simulation approach and generated from a historical database. It is important to note that VaR is only an estimate of maximum potential loss given a level of confidence. It can be based on historical data, which may not necessarily replicate itself in the future, or be computed from randomly generated numbers. As such, VaR cannot predict losses with 100.0% confidence.

The VaR will be based on a 1-day holding period, a level of confidence of 99.0% and a time series equivalent to 500 days (or two years). The level of confidence can be adjusted in response to heightened volatility in the market.

The following are the VaR statistics (in millions):

	2019		
	Foreign Exchange	**Fixed Income**	**Total VaR**
December 31	**P1.7**	**P0.0**	**P1.7**
Average daily	**4.2**	**P8.7**	**10.1**
Highest	**10.0**	**31.1**	**31.6**
Lowest	**0.8**	**0.0**	**1.0**

	2018		
	Foreign Exchange	Fixed Income	Total VaR
December 31	P1.0	P0.9	P1.2
Average daily	4.1	3.3	5.8
Highest	9.1	32.1	32.5
Lowest	0.5	0.0	0.5

The fixed income column comprises both Peso and Dollar bonds.

The highs and lows of the total portfolio may not equal the sum of the individual components as the highs and lows of the individual portfolios may have occurred on different trading days. The VaR for foreign exchange is the foreign exchange risk throughout the Bank. The Bank, when aggregating the foreign exchange VaR and interest VaR, considers the correlation effects between the two risks. Annually, the BOD sets the VaR limit for the trading books to which compliance is reviewed daily by Risk Management.

The model's validity is assessed daily via back-testing. The back testing is an ex-post comparison of the VaR generated by the model against actual daily changes in portfolio value over longer periods of time. Based on 99.0% coverage with 250 observations, the number of times that the daily losses exceed the VaR estimates is the number of "exceptions." The higher the exception number suggests a more significant problem with the quality or accuracy of the model, and hence more regulatory capital is required.

Market risk positions are also subjected to daily stress tests to ensure that the Bank could withstand an extreme event. Historical events considered for stress testing represent crises - political or economic - which impacted greatly and adversely the financial markets.

Equity Price Risk
Equity price risk is the risk that the fair values of equity investments decrease as a result of changes in the levels of equity indices and the value of individual stocks (whether traded or not). The Bank has no significant exposure to equity price risk.

Interest Rate Risk
The table below summarizes the Bank's exposure to interest rate risk as at December 31, 2019 and 2018.

HFT Summary	**2019**	2018
USD (PVBP) PHP	**(P45,473)**	P16,213
PHP (PVBP) PHP	**45,978**	(23,148)

Foreign Exchange Risk

The table below summarizes the Bank's exposure to foreign exchange risk as of December 31, 2019 and 2018. Included in the tables are the Bank's assets and liabilities at carrying amounts, categorized by currency (in thousands):

	2019			2018		
	USD	**Others**	**Total**	USD	Others	Total
Assets						
Financial assets at amortized cost:						
Cash and other cash items	**P317,562**	**P14,040**	**P331,602**	P69,087	P17,008	P86,095
Due from BSP and other banks	**1,117,514**	**298,392**	**1,415,906**	1,040,233	188,030	1,228,263
Interbank loans receivable - net	**1,518,431**	**-**	**1,518,431**	3,493,135	-	3,493,135
Investment securities - net	**2,316,924**	**-**	**2,316,924**	2,671,061	-	2,671,061
Loans and receivables - net	**10,981,406**	**30,494**	**11,011,900**	14,281,991	20,130	14,302,121
Financial assets at FVTPL	**77,016**	**-**	**77,016**	67,944	-	67,944
Financial assets at FVOCI	**4,410,908**	**-**	**4,410,908**	2,399,898	-	2,399,898
	20,739,761	**342,926**	**21,082,687**	24,023,349	225,168	24,248,517
Liabilities						
Financial liabilities at amortized cost:						
Deposit liabilities	**15,316,358**	**273,682**	**15,590,040**	13,916,766	183,734	14,100,500
Bills payable	**3,779,087**	**-**	**3,779,087**	7,910,301	-	7,910,301
Outstanding acceptances	**54,618**	**-**	**54,618**	190,991	3,476	194,467
Accrued interest and other expenses	**23,855**	**-**	**23,855**	45,606	-	45,606
Other liabilities	**259,013**	**17**	**259,030**	998,575	5	998,580
Financial liabilities at FVTPL	**99,175**	**-**	**99,175**	25,453	-	25,453
	19,532,106	**273,699**	**19,805,805**	23,087,692	187,215	23,274,907
Net Exposure	**P1,207,655**	**P69,227**	**P1,276,882**	P935,657	P37,953	P973,610

Information relating to the Bank's currency derivatives is contained in Note 25. The Bank has outstanding foreign currency spot transactions (in equivalent peso amounts) of P1.8 billion (sold) and P0.8 billion (bought) as at December 31, 2019 and P0.5 billion (sold) and P1.1 billion (bought) as at December 31, 2018.

Foreign exchange factor sensitivities ("FX Delta") represent the change in the net present value of the foreign exchange portfolios caused by a unit shift of 100.0% of the underlying currency's exchange rate. The FX Delta risk comes from the FX exposure of derivatives, the hedging of foreign exchange positions and foreign currency cash positions.

The Bank's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

Foreign currency liabilities generally consist of foreign currency deposits in the Bank's FCDU. Foreign currency deposits are generally used to fund the Bank's foreign currency-denominated loan and investment portfolio in the FCDU. Effective January 1, 2018, the BSP, through Circular 946, no longer required FCDU liabilities to be covered by liquid assets.

Outside the FCDU, the Bank has additional foreign currency assets and liabilities in the RBU representing trade assets and corresponding foreign currency borrowings.

Interest Rate Risk in Banking Book

Interest rate risk is the risk to future earnings or equity arising from the movement of interest rates. Changes in interest rates affect: (1) the Bank's earnings by changing its net interest income (NII) and the level of other interest rate-sensitive income; and (2) the underlying economic value of the Bank's assets, liabilities and off-balance sheet instruments by means of reducing the present value of future cash flows (and in some cases, the cash flows themselves).

As the primary interest rate risk management unit, the Liquidity and Balance Sheet Management Unit adjusts the repricing structure of assets and liabilities to ensure that interest rate risk exposure stays within a controllable range. Limits on the change in one-year earnings (delta NII) and economic value of equity (EVE) given a one basis point change in interest rates are also established.

The Bank is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. Accordingly, limits on interest rate gaps for stipulated periods have been established by management.

Risk Monitoring and Control
The interest rate risk limits are monitored on monthly or daily basis. The MRMD is responsible for independent monitoring of the business units' compliance with the established limit framework as well as distributing monthly re-pricing gap report and advisory summary to the Asset and Liability Committee (ALCO), RMC and BOD for their review periodically. These reports are appropriately tailored to include, according to the requirements of the intended recipient, the limit utilizations, trend and limit excess information.

The Liquidity and Balance Sheet Management Unit is allowed to apply for hedge supported by duly approved hedge plan for the purpose of reducing risks. Financial instruments may be used to hedge for the purpose of reducing exposure or stabilizing profits. This can be achieved through conducting financial markets transactions with external counterparties to mitigate interest rate risk for non-trading purpose position.

As part of the internal control, the IRRBB reports are subjected to a regular and independent audit - internal or external - to ensure accuracy and validity of data and practice. Likewise, risk model development and regular review of assumptions and methodologies are conducted by the MRMD in close coordination with Parent Bank and Treasury Group. Risk model validation relating to methodology and quantification is conducted by a banking unit independent to the MRMD and Treasury Group. Risk model validation except for methodology and quantification is conducted by the internal audit as part of their regular audit program.

Risk Measurement
The Bank's exposure to IRRBB is being measured by the following tools:

a. Re-pricing Gap Report measures the re-pricing gap between asset and liability by various time buckets in order to understand interest rate mismatch; and

b. Risk Sensitivity measures the impact of 1 basis point change in interest rate on NII and that on EVE. The analysis of such impact on NII (1bp△NII) focuses on changes in interest income and expense within a year, hence, a short-term perspective. The analysis of such impact on EVE (1bp△EVE) is of a long-term perspective as it focuses on changes of economic value which will become net interest income received every year later on.

Measurement of 1bp△NII and 1bp△EVE stems from the Repricing Gap Report. The Repricing Gap Report considers rate-sensitive assets and liabilities such as due from other banks, interbank loans receivable, debt investment securities, loans and receivables, deposit liabilities and bills payable, and equity. For those rate-sensitive assets and liabilities with no available repricing dates, the repricing assumption is based on the two years historical repricing behavior.

Likewise, regular stress-testing is performed to approximate the effect of extreme interest rate fluctuation on the economic value of equity. Stress-testing can be done in the form of pre-defined parallel shifts in interest rate curve or on the basis of ad hoc projected interest rate scenario. MRMD monthly monitored the stress test result of IRRBB and report to ALCO possible economic value decline of Tier 1 and Tier 2 capital.

IRRBB stress testing is performed to evaluate the appropriateness of exposure to comprehend the Bank's interest rate risk profile and its impact to the capital through NII or EVE and its corresponding impact to Capital Adequacy Ratio (CAR). Stress testing starts with the collective evaluation of the degree of interest rate movement under stress condition being determined during the Internal Capital Adequacy Assessment Process (ICAAP) with primary consideration of the key economic variables in the future to establish IRRBB stress shocks.

In 2019 and 2018, the Bank uses a +300 basis point movement for Peso Book and +250 basis point movement for FCY book as a stress scenario.

The tables below show the sensitivity of the Bank's economic value of equity to possible changes in interest rates as at December 31, 2019 and 2018. The sensitivity of equity to interest rate movements is the present value of future cash flows discounted at the market rate.

		2019								
		Sensitivity of Equity								
Currency	**Increase in bps**	**1 Month**	**3 Months**	**6 Months**	**1 Year**	**2 Years**	**5 Years**	**7 Years**	**10 Years Up**	**Total**
					(In Thousand Pesos)					
PHP	**15**	**(P809)**	**P205**	**P6,317**	**(P2,347)**	**(P7,502)**	**(P13,566)**	**(P896)**	**P -**	**(P18,598)**
(in 000s)	**20**	**(1,078)**	**273**	**8,420**	**(3,128)**	**(9,996)**	**(18,067)**	**(1,192)**	**-**	**(24,768)**
	25	**(1,348)**	**341**	**10,521**	**(3,908)**	**(12,486)**	**(22,557)**	**(1,487)**	**-**	**(30,924)**
USD	**15**	**(576)**	**1,220**	**3,004**	**(43)**	**-**	**(1,107)**	**(458)**	**(42,059)**	**(40,019)**
(in 000s)	**20**	**(768)**	**1,626**	**4,004**	**(57)**	**-**	**(1,474)**	**(610)**	**(55,891)**	**(53,170)**
	25	**(960)**	**2,031**	**5,003**	**(72)**	**-**	**(1,840)**	**(761)**	**(69,631)**	**(66,230)**

		2019								
		Sensitivity of Equity								
Currency	**Decrease in bps**	**1 Month**	**3 Months**	**6 Months**	**1 Year**	**2 Years**	**5 Years**	**7 Years**	**10 Years Up**	**Total**
					(In Thousand Pesos)					
PHP	**-15**	**P810**	**(P205)**	**(P6,331)**	**P2,353**	**P7,535**	**P13,665**	**P906**	**P -**	**P18,733**
(in 000s)	**-20**	**1,081**	**(273)**	**(8,444)**	**3,139**	**10,054**	**18,241**	**1,210**	**-**	**25,008**
	-25	**1,351**	**(342)**	**(10,559)**	**3,925**	**12,576**	**22,829**	**1,516**	**-**	**31,296**
USD	**-15**	**577**	**(1,222)**	**(3,011)**	**43**	**-**	**1,115**	**464**	**42,918**	**40,884**
(in 000s)	**-20**	**770**	**(1,630)**	**(4,016)**	**58**	**-**	**1,489**	**620**	**57,418**	**54,709**
	-25	**962**	**(2,038)**	**(5,022)**	**72**	**-**	**1,864**	**776**	**72,016**	**68,630**

		2018								
		Sensitivity of Equity								
Currency	Increase in bps	1 Month	3 Months	6 Months	1 Year	2 Years	5 Years	7 Years	10 Years Up	Total
					(In Thousand Pesos)					
PHP	15	(P865)	(P49)	P7,198	(P1,593)	(P7,154)	(P1,792)	P -	P -	(P4,255)
(in 000s)	20	(1,154)	(66)	9,594	(2,123)	(9,532)	(2,384)	-	-	(5,665)
	25	(1,442)	(82)	11,988	(2,652)	(11,907)	(2,977)	-	-	(7,072)
USD	15	(386)	(462)	2,621	1,309	(725)	17,822	(892)	(34,328)	(15,041)
(in 000s)	20	(515)	(616)	3,493	1,744	(966)	23,737	(1,187)	(45,627)	(19,937)
	25	(643)	(769)	4,365	2,179	(1,207)	29,634	(1,481)	(56,854)	(24,776)

		2018								
		Sensitivity of Equity								
Currency	Decrease in bps	1 Month	3 Months	6 Months	1 Year	2 Years	5 Years	7 Years	10 Years Up	Total
					(In Thousand Pesos)					
PHP	-15	P867	P49	(P7,213)	P1,597	P7,184	P1,805	P -	P -	P4,289
(in 000s)	-20	1,156	66	(9,621)	2,130	9,586	2,409	-	-	5,726
	-25	1,445	82	(12,030)	2,664	11,990	3,016	-	-	7,167
USD	-15	387	462	(2,627)	(1,312)	728	(17,950)	903	34,986	15,577
(in 000s)	-20	516	617	(3,503)	(1,751)	972	(23,963)	1,206	46,796	20,890
	-25	645	771	(4,381)	(2,189)	1,216	(29,989)	1,511	58,682	26,266

The following table sets forth the repricing gap position of the Bank (in thousands):

	2019					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Beyond 1 Year**	**Total**
Financial Assets						
Financial assets at amortized cost:						
Cash and other cash items	**P725,063**	**P -**	**P -**	**P -**	**P -**	**P725,063**
Due from BSP	**4,277,491**	**-**	**-**	**-**	**-**	**4,277,491**
Due from other banks	**1,591,079**	**-**	**-**	**-**	**-**	**1,591,079**
Interbank loans receivable - gross	**1,518,594**	**-**	**-**	**-**	**-**	**1,518,594**
Investment securities - gross	**-**	**-**	**100,000**	**19,505**	**2,733,424**	**2,852,929**
Loans and discounts - gross	**22,239,181**	**6,775,820**	**2,222,725**	**1,180,124**	**5,436,466**	**37,854,316**
Other assets*	**1,442**	**622**	**18,860**	**1,514**	**14,917**	**37,355**
Financial assets at FVTPL:						
Quoted debt	**4,125**	**-**	**-**	**-**	**-**	**4,125**
Derivative assets	**77,016**	**-**	**-**	**-**	**-**	**77,016**
Financial assets at FVOCI	**6,420,539**	**-**	**-**	**-**	**13,121**	**6,433,660**
Total Financial Assets	**36,854,530**	**6,776,442**	**2,341,585**	**1,201,143**	**8,197,928**	**55,371,628**
Financial Liabilities						
Financial liabilities at FVTPL	**99,175**	**-**	**-**	**-**	**-**	**99,175**
Other financial liabilities at amortized cost:						
Deposit liabilities:						
Demand	**8,022,741**	**-**	**-**	**-**	**-**	**8,022,741**
Savings	**7,306,284**	**-**	**-**	**-**	**-**	**7,306,284**
Time	**10,985,650**	**9,326,513**	**1,098,619**	**474,844**	**470,874**	**22,356,500**
Bills payable	**-**	**-**	**-**	**-**	**4,774,481**	**4,774,481**
Outstanding acceptances	**54,618**	**-**	**-**	**-**	**-**	**54,618**
Manager's checks	**73,938**	**-**	**-**	**-**	**-**	**73,938**
Accrued interest and other expenses**	**466,121**	**-**	**-**	**-**	**-**	**466,121**
Other liabilities***	**1,567,041**	**-**	**-**	**-**	**-**	**1,567,041**
Total Financial Liabilities	**28,575,568**	**9,326,513**	**1,098,619**	**474,844**	**5,245,355**	**44,720,899**
Repricing Gap	**P8,278,962**	**(P2,550,071)**	**P1,242,966**	**P726,299**	**P2,952,573**	**P10,650,729**
Cumulative Repricing Gap	**P8,278,962**	**P5,728,891**	**P6,971,857**	**P7,698,156**	**P10,650,729**	**P -**

**Includes returned checks and other cash items and rent deposit.*
***Excludes retirement liability, accrued taxes and other non-financial accruals.*
****Excludes withholding taxes payable, provision liability and deposits for future stock subscription.*

	2018					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	Total
Financial Assets						
Financial assets at amortized cost:						
Cash and other cash items	P505,000	P -	P -	P -	P -	P505,000
Due from BSP	5,001,860	-	-	-	-	5,001,860
Due from other banks	1,266,760	-	-	-	-	1,266,760
Interbank loans receivable - gross	6,143,547	-	-	-	-	6,143,547
Investment securities - gross	-	-	-	19,459	2,771,060	2,790,519
Loans and discounts - gross	21,294,028	7,311,342	1,108,577	1,439,170	4,802,135	35,955,252
Other assets*	2,655	668	1,324	1,360	32,563	38,570
Financial assets at FVTPL:						
Quoted debt	59,418	-	-	-	-	59,418
Derivative assets	67,944	-	-	-	-	67,944
Financial assets at FVOCI	2,399,898	-	-	-	13,321	2,413,219
Total Financial Assets	36,741,110	7,312,010	1,109,901	1,459,989	7,619,079	54,242,089
Financial Liabilities						
Financial liabilities at FVTPL	25,453	-	-	-	-	25,453
Other financial liabilities at amortized cost:						
Deposit liabilities:						
Demand	7,646,600	-	-	-	-	7,646,600
Savings	7,597,339	-	-	-	-	7,597,339
Time	10,288,086	6,848,733	1,613,928	1,621,512	745,193	21,117,452
Bills payable	2,944,480	1,051,600	-	-	3,914,221	7,910,301
Outstanding acceptances	194,467	-	-	-	-	194,467
Manager's checks	80,275	-	-	-	-	80,275
Accrued interest and other expenses**	384,830	-	-	-	-	384,830
Other liabilities***	1,928,685	-	-	-	-	1,928,685
Total Financial Liabilities	31,090,215	7,900,333	1,613,928	1,621,512	4,659,414	46,885,402
Repricing Gap	P5,650,895	(P588,323)	(P504,027)	(P161,523)	P2,959,665	P7,356,687
Cumulative Repricing Gap	P5,650,895	P5,062,572	P4,558,545	P4,397,022	P7,356,687	P-

**Includes returned checks and other cash items and rent deposit*
***Excludes retirement liability, accrued taxes and other non-financial accruals.*
****Excludes withholding taxes payable, provision liability and deposits for future stock subscription.*

The following table sets forth, for the period indicated, the impact of the range of reasonably possible changes in the interest rates (accounting perspective) on the profit or loss and equity:

	Impact to Statements of Income		Impact to Equity	
	2019	2018	**2019**	2018
PHP Interest Rates				
Increase by 15 bps	**P69,000,522**	P41,308,608	**(P367,309,741)**	(P80,915,960)
Increase by 20 bps	**92,000,696**	55,078,144	**(489,160,674)**	(107,743,984)
Increase by 25 bps	**115,000,871**	68,847,680	**(610,720,184)**	(134,500,334)
Decrease by 15 bps	**(69,000,522)**	(41,308,608)	**369,962,940**	81,567,669
Decrease by 20 bps	**(92,000,696)**	(55,078,144)	**493,877,500**	108,902,583
Decrease by 25 bps	**(115,000,871)**	(68,847,680)	**618,090,280**	136,310,656
USD Interest Rates				
Increase by 15 bps	**12,286,666**	101,884,616	**(790,359,888)**	(286,051,936)
Increase by 20 bps	**16,382,221**	135,846,155	**(1,050,084,180)**	(379,178,932)
Increase by 25 bps	**20,477,776**	169,807,694	**(1,307,967,459)**	(471,208,940)
Decrease by 15 bps	**(12,286,666)**	(101,884,616)	**807,441,421**	296,248,358
Decrease by 20 bps	**(16,382,221)**	(135,846,155)	**1,080,452,493**	397,306,599
Decrease by 25 bps	**(20,477,776)**	(169,807,694)	**1,355,420,244**	499,534,811

The Bank has exposures to other currencies that are not material.

The following table provides for the average effective interest rates by period of maturity or repricing of the Bank:

	2019		
	Less than 3 Months	**3 Months to 1 Year**	**Greater than 1 Year**
Peso-denominated			
Financial Assets			
Due from BSP	**0.6%**	**-**	**-**
Due from other banks	**0.1%**	**-**	**-**
Interbank loans receivable	**4.7%**	**-**	**-**
Financial assets at FVOCI	**-**	**-**	**4.9%**
Investment securities at amortized cost	**6.6%**	**2.9%**	**6.1%**
Loans and receivables	**5.6%**	**7.0%**	**12.9%**
Financial assets at FVTPL	**10.9%**	**1.2%**	**6.5%**
Financial Liabilities			
Deposit liabilities	**1.4%**	**4.6%**	**2.6%**
Bills payable	**6.3%**	**-**	**-**
Foreign Currency-denominated			
Financial Assets			
Due from other banks	**0.9%**	**-**	**-**
Interbank loans receivable	**2.0%**	**-**	**-**
Financial assets at FVOCI	**-**	**-**	**5.17%**
Investment securities at amortized cost	**-**	**-**	**3.0%**
Loans and receivables	**3.6%**	**4.1%**	**1.7%**
Financial assets at FVTPL	**-**	**-**	**2.3%**
Financial Liabilities			
Deposit liabilities	**1.1%**	**2.5%**	**2.0%**
Bills payable	**3.5%**	**-**	**-**

	2018		
	Less than 3 Months	3 Months to 1 Year	Greater than 1 Year
Peso-denominated			
Financial Assets			
Due from BSP	0.3%	-	-
Due from other banks	0.2%	-	-
Interbank loans receivable	4.5%	-	-
Financial assets at FVOCI	-	-	-
Investment securities at amortized cost	4.9%	-	4.3%
Loans and receivables	5.1%	6.7%	11.2%
Financial assets at FVTPL	0.4%	0.1%	6.6%
Financial Liabilities			
Deposit liabilities	1.1%	2.9%	1.3%
Bills payable	3.5%	-	-
Foreign Currency-denominated			
Financial Assets			
Due from other banks	0.9%	-	-
Interbank loans receivable	1.7%	-	-
Financial assets at FVOCI	-	-	5.3%
Investment securities at amortized cost	-	-	2.8%
Loans and receivables	3.3%	3.4%	1.6%
Financial assets at FVTPL	-	-	3.4%
Financial Liabilities			
Deposit liabilities	1.3%	2.2%	1.6%
Bills payable	2.5%	-	-

	2017		
	Less than 3 Months	3 Months to 1 Year	Greater than 1 Year
Peso-denominated			
Financial Assets			
Due from BSP	0.6%	-	-
Due from other banks	0.2%	-	-
Interbank loans receivable	2.8%	-	-
Loans and receivables	5.0%	6.4%	10.6%
Financial assets at FVTPL	0.2%	0.2%	4.3%
AFS investments	-	-	4.0%
HTM investments	1.3%	3.4%	3.6%
Financial Liabilities			
Deposit liabilities	0.6%	1.1%	1.2%
Bills payable	1.6%	-	-
Foreign Currency-denominated			
Financial Assets			
Due from other banks	0.5%	-	-
Interbank loans receivable	1.1%	-	-
Loans and receivables	2.7%	3.7%	1.0%
Financial assets at FVTPL	-	-	2.9%
AFS investments	5.6%	5.6%	3.2%
HTM investments	-	-	3.9%
Financial Liabilities			
Deposit liabilities	0.4%	1.7%	1.4%
Bills payable	1.8%	-	-

Prepayment Risk
Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rates fall. The Bank has exposures in consumer, e.g., salary loans, mortgage loans. These activities generate market risk since these loan products are inherently sensitive to changes in the level of market interest rates.

The impact on the Bank's profitability of mortgage loan prepayment risk is deemed negligible as actual prepayments were small relative to the loan portfolio.

Operational Risk
Operational risk is defined as the risk of loss arising from direct or indirect loss from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

Direct Loss is a result primarily from an operational failure while an Indirect Loss relates to the impact of operational risk on other risks such as Market, Credit or Liquidity Risk.

The Operational and Reputational Risk Management Department (ORRMD) is responsible for establishing, overseeing and supporting CTBC's Operational Risk Management ("ORM") framework. Specific responsibilities include:

- Recommend to the BOD and Senior Management appropriate policies and procedures relating to ORM.
- Design and implement Bank's operational risk assessment methodology, tools, and risk reporting system.
- Coordinate risk management activities across the organization.
- Consolidated all relevant operational risk information and reports to be elevated and reported to the BOD and Senior Management.
- Provide ORM training and advice to BU's on ORM issues.
- Coordinate with Compliance function, Internal Audit, and External Audit on ORM matters.
- Monitoring and reporting of Operational Risk incidents.
- Manage the stress testing activities for the Bank's operational risk.

Operational Risk Process
The Bank implements the Risk and Control Assessment Framework to ensure that all operational risks of the different Business and Functional Units are reported and properly managed.

The Risk and Control Assessment (RCA) Framework is composed of 3 main activities namely:

- Annual Risk Assessment (ARA) - refers to the process of assessing key risks to be faced by the Bank in the upcoming year and mapping key controls and/or indicators for each identified key risk.

- Management Control Assessment (MCA) - refers to the year-long process of assessing the effectiveness of key control through self-inspection, monitoring trend/s of risk indicators, and taking action on any identified vulnerability or gap.

- Business Risk, Compliance, and Control (BRCC) Forum - refers to the integrated review on internal controls across first, second, and third lines of defense. Its main objective is to enable Senior Management to supervise the overall status of key risk trend, weakness in controls, and correction on major events and audit issues.

The Bank's Operational Risk Process is as follows:

Key Risk and Control Identification Process
This involves the review of existing business processes, products and services with the aim of identifying vulnerabilities and assessing the extent of damage that can happen should breaches occur. The RCA Framework is followed.

Review and Document Policies and Procedures
In reviewing and documenting policies and procedures, each business and operating unit ensures clear and complete documentation of the following:

- Processes - Include all functions that are being done to ensure complete delivery of the transaction. This covers both client interface processes and internal control.

- People - Identify everyone involved in the process, their duties and responsibilities and required competencies.

- Reports - Identify those that would be needed to assess risk management effectiveness.

- Methodologies - Detail the tools and activities that would support decision making for critical areas of the process.

- Systems and Data - Cite the system and data requirement for the business unit to efficiently manage reports and methodologies employed.

All Business and Operating Units shall ensure that actual practices are consistent with documented policies and procedures.

Monitor and Formulate Action Plan
Monitoring and formulating action plans against established standards, via the KRIs is an important component in ensuring that these standards are met. There are three units involved in the over-all formulation and monitoring of action plans for all Business and Functional Units.

- Business and Functional Units - They are expected to report the operational exceptions, deviations on the policies and procedures and deficiencies on the documentations and process.

- ORRMD - Collates and consolidates the reports from different business and functional units. They are also responsible for monitoring, analyzing and reporting operational risk losses and exposures to Management.

- Internal Audit Department (IAD) - Primarily responsible for ensuring that all Operations Units are in compliance with the set of policies and procedures. They should be able to provide an independent opinion on the effectiveness of established internal controls.

Management Oversight
On a monthly basis, the Operations Committee convenes to discuss operational risk issues. This is presided by the President/CEO with the following members: Deputy CEO, CRO, CFO, Information Security Officer, and Heads of ORRMD, ICMG, RCMG, IBG, RBG, Trust Department, Treasury Group, ITG, BOG, HRAG, Marketing Communications Services Department, Internal Audit and Compliance.

Strategic Risk
Strategic risk is the risk that the current and prospective earnings or capital will be adversely impacted because of business decisions, improper implementation of decisions or lack of responsiveness to industry changes. This definition gives importance to business planning, where business decisions and its implementation are derived from.

The strategic risk of the Bank is a function of the compatibility of its strategic goals, the quality of carrying out its implementation, and building the infrastructure to meet such goals.

Strategic risk is managed throughout the Bank and is primarily monitored by Finance and Corporate Affairs Group through budget analysis and variances.

Legal Risk
Legal risks belong to non-quantifiable risks that are not subject to specific numerical measurements but likewise require similar management attention. While unpredictable, non-quantifiable risks may cause severe impact of the Bank's statements of income. These risks are mitigated by developing a strong control culture, an organizational structure that is risk-aware, and an effective internal control system that continually monitors and updates processes and procedures. Legal risks include the potential for the Bank to suffer a financial loss due to non- existent, incomplete, incorrect and/or unenforceable documentation used by the Bank to protect and enforce its rights under contracts and obligations. This risk is closely related to credit risk as it most often involves legal problems with counterparties to the Bank's transactions. It is also closely related to other non-quantifiable risks that have to be assessed: fiduciary, reputational risk and regulatory risk.

A legal review process is the primary control mechanism for legal risks and shall be part of every product program or process of the Bank. The review aims to validate the existence, propriety and enforceability of documents, and verify the capacity and authority of counterparties and customers to enter into transactions.

The Bank's Legal Department is the primary unit assigned to identify, assess, manage and monitor the Bank's legal risk.

Capital Management
The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains a strong credit standing and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank considers its paid-in capital and retained earnings as its core economic capital.

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

Regulatory Qualifying Capital
Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regulatory net worth) as reported to the BSP, which is determined on the basis of Regulatory Accounting Principles (RAP) which differ from PFRSs in some respects.

The BSP sets and monitors compliance with minimum capital requirements for the Bank. In implementing current capital requirements, BSP issued Circular 781 which implemented the Revised Risk-Based Capital Adequacy Framework under Basel III effective January 1, 2014. It requires the Bank to maintain a prescribed risk-based capital adequacy ratio (expressed as a percentage of qualifying capital to risk-weighted assets) of not less than 10.0% for both solo and consolidated basis. The Bank is also required to maintain a minimum Common Equity Tier 1 and Tier 1 capital ratio of 6.0% and 7.5%, respectively. A capital conservation buffer of 2.5% comprised of CET1 capital was likewise imposed through BSP Circular 1024.

Shown below are the Bank's minimum capital-to-risk assets ratios as reported to the BSP as of December 31, 2019 and 2018 (in millions except for percentages).

	2019	2018
CET 1 capital	**P8,768**	P6,926
Tier 1 capital	**8,768**	6,926
Tier 2 capital	**414**	405
Gross qualifying capital	**9,182**	7,331
Less: Required deductions	**-**	-
Total Qualifying Capital	**P9,182**	P7,331
Risk-weighted Assets	**P45,969**	P44,878
CET 1 ratio	**19.1%**	15.4%
Tier 1 capital ratio	**19.1%**	15.4%
Tier 2 capital ratio	**0.9%**	0.9%
Risk-based capital adequacy ratio	**20.0%**	16.3%

The regulatory qualifying capital of the Bank consists of Tier 1 (core) and Tier 2 (supplementary) capital. Tier 1 capital comprise of common stock, additional paid-in capital and surplus. Tier 2 comprises upper Tier 2 and lower Tier 2. Upper Tier 2 consists of preferred stock, revaluation increment reserve, general loan loss provision, and deposit for common stock subscription. Lower Tier 2 consists of unsecured subordinated debt.

BSP Circular 560 dated January 31, 2007, which took effect on February 22, 2007, requires the deduction of unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates from capital accounts for purposes of computing CAR.

Moreover, BSP Circular 1027 dated December 14, 2018, provides the guidelines on the computation of the required capital for banks to ensure that capital is only composed of instruments that are of highest quality to absorb losses.

BASEL III

On December 13, 2013, the BSP issued Circular 822 on amendments to the capital framework of foreign bank. It provides that the minimum capital required for locally incorporated subsidiaries of foreign banks shall be the same as that prescribed by the Monetary Board for domestic banks of the same category under Circular 781 issued last January 15, 2013.

The following are the revised minimum capital requirements:

- 6.0% Common Equity Tier 1 (CET1)/Risk-Weighted Assets (RWAs);
- 7.5% Tier 1 Capital/RWAs; and
- 100% Total Qualifying Capital (Tier 1 plus Tier 2)/RWAs.

The Qualifying Capital must consist of the sum of the following elements, net of required deductions: Tier 1-'going concern' [CET1 plus Additional Tier 1] and Tier 2 - 'gone concern.' A bank/quasi-bank must ensure that any component of capital included in qualifying capital complies with all the eligibility criteria for the particular category of capital in which it is included. The Circular further describes the elements/criteria that a bank should meet for each capital category. Regulatory adjustments and calculation guidelines for each capital category are also discussed.

In conformity with the Basel III standards, a Capital Conservation Buffer of 2.5% of RWAs, comprised of CET1 capital, has been required. This buffer is meant to promote the conservation of capital and build-up of adequate cushion that can be drawn down by banks to absorb losses during financial and economic stress. The restrictions on distribution that a bank must meet at various levels of CET1 capital ratios are established, as shown in below table. Restrictions will be imposed if a bank has no positive earnings, has CET1 of not more than 8.5% (CET Ratio of 6.0% plus conservation buffer of 2.5%) and has not complied with the minimum 10.0% CAR.

Level of CET 1 Capital	**Restriction on Distributions**
<6.0%	No distribution
6.0% - 7.2%	No distribution until more than 7.2% CET1 capital is met
>7.2% - 8.5%	50.0% of earnings may be distributed
>8.5%	No restriction on the distribution

Under Section 129 of the MORB Basel III, leverage ratio is designed to act as supplementary measure to the risk-based capital requirements. It is defined as the capital measure (numerator) divided by the exposure measure (denominator). The leverage ratio shall not be less than 5.0% computed on both solo (head office plus branches) and consolidated bases (parent bank plus subsidiary financial allied undertakings but excluding insurance companies).

The Bank exceeded the minimum leverage ratio 5.0% in 2019 and 2018 as presented below (amounts in thousands):

	2019	2018
Capital measure	**P8,768,339**	P6,925,984
Exposure measure	**59,536,060**	57,118,518
Leverage ratio	**14.73%**	12.13%

6. Fair Value Measurement

The methods and assumptions used by the Bank in estimating the fair value of the financial assets and financial liabilities are:

Cash and Other Cash Items, Due from BSP and Other Banks, and Interbank Loans Receivable
Carrying amounts approximate fair values due to their short-term nature.

Quoted Debt and Equity Securities
Fair values are based on quoted prices published in markets.

Unquoted Equity Securities
The unquoted equity securities of the Bank are measured at fair value. However, due to the lack of suitable methods of arriving at a reliable fair value, the cost is determined to be an appropriate estimate of fair value. The unquoted equity securities are instead measured at their carrying amounts. These are interests in BancNet, Philippine Clearing House Corporation and Bankers Association of the Philippines held as per membership requirement.

Derivative Instruments
Derivative products are valued using valuation techniques with market observable inputs including foreign exchange rates and interest rate curves prevailing at the statements of financial position date. For cross-currency swaps and foreign exchange contracts, discounted cash flow model is applied. This valuation method discounts each cash flow of the derivatives at a rate that is dependent on the tenor of the cash flow.

Loans and Receivables
Fair values of loans subject to periodic interest repricing of more than one year are estimated based on the discounted cash flow methodology using the loan's latest interest rate. Carrying values of loans subject to periodic interest repricing of one year or less approximate fair value because of recent and regular repricing based on market conditions.

Investment Properties
The fair value of the Bank's investment properties are based on recent sales of similar properties in the same areas, taking into account the economic conditions prevailing at the time the valuations were made.

Deposit Liabilities
Carrying amounts of demand and savings deposit approximate fair values considering that these are currently due and demandable. Fair values of time deposits are estimated based on discounted cash flow methodology using the Bank's latest interest rates due to lack of suitable methods of arriving at reliable fair value.

Other Financial Liabilities
Carrying values of liabilities, other than deposit liabilities approximates fair values due to their short-term nature.

The following table provides the fair value hierarchy of the Bank's assets and liabilities measured at fair value and those for which fair values should be disclosed:

	2019				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Fair Value**
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVTPL:					
Held-for-trading:					
Quoted debt	**P4,124,916**	**P4,124,916**	**P -**	**P -**	**P4,124,916**
Derivative assets	**77,015,758**	**-**	**77,015,758**	**-**	**77,015,758**
	81,140,674	**4,124,916**	**77,015,758**	**-**	**81,140,674**
Financial assets at FVOCI:					
Quoted debt	**6,420,539,349**	**6,420,539,349**	**-**	**-**	**6,420,539,349**
Unquoted equity	**12,440,817**	**-**	**-**	**12,440,817**	**12,440,817**
Quoted equity	**680,000**	**-**	**680,000**	**-**	**680,000**
	6,433,660,166	**6,420,539,349**	**680,000**	**12,440,817**	**6,433,660,166**
	P6,514,800,840	**P6,424,664,265**	**P77,695,758**	**P12,440,817**	**P6,514,800,840**
Assets for which Fair Values are Disclosed					
Financial assets at amortized cost:					
Cash and other cash items	**P725,063,226**	**P725,063,226**	**P -**	**P -**	**P725,063,226**
Due from BSP	**4,277,491,280**	**4,277,491,280**	**-**	**-**	**4,277,491,280**
Due from other banks	**1,591,079,273**	**1,591,079,273**	**-**	**-**	**1,591,079,273**
Interbank loans receivable - net	**1,518,431,320**	**1,518,431,320**	**-**	**-**	**1,518,431,320**
Investment securities - net	**2,852,383,715**	**3,020,181,137**	**-**	**-**	**3,020,181,137**
Loans and discounts - net:					
Institutional banking	**28,229,061,241**	**28,229,061,241**	**-**	**-**	**28,229,061,241**
Retail banking	**4,569,318,075**	**6,553,555,461**	**-**	**-**	**6,553,555,461**
Mortgage banking	**2,304,368,049**	**2,501,656,779**	**-**	**-**	**2,501,656,779**
Small business loans	**1,391,664,017**	**1,390,577,249**	**-**	**-**	**1,390,577,249**
Accrued interest receivable	**252,716,014**	**252,716,014**	**-**	**-**	**252,716,014**
Other receivables	**243,577,887**	**243,577,887**	**-**	**-**	**243,577,887**
Other assets*	**37,354,963**	**37,354,963**	**-**	**-**	**37,354,963**
	47,992,509,060	**50,340,745,830**	**-**	**-**	**50,340,745,830**
Non-financial Assets					
Investment properties	**178,880,010**	**-**	**187,215,413**	**-**	**187,215,413**
	P48,171,389,070	**P50,340,745,830**	**P187,215,413**	**P -**	**P50,527,961,243**
Liabilities Measured at Fair Value					
Financial liabilities at FVTPL	**P99,175,116**	**P -**	**P99,175,116**	**P -**	**P99,175,116**
Liabilities for which Fair Values are Disclosed					
Financial liabilities at amortized cost:					
Deposit liabilities:					
Demand	**8,022,741,163**	**8,022,741,163**	**-**	**-**	**8,022,741,163**
Savings	**7,306,283,512**	**7,306,283,512**	**-**	**-**	**7,306,283,512**
Time	**22,356,499,970**	**22,356,499,970**	**-**	**-**	**22,356,499,970**
Subtotal	**37,685,524,645**	**37,685,524,645**	**-**	**-**	**37,685,524,645**
Bills payable	**4,774,481,380**	**4,774,481,380**	**-**	**-**	**4,774,481,380**
Outstanding acceptances	**54,618,030**	**54,618,030**	**-**	**-**	**54,618,030**
Manager's checks	**73,938,307**	**73,938,307**	**-**	**-**	**73,938,307**
Accrued interest, taxes and other expenses**	**466,121,317**	**466,121,317**	**-**	**-**	**466,121,317**
Other liabilities***	**1,567,040,709**	**1,567,040,709**	**-**	**-**	**1,567,040,709**
	44,621,724,388	**44,621,724,388**	**-**	**-**	**44,621,724,388**
	P44,720,899,504	**P44,621,724,388**	**P99,175,116**	**P -**	**P44,720,899,504**

**Includes returned checks and other cash items and rent deposit.*
***Excludes retirement liability, accrued taxes and other non-financial accruals.*
****Excludes withholding taxes payable, provision liability and deposits for future stock subscription.*

	2018				
	Carrying Value	Level 1	Level 2	Level 3	Fair Value
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVTPL:					
Held-for-trading:					
Quoted debt	P59,417,929	P59,417,929	P -	P -	P59,417,929
Derivative assets	67,944,513	-	67,944,513	-	67,944,513
	127,362,442	59,417,929	67,944,513	-	127,362,442
Financial assets at FVOCI:					
Quoted debt	2,399,898,231	2,399,898,231	-	-	2,399,898,231
Unquoted equity	12,440,817	-	-	12,440,817	12,440,817
Quoted equity	880,000	-	880,000	-	680,000
	2,413,219,048	2,399,898,231	880,000	12,440,817	2,413,219,048
	P2,540,581,490	P2,459,316,160	P68,824,513	P12,440,817	P2,540,581,490
Assets for which Fair Values are Disclosed					
Financial assets at amortized cost:					
Cash and other cash items	P504,999,873	P504,999,873	P -	P -	P504,999,873
Due from BSP	5,001,859,955	5,001,859,955	-	-	5,001,859,955
Due from other banks	1,266,759,792	1,266,759,792	-	-	1,266,759,792
Interbank loans receivable - net	6,142,778,572	6,142,778,572	-	-	6,142,778,572
Investment securities	2,790,519,408	2,772,729,200	-	-	2,772,729,200
Loans and discounts - net:					
Institutional banking	26,884,048,863	26,884,048,863	-	-	26,884,048,863
Retail banking	4,353,162,630	4,120,606,747	-	-	4,120,606,747
Mortgage banking	1,954,071,367	1,970,958,906	-	-	1,970,958,906
Small business loans	1,402,744,022	1,402,744,022	-	-	1,402,744,022
Accrued interest receivable	242,467,735	242,467,735	-	-	242,467,735
Other receivables	365,373,768	365,373,768	-	-	365,373,768
Other assets*	38,569,682	38,569,682	-	-	38,569,682
	50,947,355,667	50,713,897,115	-	-	50,713,897,115
Non-financial Assets					
Investment properties	172,218,735	-	176,440,000	-	176,440,000
	P51,119,574,402	P50,713,897,115	P176,440,000	P -	P50,890,337,115
Liabilities Measured at Fair Value					
Financial liabilities at FVTPL	P25,452,851	P -	P25,452,851	P -	P25,452,851
Liabilities for which Fair Values are Disclosed					
Financial liabilities at amortized cost:					
Deposit liabilities:					
Demand	7,646,599,849	7,646,599,849	-	-	7,646,599,849
Savings	7,597,339,059	7,597,339,059	-	-	7,597,339,059
Time	21,117,452,342	21,117,452,342	-	-	21,117,452,342
Subtotal	36,361,391,250	36,361,391,250	-	-	36,361,391,250
Bills payable	7,910,300,863	7,910,300,863	-	-	7,910,300,863
Outstanding acceptances	194,467,418	194,467,418	-	-	194,467,418
Manager's checks	80,275,446	80,275,446	-	-	80,275,446
Accrued interest, taxes and other expenses**	384,830,185	384,830,185	-	-	384,830,185
Other liabilities***	1,928,685,203	1,928,685,203	-	-	1,928,685,203
	46,859,950,365	46,859,950,365	-	-	46,859,950,365
	P46,855,403,216	P46,859,950,365	P25,452,851	P -	P46,855,403,216

**Includes returned checks and other cash items and rent deposit.*
***Excludes retirement liability, accrued taxes and other non-financial accruals.*
****Excludes withholding taxes payable, provision liability and deposits for future stock subscription.*

The following ranges of discount rates were used in estimating the fair values unquoted fixed-rate and floating-rate debt instruments:

	PHP			
	2019		2018	
	High	**Low**	High	Low
Loans and discounts:				
Retail banking	**14.0%**	**2.0%**	12.1%	2.1%
Mortgage banking	**11.5%**	**5.3%**	9.0%	5.3%

The following table shows financial instruments recognized at fair value, analyzed by bases of fair value (in thousands):

- Level 1 - quoted market prices in active markets for identical assets or liabilities; when fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

- Level 2 - those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); for all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models; and

- Level 3 - those with inputs for the asset or liability that are not based on observable market data (unobservable inputs). Instruments included in Level 3 are those for which there are currently no active market.

The fair values of Level 1 instruments are based on the Bloomberg Valuation Service (BVAL) reference rates as used as the benchmark of PHP government securities in the active market of which comprise the quoted debt securities at FVTPL at reporting date. These BVAL reference rates are based on accumulated market data and real-time market observations on actively traded identical fixed income securities.

The fair values of Level 2 instruments are based on broker quotes from similar contracts that are traded in an active market. These quotes reflect the actual transactions in similar instruments.

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

7. Investment Securities

The effective interest rates of the Bank's debt securities range from 1.4% to 7.4%, 1.1% to 8.3% and 1.0% to 6.7% in 2019, 2018 and 2017, respectively.

Financial Assets at FVTPL
Financial assets at FVTPL consist of the following:

	Note	**2019**	2018
Government debt securities		**P4,124,916**	P59,417,929
Derivative assets	*26*	**77,015,758**	67,944,513
		P81,140,674	P127,362,442

The Bank's debt securities and derivative assets are mandatorily classified as at FVTPL on initial recognition.

Net unrealized gain and loss in 2019, 2018 and 2017 on revaluation to market of financial assets at FVTPL amounting to P0.4 million, P2.7 million and (P2.3 million) respectively, are included under "Trading and securities gain - net" in the statements of income.

Financial Assets at FVOCI and AFS Investments
Financial assets at FVOCI consist of the following:

	2019	2018
Government debt securities	**P6,420,539,349**	P2,399,898,231
Unquoted equity securities	**12,440,817**	12,440,817
Quoted equity securities	**680,000**	880,000
	P6,433,660,166	P2,413,219,048

Quoted equity securities pertain to club shares from Orchard Golf and Country Club and Subic Bay Yacht Club Corporation which were irrevocably designated at FVOCI as at January 1, 2018.

Unquoted equity securities are held as local requirement (PCHC), consortium for ATM networks and on-line banking (Bancnet) and membership with the BAP.

The movements of net unrealized gain (loss) on financial assets at FVOCI are as follows:

	2019	2018
Balance at beginning of the year	**(P94,093,041)**	P13,207,397
Net change in fair value recognized in OCI:		
Unrealized gain (loss) on debt financial assets at FVOCI recognized in OCI	**240,737,212**	(76,293,126)
Amount realized in the statements of income	**(38,210,299)**	(31,389,312)
	202,526,913	(107,682,438)
Unrealized (loss) gain on equity financial assets at FVOCI recognized in OCI	**(200,000)**	382,000
	202,326,913	(107,300,438)
Balance at end of year	**P108,233,872**	(P94,093,041)

In 2019, effective interest rates of FVOCI debt securities range from 3.6% to 6.3% for peso-denominated FVOCI debt securities and 1.5% to 3.9% for foreign currency-denominated. In 2018, effective interest rates range from 1.1% to 4.5% for foreign currency-denominated FVOCI debt securities and nil for peso-denominated securities. In 2017, effective interest rates ranged from 2.5% to 3.9% for foreign currency-denominated AFS investments. As at December 31, 2017, there were no outstanding peso-denominated AFS investments.

Investment Securities at Amortized Cost and HTM Investments
Investment securities at amortized cost consist of Philippine government treasury notes that bear nominal annual interest rates ranging from 3.7% to 9.5% and 2.3% to 6.9% in 2019 and 2018, respectively. HTM investments consisted of Philippine government treasury notes that carried nominal annual interest rates ranging from 2.1% to 10.6% for 2017

As at December 31, 2019 and 2018, the carrying value of investment securities at amortized cost amounted to P2.9 billion and P2.8 billion, respectively. Loss allowance on investment securities at amortized cost amounted to P0.5 million and nil as at December 31, 2019 and 2018, respectively (see Note 12).

Interest income on investment securities consists of:

	2019	2018	2017
Investment securities at amortized cost	**P119,923,663**	P65,430,862	P -
Financial assets at FVOCI	**116,528,627**	80,611,774	-
Financial assets at FVTPL	**49,805,270**	14,598,029	29,834,951
HTM investments	**-**	-	32,091,577
AFS investments	**-**	-	31,155,453
	P286,257,560	P160,640,665	P93,081,981

Trading and securities gain - net consists of:

	2019	2018	2017
Financial assets at FVTPL	**P103,038,010**	(P18,132,836)	(P9,657,180)
Investment securities at amortized cost	**38,146,181**	808,161	-
Financial assets at FVOCI - debt securities	**38,210,299**	31,389,312	-
AFS investments - debt securities	**-**	-	21,075,563
	P179,394,490	P14,064,637	P11,418,383

Net gain on derivative transactions amounting to P125.0 million, P32.3 million and P83.0 million in 2019, 2018 and 2017, respectively, is included under "Foreign exchange gain - net" in the statements of income.

8. **Loans and Receivables** - net

This account consists of:

	Note	**2019**	2018
Loans and discounts:			
Institutional banking		**P28,527,006,110**	P27,159,345,372
Retail banking		**5,072,343,853**	4,749,208,390
Mortgage banking		**2,326,209,927**	1,970,958,907
Small business loans		**1,398,110,443**	1,405,705,244
Accrued interest receivable		**264,217,229**	251,763,381
Other receivables		**266,428,900**	418,270,322
		37,854,316,462	35,955,251,616
Unearned interest discount and capitalized interest		**(3,222,812)**	(4,841,127)
		37,851,093,650	35,950,410,489
Loss allowance	*12*	**(863,611,179)**	(753,383,231)
		P36,987,482,471	P35,197,027,258

Institutional banking loans and Small Business loans include domestic bills purchased amounting to P113.5 million and P71.0 million as at December 31, 2019 and 2018, respectively (see Note 16).

Other receivables include due from ICCS and PVB representing impaired loans amounting to P122.6 million and P176.4 million as at December 31, 2019 and 2018, respectively, which are secured by real properties transferred to ICCS and PVB.

Other receivables also include sales contract receivables amounting to P15.5 million and P19.1 million as at December 31, 2019 and 2018, respectively. Sales contract receivables bear fixed interest rates per annum ranging from 9.0% to 11.4% in 2019 and 8.0% to 8.5% in 2018 and 2017.

Interest income on loans and receivables consists of:

	2019	2018	2017
Retail banking	**P1,240,649,185**	P1,092,261,226	P967,821,210
Institutional banking	**1,376,844,813**	1,030,537,484	737,300,700
Mortgage banking	**147,190,631**	162,331,393	159,793,467
Small business loans	**58,644,875**	5,722,269	4,738,353
Unquoted debt securities	**-**	118,127	699,484
Other receivables	**2,986,432**	2,959,837	2,876,633
	P2,826,315,936	P2,293,930,336	P1,873,229,847

Interest income on unquoted debt securities represent income earned on government bonds not quoted in an active market. As at December 31, 2019 and 2018, there were no unquoted debt securities.

The effective interest rates of loans and discounts, unquoted debt securities and sales contract receivables range from 2.0% to 3.8%, 3.0% to 3.7% and 2.7% to 2.9% for foreign currency-denominated receivables in 2019, 2018 and 2017, respectively. The effective interest rates range from 10.0% to 11.2%, 8.9% to 10.5% and 8.1% to 9.6% for peso-denominated receivables in 2019, 2018 and 2017, respectively.

As at December 31, 2019 and 2018, the Bank's loan portfolio includes non-risk loans, as defined under BSP regulations, totaling P3.7 billion and P3.0 billion, respectively.

As of December 31, 2019, 28.1% of the total loans of the Bank are subject to periodic interest repricing (2018: 28.3%; 2017: 15.8%). Remaining loans earn annual fixed interest rates ranging from 4.13% to 21.48% in 2019, from 7.3% to 21.07% in 2018 and from 1.0%% to 37.5% in 2017, for peso-denominated.

There is no interest income accrued on loans and receivables which includes unwinding of the loss allowance as of December 31, 2019 and 2018.

9. Property and Equipment - net

The composition and movements of this account are as follows:

	2019					
	Bank Premises	**Computer Equipment**	**Transportation Equipment**	**Furniture, Fixtures and Equipment**	**Leasehold Rights and Improvements**	**Total**
Cost						
Balance at January 1	**P80,229,255**	**P197,514,653**	**P96,488,521**	**P78,499,724**	**P353,104,021**	**P805,836,174**
Recognition of right-of-use asset on initial application of PFRS 16	**148,239,127**	**-**	**-**	**-**	**-**	**148,239,127**
Adjusted balance at January 1	**228,468,382**	**197,514,653**	**96,488,521**	**78,499,724**	**353,104,021**	**954,075,301**
Additions	**38,639,172**	**19,893,265**	**24,137,361**	**1,948,067**	**5,630,937**	**90,248,802**
Disposals	**-**	**(798,017)**	**(23,304,459)**	**(119,133)**	**-**	**(24,221,609)**
Balance at end of year	**267,107,554**	**216,609,901**	**97,321,423**	**80,328,658**	**358,734,958**	**1,020,102,494**
Accumulated Depreciation and Amortization						
Balance at beginning of year	**49,288,098**	**171,658,409**	**56,208,863**	**72,216,581**	**342,492,028**	**691,863,979**
Depreciation and amortization	**85,679,412**	**20,242,225**	**16,289,969**	**2,412,972**	**7,124,671**	**131,749,249**
Disposals	**-**	**(768,093)**	**(17,732,559)**	**(75,631)**	**-**	**(18,576,283)**
Balance at end of year	**134,967,510**	**191,132,541**	**54,766,273**	**74,553,922**	**349,616,699**	**805,036,945**
Net Book Value at End of Year	**P132,140,044**	**P25,477,360**	**P42,555,150**	**P5,774,736**	**P9,118,259**	**P215,065,549**

	2018					
	Bank Premises	Computer Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
Cost						
Balance at beginning of year	P80,229,255	P204,789,446	P102,325,301	P80,348,631	P361,813,011	P829,505,644
Additions	-	3,277,931	15,253,363	481,451	1,031,672	20,044,417
Disposals	-	(10,552,724)	(21,090,143)	(2,330,358)	(9,740,662)	(43,713,887)
Balance at end of year	80,229,255	197,514,653	96,488,521	78,499,724	353,104,021	805,836,174
Accumulated Depreciation and Amortization						
Balance at beginning of year	45,578,230	159,883,411	53,178,817	72,229,065	343,661,101	674,530,624
Depreciation and amortization	3,709,868	22,327,560	17,108,812	2,317,805	8,316,408	53,780,453
Disposals	-	(10,552,562)	(14,078,766)	(2,330,289)	(9,485,481)	(36,447,098)
Balance at end of year	49,288,098	171,658,409	56,208,863	72,216,581	342,492,028	691,863,979
Net Book Value at End of Year	P30,941,157	P25,856,244	P40,279,658	P6,283,143	P10,611,993	P113,972,195

As at December 31, 2019, bank premises account includes right-of-use assets with carrying value amounting to P104.91 million pertaining to leased branches and office premises (see Note 20).

As at December 31, 2019 and 2018, there were no property and equipment pledged as collateral for liabilities.

10. Investment Properties - net

The Bank's investment properties consist of house and lot and condominium units. Movements in this account are as follows:

	2019	2018
Cost		
Balance at beginning of year	**P182,918,594**	P116,432,696
Additions	**20,709,458**	71,245,611
Disposals	**(8,419,343)**	(4,759,713)
Balance at end of year	**195,208,709**	182,918,594
Accumulated Depreciation		
Balance at beginning of year	**8,587,488**	4,914,447
Depreciation	**5,235,261**	3,986,204
Disposals	**(590,885)**	(313,163)
Balance at end of year	**13,231,864**	8,587,488
Allowance for Impairment Losses		
Balance at beginning of year	**2,112,371**	1,742,011
Impairment losses	**1,963,736**	370,360
Disposals	**(979,272)**	-
Balance at end of year	**3,096,835**	2,112,371
Net Book Value at End of Year	**P178,880,010**	P172,218,735

The Bank does not occupy repossessed properties for business use.

11. Other Assets

This account consists of:

	Note	**2019**	2018
Computer software costs - net		**P249,778,491**	P222,672,953
Rental deposits		**36,492,843**	36,259,628
Prepaid expenses and other charges		**19,240,942**	39,288,749
Returned checks and other cash items		**862,120**	2,310,055
Net retirement asset	*19*	**-**	15,040,544
Miscellaneous		**125,797,332**	127,654,184
		P432,171,728	P443,226,113

Prepaid expenses and other charges include prepayments for medical insurance, rent, and software maintenance, and deferred charges.

Miscellaneous assets include hardware and software items under installation process, documentary stamps on hand, and stationery and office supplies. As at December 31, 2019 and 2018, hardware and software items under installation process amounted to P97.6 million and P67.2 million, respectively.

The movements in computer software costs are as follows:

	2019	2018
Cost		
Balance at beginning of year	**P556,629,304**	P381,352,354
Additions	**68,995,251**	209,278,025
Disposals	**-**	(34,001,075)
Balance at end of year	**625,624,555**	556,629,304
Accumulated Amortization		
Balance at beginning of year	**333,956,351**	334,545,455
Amortization	**41,889,713**	33,411,885
Disposals	**-**	(34,000,989)
Balance at end of year	**375,846,064**	333,956,351
	P249,778,491	P222,672,953

As at December 31, 2019 and 2018, there were no other assets pledged as collateral for liabilities.

12. Loss Allowance on Financial Instruments

Composition and movements in loss allowance on financial instruments are as follows:

	2019					
	Loans and Receivables	**Interbank Loans Receivable**	**Debt Financial Assets at FVOCI**	**Investment Securities at Amortized Cost**	**Off-balance Sheet Commitments and Contingencies**	**Total**
Balance at January 1, 2019	**P753,383,231**	**P768,268**	**P372,112**	**P -**	**P5,533,355**	**P760,056,966**
Impairment losses (reversals)	**507,731,685**	**(585,895)**	**830,878**	**544,624**	**(1,571,893)**	**506,949,399**
Accounts charged off and others	**(364,950,548)**	**-**	**-**	**-**	**-**	**(364,950,548)**
Foreign exchange and other movements	**(32,553,189)**	**(19,762)**	**(3,616)**	**-**	**(132,974)**	**(32,709,541)**
Balance at end of year	**P863,611,179**	**P162,611**	**P1,199,374**	**P544,624**	**P3,828,488**	**P869,346,276**

	2018				
	Loans and Receivables	Interbank Loans Receivable	Debt Financial Assets at FVOCI	Off-balance Sheet Commitments and Contingencies	Total
Balance at January 1, 2018	P696,785,454	P3,806,689	P -	P3,169,665	P703,761,808
Impairment losses (reversals)	214,622,848	(3,208,848)	372,054	2,235,531	214,021,585
Accounts charged off and others	(160,512,537)	-	-	-	(160,512,537)
Foreign exchange and other movements	2,487,466	170,427	58	128,159	2,786,110
Balance at end of year	P753,383,231	P768,268	P372,112	P5,533,355	P760,056,966

The loss allowance on loans and receivables includes the loss allowances for sales contract receivables and accounts receivables amounting to P2.26 million and P1.48 million in 2019 and 2018, respectively.

The loss allowance on debt financial assets at FVOCI is not recognized in the statements of financial position because the carrying amounts of these assets are their fair values. The loss allowance is recognized as part of the “Net unrealized gain (loss) on financial assets at FVOCI” in the statements of OCI.

The loss allowance on off-balance sheet commitments and contingencies is recognized by the Bank as an additional provision under “Other liabilities” in the statements of financial position (see Note 16).

Movements in the loss allowance on loans and receivables are as follows:

	2019					
	Institutional Banking	**Mortgage Banking**	**Small Business Loans**	**Retail Banking**	**Other Receivables**	**Total**
Balance at beginning of year	**P275,296,509**	**P16,887,540**	**P2,961,222**	**P396,045,760**	**P62,192,200**	**P753,383,231**
Impairment losses	**216,976,772**	**4,954,338**	**3,490,965**	**279,328,843**	**2,980,767**	**507,731,685**
Accounts charged off and others	**(192,582,955)**	**-**	**-**	**(172,348,825)**	**(18,768)**	**(364,950,548)**
Foreign exchange and other movements	**(1,745,457)**	**-**	**(5,761)**	**-**	**(30,801,971)**	**(32,553,189)**
Balance at end of year	**P297,944,869**	**P21,841,878**	**P6,446,426**	**P503,025,778**	**P34,352,228**	**P863,611,179**

	2018					
	Institutional Banking	Mortgage Banking	Small Business Loans	Retail Banking	Other Receivables	Total
Balance at beginning of year	P254,036,753	P30,127,506	P4,496,811	P345,812,247	P62,312,137	P696,785,454
Impairment losses	45,218,376	(9,423,868)	(1,552,177)	180,500,454	(119,937)	214,622,848
Accounts charged off and others	(26,429,498)	(3,816,098)	-	(130,266,941)	-	(160,512,537)
Foreign exchange and other movements	2,470,878	-	16,588	-	-	2,487,466
Balance at end of year	P275,296,509	P16,887,540	P2,961,222	P396,045,760	P62,192,200	P753,383,231

The following tables show the reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument:

	2019				
	Stage 1	**Stage 2**	**Stage 3**	**Simplified Approach**	**Total**
Loans and Receivables					
Balance at beginning of the year	**P315,780,330**	**P35,774,686**	**P356,777,875**	**P45,050,340**	**P753,383,231**
Movement of beginning balance:					
Transfer to Stage 1	**8,765,865**	**(6,912,300)**	**(1,853,565)**	**-**	**-**
Transfer to Stage 2	**(11,177,406)**	**11,303,368**	**(125,962)**	**-**	**-**
Transfer to Stage 3	**(20,664,004)**	**(14,790,749)**	**35,454,753**	**-**	**-**
Net remeasurement of loss allowance	**(193,681,078)**	**3,767,711**	**337,955,723**	**9,752,617**	**157,794,973**
New financial assets originated or purchased	**261,817,911**	**35,625,615**	**52,493,186**	**-**	**349,936,712**
Write-offs	**-**	**-**	**(364,931,779)**	**(18,769)**	**(364,950,548)**
Subtotal	**360,841,618**	**64,768,331**	**415,770,231**	**54,784,188**	**896,164,368**
Foreign exchange and other movements	**(1,711,507)**	**-**	**(31,212)**	**(30,810,470)**	**(32,553,189)**
Balance at end of the year	**P359,130,111**	**P64,768,331**	**P415,739,019**	**P23,973,718**	**P863,611,179**

	2018				
	Stage 1	Stage 2	Stage 3	Simplified Approach	Total
Loans and Receivables					
Balance at beginning of the year	P226,607,537	P35,478,880	P381,828,353	P52,870,684	P696,785,454
Movement of beginning balance:					
Transfer to Stage 1	7,165,430	(6,232,393)	(933,037)	-	-
Transfer to Stage 2	(2,957,295)	3,078,583	(121,288)	-	-
Transfer to Stage 3	(9,236,986)	(13,164,682)	22,401,668	-	-
Net remeasurement of loss allowance	(157,734,961)	5,591,464	42,406,933	(1,516,967)	(111,253,531)
New financial assets originated or purchased	246,236,009	19,806,196	59,834,174	-	325,876,379
Write-offs	-	-	(160,512,537)	-	(160,512,537)
Subtotal	310,079,734	44,558,048	344,904,266	51,353,717	750,895,765
Foreign exchange and other movements	5,700,596	(8,783,363)	11,873,609	(6,303,376)	2,487,466
Balance at end of the year	P315,780,330	P35,774,686	P356,777,875	P45,050,341	P753,383,231

	2019	2018
	Stage 1	Stage 1
Interbank Loans Receivable		
Balance at beginning of the year	**P768,268**	P3,806,689
Net remeasurement of loss allowance	**(768,268)**	(3,806,689)
New financial assets originated or purchased	**182,373**	597,841
Write-offs	**-**	-
Foreign exchange and other movements	**(19,762)**	170,427
Balance at end of year	**P162,611**	P768,268

	2019	2018
	Stage 1	Stage 1
Debt Financial Assets at FVOCI		
Balance at beginning of the year	**P372,112**	P -
Net remeasurement of loss allowance	**405,456**	-
New financial assets originated or purchased	**425,421**	372,054
Write-offs	**-**	-
Foreign exchange and other movements	**(3,616)**	58
Balance at end of year	**P1,199,373**	P372,112

	2019	2018
	Stage 1	Stage 1
Investment Securities at Amortized Cost		
Balance at beginning of the year	**P -**	P -
Net remeasurement of loss allowance	**-**	-
New financial assets originated or purchased	**544,624**	-
Write-offs	**-**	-
Foreign exchange and other movements	**-**	-
Balance at end of year	**P544,624**	P -

	2019	2018
	Stage 1	Stage 1
Off-balance Sheet Commitments and Contingencies		
Balance at beginning of the year	**P5,533,355**	P3,169,665
Net remeasurement of loss allowance	**(2,519,153)**	2,235,531
New financial assets originated or purchased	**947,260**	-
Write-offs	**-**	-
Foreign exchange and other movements	**(132,974)**	128,159
Balance at end of year	**P3,828,488**	P5,533,355

The breakdown of impairment losses is as follows:

	2019		
	Individual Impairment	**Collective Impairment**	**Total**
Loans and receivables:			
Loans and discounts	**P37,434,175**	**P467,316,743**	**P504,750,918**
Other receivables	**-**	**2,980,767**	**2,980,767**
Interbank loans receivable	**-**	**(585,895)**	**(585,895)**
Financial assets at FVOCI	**-**	**830,878**	**830,878**
Investment securities at amortized cost	**-**	**544,624**	**544,624**
Off-balance sheet commitments and contingencies	**-**	**(1,571,893)**	**(1,571,893)**
Total	**P37,434,175**	**P469,515,224**	**506,949,399**

	2018		
	Individual Impairment	Collective Impairment	Total
Loans and receivables:			
Loans and discounts	P43,330,405	P171,412,380	P214,742,785
Other receivables	1,795,118	(1,915,055)	(119,937)
Interbank loans receivable	-	(3,208,848)	(3,208,848)
Financial assets at FVOCI	-	372,054	372,054
Off-balance sheet commitments and contingencies	-	2,235,531	2,235,531
Total	P45,125,523	P168,896,062	P214,021,585

	2017		
	Individual Impairment	Collective Impairment	Total
Loans and receivables:			
Loans and discounts	P51,349,989	P133,578,158	P184,928,147
Other receivables	11,498,375	2,271,403	13,769,778
Total	P62,848,364	P135,849,561	P198,697,925

BSP Reporting

Loan provisioning under BSP regulations hinges on the qualitative appraisal and classification of the loan. Aside from classifying loans to past due and current, these are also grouped as unclassified or classified.

These classified loans are further grouped depending on the likelihood of losses the Bank will incur. Definitions of each classification are as follows:

I. Pass - These are loans or other credit accommodations that do not have a greater-than-normal credit risk. The borrower has the apparent ability and willingness to satisfy his obligations in full and therefore no loss in ultimate collection is anticipated.

II. Especially Mentioned (EM) - These are loans or other credit accommodations that have potential weaknesses that deserve management's close attention. If left uncorrected, these make affect the repayment of the loan.

III. Substandard - These are loans or other credit accommodations that have well-defined weakness/(es), that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.

IV. Doubtful - These are loans and other credit accommodations that exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however the exact amount remains undeterminable.

Under Regulatory reporting, effective August 29, 2018, BSP Circular 1011 requires a general loan loss provision equivalent to one percent (1.0%) of the outstanding balance of collectively and individually assessed loans when estimated/computed provisions are less than one percent (<1.0%) and/or no specific provisions are made, excluding loans which are considered non-risk under existing laws, rules, and regulations.

	2019	2018
NPLs	**P891,103,834**	P632,988,633
Less NPLs fully provided with loss allowance	**115,719,265**	69,946,505
	P775,384,569	P563,042,128

13. Deposit Liabilities

As of December 31, 2019 and 2018, non-interest bearing deposits are 0.3% and 1.6% of the total deposits, respectively.

The remaining deposit liabilities earn annual fixed interest rates ranging from 0.1% to 3.3%, 0.1% to 2.8% and 0.1% to 1.3% in 2019, 2018 and 2017, respectively.

On May 29, 2019, the BSP issued Circular No. 1041 which reduced the reserve requirement to 17.0% effective on the reserve week starting on May 31, 2019. This was further reduced effective June 28, 2019 and July 26, 2019 to 16.5% and 16.0%, respectively.

On October 22, 2019, the BSP issued Circular No. 1056 which reduced again the reserve requirement to 15.0% effective on the reserve week starting on November 1, 2019.

On December 31, 2019, the BSP issued Circular No. 1063 which further reduced the reserve requirement to 14.0% effective on the reserve week starting on December 6, 2019.

In 2019 and 2018, the Bank is in compliance with such reserve requirements regulations.

The total liquidity and statutory reserves, as reported to the BSP, are as follows:

	2019	2018
Due from BSP	**P3,372,764,377**	P4,500,428,728

Interest expense on deposit liabilities consists of:

	2019	2018	2017
Time	**P665,289,875**	P486,930,223	P181,108,053
Demand	**14,217,235**	14,121,792	17,636,757
Savings	**22,411,515**	17,026,483	16,135,656
	P701,918,625	P518,078,498	P214,880,466

Accrued interest payable on deposit liabilities amounted to P52.3 million and P63.6 million as at December 31, 2019 and December 31, 2018, respectively (see Note 15).

14. Bills Payable

This account consists of short-term and long-term borrowings from banks and other financial institutions.

The Bank is an accredited Participating Financial Institution, as a conduit bank for Official Development Assistance Wholesale Lending Facilities managed by various government or sovereign lending institutions.

As at December 31, 2019 and 2018, the Bank's bills payable amounted to P4.8 billion and P7.9 billion, respectively.

Foreign currency denominated interbank borrowings are subject to interest rates ranging from 1.6% to 3.5%, 1.0% to 4.1% and 1.2% to 3.5% in 2019, 2018 and 2017, respectively.

Interest expense on bills payable amounted to P255.0 million, P97.2 million and P23.4 million in 2019, 2018 and 2017, respectively.

Accrued interest payable on bills payable amounted to P7.4 million and P16.0 million as at December 31, 2019 and December 31, 2018, respectively (see Note 15).

15. Accrued Interest, Taxes and Other Expenses

This account consists of:

	Note	**2019**	2018
Accrued taxes and other expenses		**P421,540,789**	P366,520,690
Accrued interest payable	*13, 14*	**59,721,907**	79,615,956
Net retirement liability	*19*	**59,312,317**	-
		P540,575,013	P446,136,646

Accrued taxes and other expenses refer to various payables for taxes and licenses, payroll, utilities and other expenses.

16. Other Liabilities

This account consists of:

	Note	**2019**	2018
Deposits for future stock subscription	*18*	**P1,437,380,796**	P -
Accounts payable		**1,282,616,275**	1,828,149,326
Lease liabilities	*20*	**115,279,980**	-
Bills purchased - contra	*8*	**113,543,495**	70,969,246
Withholding taxes payable		**27,975,986**	33,670,156
Provision liability	*12*	**3,828,488**	5,533,355
Payment order payable		**19,113,575**	4,399,910
Miscellaneous		**36,487,383**	25,166,721
		P3,036,225,978	P1,967,888,714

Deposits for future stock subscription pertain to Parent Bank's additional capital investment in the Bank. The deposit was accounted as a liability instrument since the Bank has not yet complied with regulatory requirements to treat it as an equity instrument (see Note 18).

The majority of the accounts payable as at year-end represent monies to be credited to customer deposit accounts for payroll and inward remittances and amounts owed to government agencies for statutory deductions and taxes and other creditors for normal expenditures. These are non-interest bearing and are payable on demand.

Bills purchased account is a contra-account to domestic bills purchase transactions recorded as part of Loans and receivables account. This represents accommodations given to Bank customers with approved bills purchase line of credit which enables the customer to encash checks with one day clearing instead of the usual three days clearing time.

Provision liability pertains to loss allowance on the Bank’s off-balance sheet commitments and contingencies.

Miscellaneous includes unclaimed manager's check for more than one year and unclaimed balances of credit or deposits with the Bank as defined by the Revised Unclaimed Balances Act of 2013.

17. Maturity Analysis of Assets and Liabilities

The following table presents the maturity profile of the assets and liabilities of the Bank based on the amounts to be recovered or settled with and/or after more than one year after the reporting period (in thousands):

	2019			2018		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Assets						
Financial assets at amortized cost:						
Cash and other cash items	**P725,063**	**P -**	**P725,063**	P505,000	P -	P505,000
Due from BSP	**4,277,491**	**-**	**4,277,491**	5,001,860	-	5,001,860
Due from other banks	**1,591,079**	**-**	**1,591,079**	1,266,760	-	1,266,760
Investment securities - gross	**119,505**	**2,733,424**	**2,852,929**	19,459	2,771,060	2,790,519
Interbank loans receivable - gross	**1,518,594**	**-**	**1,518,594**	6,143,547	-	6,143,547
Loans and receivables - gross	**21,000,397**	**16,853,919**	**37,854,316**	18,680,083	17,275,169	35,955,252
Other assets*	**22,439**	**14,916**	**37,355**	6,008	32,562	38,570
	29,254,568	**19,602,259**	**48,856,827**	31,622,717	20,078,791	51,701,508
Financial assets at FVTPL	**77,766**	**3,375**	**81,141**	68,947	58,415	127,362
Financial assets at FVOCI	**2,361,887**	**4,071,773**	**6,433,660**	525,704	1,887,515	2,413,219
	31,694,221	**23,677,407**	**55,371,628**	32,217,368	22,024,721	54,242,089
Non-financial Assets						
Property and equipment - net	**-**	**215,066**	**215,066**	-	113,972	113,972
Investment properties - net	**-**	**178,880**	**178,880**	-	172,219	172,219
Deferred tax assets - net	**-**	**373,932**	**373,932**	-	200,954	200,954
Other assets	**30,331**	**364,486**	**394,817**	88,466	316,190	404,656
	30,331	**1,132,364**	**1,162,695**	88,466	803,335	891,801
	31,724,552	**24,809,771**	**56,534,323**	32,305,834	22,828,056	55,133,890
Less: Loss allowance	**(863,796)**	**(523)**	**(864,319)**	(351,867)	(402,285)	(754,152)
Unearned discount and capitalized interest	**(3,223)**	**-**	**(3,223)**	(3,178)	(1,663)	(4,841)
	P30,857,533	**P24,809,248**	**P55,666,781**	P31,950,789	P22,424,108	P54,374,897

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

	2019			2018		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Liabilities						
Financial liabilities at FVTPL	**P99,175**	**P -**	**P99,175**	P25,453	P -	P25,453
Financial liabilities at amortized cost:						
Deposit liabilities	**37,214,651**	**470,874**	**37,685,525**	35,616,198	745,193	36,361,391
Bills payable	**-**	**4,774,481**	**4,774,481**	3,996,080	3,914,221	7,910,301
Outstanding acceptances	**54,618**	**-**	**54,618**	194,467	-	194,467
Manager's checks	**73,938**	**-**	**73,938**	80,275	-	80,275
Accrued interest, taxes and other expenses**	**466,121**	**-**	**466,121**	384,830	-	384,830
Other liabilities***	**1,567,041**	**-**	**1,567,041**	1,928,685	-	1,928,685
	39,475,544	**5,245,355**	**44,720,899**	42,225,988	4,659,414	46,885,402
Non-financial Liabilities						
Accrued taxes and other expenses	**74,454**	**-**	**74,454**	61,306	-	61,306
Income tax payable	**19,805**	**-**	**19,805**	24,999	-	24,999
Other liabilities	**1,469,185**	**-**	**1,469,185**	39,204	-	39,204
	1,563,444	**-**	**1,563,444**	125,509	-	125,509
	P41,038,988	**P5,245,355**	**P46,284,343**	P42,351,497	P4,659,414	P47,010,911

***Excludes retirement liability, accrued taxes and other non-financial accruals.*
****Excludes withholding taxes payable. provision liability and deposits for future stock subscription.*

18. Equity

Capital stock and related additional paid-in capital consists of the following (in thousands):

	December 31, 2019	
	Shares	**Amount**
Common stock - P10 par value:		
Authorized	**300,000**	**P3,000,000**
Issued and fully paid	**300,000**	**3,000,000**
Treasury shares	**-**	**-**
Additional paid-in capital	**-**	**1,073,284**

	December 31, 2018	
	Shares	Amount
Common stock - P10 par value:		
Authorized	300,000	P3,000,000
Issued and fully paid	247,969	2,479,687
Treasury shares	485	15,952
Additional paid-in capital	-	53,514

The number of holders of the Bank's outstanding common shares is 110 as at December 31, 2019 and 2018.

The shares of the Bank were listed in the PSE since June 1999. In December 2000, the Parent Bank substantially increased its equity in the Bank through the acquisition of shares held by a minority group. As a result of this acquisition, the Parent Bank controlled approximately 91.0% of the Bank's capital stock compared to 57.0% prior to the acquisition. The General Banking Law of 2000 allows foreign banks to own up to 100.0% of Philippine incorporated banks, compared to 60.0% under the previous law. A further acquisition of shares held by the public representing approximately 4.0% of the Bank's equity was made by the Parent Bank in January 2001 through a tender offer at a price of P19.0 per share, the same price at which the shares from the minority group was acquired. In May 2001, the Parent Bank purchased another 4.0% of the outstanding shares at a price of P18.3 per share.

Revised Minimum Capitalization of Banks
On October 29, 2014, the BSP issued Circular No. 854, which became effective on November 19, 2014, prescribing the revised minimum capitalization of banks operating in the Philippines. Existing banks not meeting the requirement shall be given a period of five years from effectivity of the circular within which to meet the minimum capital. In addition, these banks must submit an acceptable capital build-up program within one year from date of effectivity of the circular. The Bank, falling under the category of commercial banks with total number of branches ranging from ten to one hundred, must have a minimum capital of P10.0 billion by November 2019.

On April 28, 2016, the Bank submitted its capital build up program (CBUP) to the BSP detailing the Bank's strategic plans in order to meet the required capital level. On June 16, 2016, the Monetary Board approved the Bank's CBUP. As at December 31, 2018, the Bank's unimpaired capital amount to P6.9 billion. Thus, the Bank needed additional P3.0 billion capital in order to comply with BSP Circular 854 by November 2019.

In accordance with the Bank's CBUP, the Bank's stockholders, during their annual meeting held on July 25, 2019, approved the increase of authorized shares from 300 million to 400 million shares in order to have sufficient unissued shares to be purchased by Parent Bank.

On September 27, 2019, in compliance with BSP Circular No. 854, Parent Bank purchased the remaining 52,031,269 unissued shares of the Bank and the 484,920 treasury shares at a price of P29.755 per share. The issuance resulted to the following movements:

in thousands	**Increase (Decrease)**
Additional paid-in capital	**P1,019,770,021**
Capital stock	**520,312,690**
Treasury stock	**(15,951,674)**
Retained earnings	**(1,571,372)**

The decrease in Retained earnings pertains to (a) the excess of the carrying amount of the treasury stock over the consideration; and (b) stock issuance costs amounting to P0.05 million.

In addition, Parent Bank subscribed to 48,307,202 new shares at the same price of P29.755 per share and paid the entire subscribed amount in cash.

The Bank filed its application for the amendment of its articles of incorporation with the BSP for the increase in authorized capital on October 11, 2019.

The Bank's application for the increase in authorized capital stock was approved by the Monetary Board of the BSP on February 10, 2020 and was later approved by SEC on March 6, 2020.

Based on Section 123 of the MORB, deposits for stock subscription shall be recognized as part of equity for prudential reporting purposes when all of the following conditions are met:

a. The deposit for stock subscription meets the definition of an equity instrument under PAS 32 *Financial Instruments: Presentation* such that the deposit for stock subscription shall not be interest-bearing nor withdrawable by the subscriber;

b. The bank's existing authorized capital is already fully subscribed;

c. The bank's stockholders and board of directors have approved the proposed increase in authorized capital;

d. The bank has filed an application for the amendment of its articles of incorporation for the increase in authorized capital with the appropriate supervising department of the BSP, duly supported by complete documents as prescribed by the BSP: Provided, That the approval of the SEC on the same application shall be obtained within the period prescribed under the SEC Financial Reporting Bulletin (FRB) on Deposits for future Subscription.

   In case the applications for the amendment of articles of incorporation for the increase in authorized capital have been returned due to insufficiency of supporting documents, the deposit for stock subscription shall not qualify for recognition as an equity instrument; and

e. The bank must have obtained approval of the Monetary Board on transactions involving significant ownership of voting shares of stock by any person, natural or juridical, or by one group of persons as provided in Sec. 122 (Transactions involving voting shares of stocks, Item "b"), if applicable.

Considering the status of the Bank's application for the increase in capital stock as at December 31, 2019, the deposits for stock subscription, did not meet conditions (d) and (e).

As at December 31, 2019, the said subscription amounting to P1.4 billion is lodged under the "Deposits for future stock subscription" account in "Other liabilities" in the statements of financial position (see Note 16). The said deposit was reclassified by the Bank as capital on February 10, 2020 for prudential reporting purposes and on March 6, 2020 for financial reporting purposes.

As at December 31, 2019 and 2018, Parent Bank owns 99.67% and 99.60% of the Bank's capital stock, respectively.

Voluntary Share Delisting
As discussed in Note 1, the Bank has filed voluntary delisting of its shares in PSE on October 7, 2011 and has officially delisted from the trading Board effective on February 24, 2012.

On November 28, 2012, the BSP issued Circular No. 775 requiring banks, which are majority-owned by foreign banks and are established in the Philippines, to list on the local stock exchange within three years from the effectivity of the circular (which was 15 days after it was published in a newspaper of general circulation).

Circular No. 775 cited as basis the provisions of Republic Act (RA) No. 7721 or "An Act Liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines and for other purposes".

Section 2 of RA No. 7721 cited the listing requirement for foreign banks that entered the country by buying as much as 60.0% of an existing bank or investing in up to 60.0% of the voting stock of a new subsidiary incorporated in the country.

On July 15, 2014, Republic Act No. 10641 entitled "An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose Republic Act 7721" was signed into a law by the President of the Philippines. Under the new law, foreign banks may now own up to 100.0% of domestic subsidiary banks. On November 21, 2014, the BSP issued Circular No. 858 implementing R.A. 10641. The said circular effectively removed the listing requirement for foreign banks.

Restricted Retained Earnings
At the regular meeting of the BOD held on June 23, 2015, the BOD approved the restriction of the full amount of retained earnings for the following purposes:

i.) to comply with minimum capital requirement set forth under BSP Circular No. 854;

ii.) to comply with the requirements of the ICAAP pursuant to BSP Circular No. 639;

iii.) to cover the resulting treasury shares acquired in relation to the Bank's delisting and share buyback exercise; and

iv.) to provide for buffer in preparation for BASEL III requirements.

The restriction on retained earnings relating to ICAAP and BASEL III ensure that the Bank has adequate, available qualified capital at all times to reasonably manage the significant risks identified and assessed in the ICAAP and BASEL III.

The guidelines on bank's ICAAP under Section 130 and Appendices 94, 95 and 96 of the MORB supplements the BSP's risk-based capital adequacy framework.

Appropriation for the Deficiency on General Loan Loss Provision (GLLP)
BSP Circular 1011 requires the Bank to set up GLLP equivalent to 1.0% of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. In cases when the computed loss allowance on such Stage 1 accounts is less than the 1.0% percent general provision required, the deficiency shall be recognized by appropriating the Retained Earnings account.

As at December 31, 2019, the loss allowance computed in accordance with PFRS 9 is more than the required GLLP by P38.3 million. As such, appropriation is not necessary.

As at December 31, 2018, the computed loss allowance on Stage 1 on-balance sheet loans is less than the required general provision by P10.2 million. However, the Bank does not have unrestricted retained earnings to cover said deficiency. The retained earnings amounting to P4.9 billion have already been fully restricted for specified purposes (see discussion on Restricted Retained Earnings).

Statutory Reserve
As at December 31, 2019 and 2018, statutory reserves amounting to P4.98 million pertains to reserves for trust business.

In compliance with BSP regulations, 10.0% of the Bank's profit from trust business is appropriated to surplus reserve. This yearly appropriation is required until the retained earnings amount to 20.0% of the Bank's authorized capital stock.

During 2019 and 2018, the Bank did not appropriate additional reserves since the Bank's retained earnings already amounted to at least 20.0% of the authorized capital stock.

19. Compensation and Fringe Benefits

The account consists of:

	2019	2018	2017
Employee benefits:			
Salaries and wages	**P589,324,565**	P647,566,860	P638,517,940
Fringe benefits	**322,697,886**	184,269,857	178,495,070
Medical allowances	**36,761,142**	35,648,703	34,970,144
Retirement benefit expense	**19,062,925**	14,881,981	20,857,694
Employer contributions	**16,125,187**	12,733,995	12,053,555
	983,971,705	895,101,396	884,894,403
Directors' fees	**9,903,591**	6,149,453	6,142,245
	P993,875,296	P901,250,849	P891,036,648

The Bank has a funded, noncontributory, defined benefit retirement plan covering all of its permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method and valuations are obtained on a periodic basis. The Bank's latest actuarial valuation date is December 31, 2019.

The plan is registered with the Bureau of Internal Revenue (BIR) as tax-qualified plan under Republic Act No. 4917, as amended. The control and administration of the retirement plan is vested in the Board of Trustees (BOT). The BOT of the retirement plan exercises voting rights over the shares and approve material transactions. The retirement plan's accounting and administrative functions are undertaken by the Bank's Retirement Funds Office.

The following table shows reconciliation from the opening balances to the closing balances for net retirement benefit liability and its components:

	Defined Benefits Obligation		Fair Value of Plan Assets		Net Retirement Benefit Liability (Asset)	
	2019	2018	**2019**	2018	**2019**	2018
Balance at January 1	**P177,767,437**	P214,390,229	**P192,807,981**	P182,156,005	**(P15,040,544)**	P32,234,224
Included in Profit or Loss						
Current service cost	**20,221,047**	14,060,008	**-**	-	**20,221,047**	14,060,008
Interest expense (income)	**13,688,093**	5,466,951	**14,846,215**	4,644,978	**(1,158,122)**	821,973
	33,909,140	19,526,959	**14,846,215**	4,644,978	**19,062,925**	14,881,981
Included in OCI						
Remeasurement loss (gain):						
Actuarial loss (gain) arising from:						
Financial assumptions	**60,300,738**	(51,144,552)	**-**	-	**60,300,738**	(51,144,552)
Experience adjustment	**6,288,247**	13,142,602	**-**	-	**6,288,247**	13,142,602
Return on plan assets excluding interest income	**-**	-	**(7,784,298)**	(3,128,832)	**7,784,298**	3,128,832
	66,588.985	(38,001,950)	**(7,784,298)**	(3,128,832)	**74,373,283**	(34,873,118)
Others						
Contributions paid by the employer	**-**	-	**19,083,347**	27,283,631	**(19,083,347)**	(27,283,631)
Benefits paid	**(27,733,792)**	(18,147,801)	**(27,733,792)**	(18,147,801)	**-**	-
	(27,733,792)	(18,147,801)	**(8,650,445)**	9,135,830	**(19,083,347)**	(27,283,631)
Balance at December 31	**P250,531,769**	P177,767,437	**P191,219,453**	P192,807,981	**P59,312,317**	(P15,040,544)

Retirement benefit expense is recognized under "Compensation and fringe benefits" in the statements of income. Net remeasurement loss (gain) on retirement liability, net of tax, is recognized in other comprehensive income.

The actual return on plan assets amounted to P7.1 million and P1.5 million in 2019 and 2018, respectively.

The net retirement asset (liability) is included under "Other Assets (Accrued Interest, Taxes and Other Expenses)" account in the statements of financial position.

The movements in net remeasurement loss on retirement liability are as follows:

	2019	2018
Net remeasurement loss on retirement liability at beginning of year	**(P14,374,412)**	(P55,407,993)
Net remeasurement gain (loss) recognized in OCI:		
Change in remeasurement (loss) gain on retirement liability during the year	**(74,373,283)**	34,873,118
Change in deferred tax on remeasurement losses on retirement liability during the year	**22,311,985**	(10,461,935)
Change in deferred tax on remeasurement losses on retirement liability in prior years	**-**	16,622,398
	(52,061,298)	41,033,581
	(P66,435,710)	(P14,374,412)

The Bank's plan assets consist of the following (in thousands):

	2019	2018
Debt securities	**61.8%**	68.8%
Equity investments	**15.3%**	14.3%
Loans	**10.8%**	9.2%
Due from banks	**11.3%**	6.9%
Accrued interest receivables	**0.7%**	0.7%
Dividends receivable	**0.1%**	0.1%
	100.0%	100.0%

The Bank expects to contribute P19.1 million to its defined benefits retirement plan in 2020 (2019: P27.3 million).

The principal actuarial assumptions used to determine retirement benefits are as follows:

	In Percentages	
	2019	2018
Discount rate	**5.1%**	7.7%
Salary increase rate	**4.0%**	4.0%

Assumptions for mortality and disability rate are based on the adjusted 1985 Unisex Annuity Table and the Adjusted 1952 Disability Table reflecting experience improvement and Philippine experience.

As at December 31, 2019 and 2018, the weighted average duration of defined benefit obligation is 14 years.

Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	2019			
	Discount Rate		**Salary Increase Rate**	
	+0.5%	**-0.5%**	**+0.5%**	**-0.5%**
Defined benefit obligation	**(P13,615,430)**	**P14,784,347**	**P14,099,761**	**(P13,120,451)**
Retirement liability	**(13,615,430)**	**14,784,347**	**14,099,761**	**(13,120,451)**

	2018			
	Discount Rate		Salary Increase Rate	
	+0.5%	-0.5%	+0.5%	-0.5%
Defined benefit obligation	(P7,546,172)	P8,185,591	P8,042,875	(P7,480,100)
Retirement liability	(7,546,172)	8,185,591	8,042,875	(7,480,100)

Although the analysis does not take into account of the full distribution of cashflows expected under the plan, it does provide an appropriation of the sensitivity of the assumptions shown.

Transactions with the retirement plan are made at normal market prices and terms. Outstanding balances as at December 31, 2019 and 2018 are unsecured and settlements are made in cash. There have been no guarantees provided for any retirement plan receivables. The Bank has no impairment losses relating to the receivables from retirement plan in 2019 and 2018.

The plan exposes the Bank to interest rate risk and market (investment) risk.

The BOT reviews the level of funding required for the retirement fund. This includes the asset-liability matching (ALM) strategy and investment risk management policy. The Bank's ALM objective is to match maturities of the plan assets to the retirement benefit obligation as they fall due. The Bank monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation.

The BOT approves the percentage of asset to be allocated for fixed income instruments and equities. The retirement plan has set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The BOT may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

20. Leases

Rent, utilities and equipment maintenance expenses recognized under "Occupancy and other equipment-related costs" in the statements of income are presented below:

	2019	2018	2017
Repairs and maintenance	**P100,496,720**	P71,056,222	P68,837,062
Rent	**34,428,918**	132,274,316	128,621,052
Power, light and water	**20,522,790**	21,540,991	19,829,844
	P155,448,428	P224,871,529	P217,287,958

Right-of-use assets relate to leased branches and office premises that are presented within property and equipment (see Note 9).

	2019
Balance at January 1	**P148,239,127**
Depreciation charge for the year	**(81,969,544)**
Additions	**38,639,173**
Balance at December 31	**P104,908,756**

Lease liabilities relate to the present value of the remaining lease payments on the Bank's lease contracts presented within Other liabilities (see Note 16).

	2019
Balance at January 1	**P160,783,353**
Additions	**38,639,173**
Payments on lease liabilities	**(84,142,546)**
Balance at December 31	**P115,279,980**

As at December 31, 2018, the future minimum lease payments under non-cancellable operating leases were payable as follows.

	2018
Within one year	P104,550,205
After one year but not more than five years	106,574,711
	P211,124,916

Amounts recognized in the statements of income:

	2019
2019 - Leases under PFRS 16	
Interest on lease liabilities	**P8,609,871**
Expenses relating to short-term leases	**19,048,588**
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	**13,820,687**
	P41,479,146

Expenses relating to short-term leases and low-value assets are recognized as rent expense under “Occupancy and other equipment-related costs” in the statements of income.

Amounts recognized in statement of cash flows:

	2019
Total cash outflow for leases	**P125,621,692**

21. Income and Other Taxes

Under Philippine tax laws, the RBU of the Bank is subject to percentage and other taxes (presented as “Taxes and licenses” account in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes (DST). Income taxes include the corporate income tax, as discussed below, and final taxes paid at the rate of 20.0%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes. Taxes and licenses incurred by the Bank amounted to P254.7 million, P203.5 million and P176.3 million in 2019, 2018 and 2017, respectively.

Republic Act (RA) No. 9337, An Act Amending National Internal Revenue Code, provides that the RCIT rate shall be 30.0%. Interest expense allowed as a deductible expense is reduced by 33.0% of interest income subjected to final tax.

In addition, current tax regulations provide for the ceiling on the amount of entertainment and representation (EAR) that can be claimed as a deduction against taxable income. Under the regulation, EAR allowed as deductible expense for a service bank like the Bank is limited to the actual EAR paid or incurred but not to exceed 1.0% of net revenue. EAR of the Bank amounted to P1.2 million in 2019 and P1.3 million in 2018 and 2017 (included under “Miscellaneous expenses” account in the statements of income) (see Note 22).

The regulations also provide for MCIT of 2.0% on modified gross income and allow a Net Operating Loss Carry Over (NOLCO). The Bank's MCIT and NOLCO may be applied against the Bank's income tax liability and taxable income, respectively, over a three-year period from the year of inception/incurrence.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.0% income tax. The FCDU's other income, those that are not classified as onshore or offshore under R.A. 9294, is subject to 30.0% RCIT based on net taxable income (or 2.0% MCIT based on gross income, if applicable). In addition, interest income on deposit placements with other FCDUs and offshore banking units (OBUs) is taxed at 7.5%. RA No. 9294, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.0% income tax.

Income taxes consist of:

	2019	2018	2017
RCIT	**P130,198,536**	P146,514,417	P111,615,784
Final	**49,995,594**	26,830,189	29,308,453
MCIT	**-**	75,761	327,030
	180,194,130	173,420,367	141,251,267
Deferred	**(150,665,692)**	6,736,685	(30,434,593)
	P29,528,438	P180,157,052	P110,816,674

	2019	2018
Deferred tax assets:		
Loss allowances	**P240,042,141**	P219,144,352
Net expense accrual	**120,993,686**	-
Net retirement liability	**17,799,822**	6,160,463
Unamortized past service costs	**7,463,670**	6,261,712
Accumulated depreciation of investment properties	**6,732,718**	5,089,264
Unrealized mark-to-market gain on derivatives	**5,289,557**	-
	398,321,594	236,655,791
Deferred tax liabilities:		
Revaluation gain on AR trustee	**6,887,884**	7,594,600
Unrealized gain on non-financial asset	**17,502,041**	15,211,200
Unrealized mark-to-market gain on derivatives	**-**	12,895,999
	24,389,925	35,701,799
	P 373,931,669	P200,953,992

The movement in the deferred tax balances as recognized in the statements of income and statements of OCI as is follows:

	Balance at Beginning of Year	**Recognized in Profit or Loss**	**Recognized in OCI**	**Balance at December 31, 2019**		
				Net	**Deferred Tax Assets**	**Deferred Tax Liabilities**
Loss allowance:						
Loans and receivables	**P216,743,829**	**P21,057,328**	**P -**	**P237,801,157**	**P237,801,157**	**P -**
Off-balance sheet commitments and contingencies	**1,660,007**	**(511,461)**	**-**	**1,148,546**	**1,148,546**	**-**
Investment property	**633,711**	**295,340**	**-**	**929,051**	**929,051**	**-**
Interbank loans receivable	**106,805**	**(106,805)**	**-**	**-**	**-**	**-**
Investment securities at amortized cost	**-**	**163,387**	**-**	**163,387**	**163,387**	**-**
Expense accrual	**-**	**120,993,686**	**-**	**120,993,686**	**120,993,686**	**-**
Net retirement liability	**6,160,463**	**(10,672,626)**	**22,311,985**	**17,799,822**	**17,799,822**	**-**
Unamortized past service costs	**6,261,712**	**1,201,958**	**-**	**7,463,670**	**7,463,670**	**-**
Accumulated depreciation of investment properties	**5,089,264**	**1,643,454**	**-**	**6,732,718**	**6,732,718**	**-**
Unrealized mark-to-market gain on derivatives	**(12,895,999)**	**18,185,556**	**-**	**5,289,557**	**5,289,557**	**-**
Revaluation gain AR trustee	**(7,594,600)**	**706,716**	**-**	**(6,887,884)**	**-**	**(6,887,884)**
Unrealized gain on non-financial asset	**(15,211,200)**	**(2,290,841)**	**-**	**(17,502,041)**	**-**	**(17,502,041)**
Deferred tax assets (liabilities)	**P200,953,992**	**P150,665,692**	**P22,311,985**	**P373,931,669**	**P398,321,594**	**(P24,389,925)**

	Balance at Beginning of Year	Recognized in Profit or Loss	Recognized in OCI	Balance at December 31, 2018		
				Net	Deferred Tax Assets	Deferred Tax Liabilities
Loss allowance:						
Loans and receivables	P202,567,534	P14,176,295	P -	P216,743,829	P216,743,829	P -
Off-balance sheet commitments and contingencies	950,899	709,108	-	1,660,007	1,660,007	-
Investment property	522,603	111,108	-	633,711	633,711	-
Interbank loans receivable	30,564	76,241	-	106,805	106,805	-
Remeasurement	-	-	6,160,463	6,160,463	6,160,463	-
Net retirement liability	9,670,267	(9,670,267)	-	-	-	-
Unamortized past service costs	6,725,696	(463,984)	-	6,261,712	6,261,712	-
Accumulated depreciation of investment properties	3,627,466	1,461,798	-	5,089,264	5,089,264	-
Unrealized mark-to-market gain on derivatives	(3,944,876)	(8,951,123)	-	(12,895,999)	-	(12,895,999)
Revaluation gain on AR trustee	(7,594,600)	-	-	(7,594,600)	-	(7,594,600)
Unrealized gain on non-financial asset	(11,025,339)	(4,185,861)	-	(15,211,200)	-	(15,211,200)
Deferred tax assets (liabilities)	P201,530,214	(P6,736,685)	P6,160,463	P200,953,992	P236,655,791	(P35,701,799)

The Bank did not recognize deferred tax assets on the following:

	2019	2018
Loss allowance	**P71,103,267**	P31,688,165
Expense accrual	**-**	332,232,794
Unrealized mark-to-market loss on derivatives	**-**	140,732
Excess of MCIT over RCIT	**-**	75,761
	P71,103,267	P364,137,452

Management believes that it is not likely that these will be realized in the future.

The reconciliation between the statutory income tax and income taxes follows:

	2019	2018	2017
Statutory income tax rate	**30.0%**	30.0%	30.0%
Tax effects of:			
FCDU income	**11.5**	4.3	(1.3)
Nondeductible operating expense	**6.1**	3.7	2.3
Tax-paid and tax-exempt income	**(7.7)**	2.6	0.2
Nondeductible interest expense	**(0.3)**	1.3	2.0
Others	**(31.4)**	1.3	(5.4)
Effective income tax rate	**8.2%**	43.2%	27.8%

22. Income and Expenses

In the following table, service fees and commission income from contracts with customers in the scope of PFRS 15 is disaggregated by major type of service. The table also includes a reconciliation of the disaggregated service fees and commission income with the Bank's reportable segments (see Note 24).

	2019				
	Treasury	**Institutional Banking**	**Retail Banking**	**Others**	**Total**
Deposit-related	**P -**	**P2,471**	**P90,914**	**P96**	**P93,481**
Credit-related	**71**	**37,437**	**44,335**	**(47)**	**81,796**
Miscellaneous	**-**	**2,158**	**44,250**	**6,571**	**52,979**
	P71	**P42,066**	**P179,499**	**P6,620**	**P228,256**

	2018				
	Treasury	Institutional Banking	Retail Banking	Others	Total
Deposit-related	P268	P72,458	P47,535	(P9)	P120,252
Credit-related	-	2,697	85,585	(45)	88,237
Miscellaneous	-	2,644	41,151	6,972	50,767
	P268	P77,799	P174,271	P6,918	P259,256

	2017				
	Treasury	Institutional Banking	Retail Banking	Others	Total
Deposit-related	P498	P57,794	P41,277	(P22)	P99,547
Credit-related	-	2,967	99,768	(46)	102,689
Miscellaneous	-	1,561	36,682	5,408	43,651
	P498	P62,322	P177,727	P5,340	P245,887

Miscellaneous income consists of:

	2019	2018	2017
Recovery on charged-off assets	**P52,067,687**	P60,738,165	P64,216,177
Income from assets acquired	**12,030,487**	1,909,561	6,963,143
Income from trust division	**10,513,971**	8,993,323	8,136,237
Unrealized gain from non-financial assets	**7,636,138**	21,438,217	19,116,378
Dividend income	**1,622,000**	2,801,240	4,066,000
Rent income - safety deposit box	**637,117**	635,418	648,707
(Loss) gain on disposal of property and equipment	**(145,870)**	(27,988)	16,578
Other income	**38,235,900**	31,540,423	35,768,086
	P122,597,430	P128,028,359	P138,931,306

Other income mainly consists of proceeds from sale of cash cards. The following table shows the disaggregation of other income by the reportable segments of the Bank.

	2019	2018	2017
Retail banking	**P32,074,588**	P22,727,046	P12,401,350
Institutional banking	**4,703,612**	5,150,896	3,419,726
Treasury	**307,537**	15,568	690,939
Others	**1,150,163**	3,646,913	19,256,071
	P38,235,900	P31,540,423	P35,768,086

Miscellaneous expenses consist of:

	2019	2018	2017
Insurance	**P79,240,969**	P74,735,057	P60,566,716
Management and professional fees	**53,783,953**	42,707,332	30,884,536
Office supplies	**42,973,043**	26,344,439	22,785,198
Postage and cable	**24,911,017**	23,258,748	18,701,647
Banking and supervision fees	**16,332,915**	11,563,538	9,898,056
Litigation	**15,608,861**	13,109,967	9,576,360
Travel and transportation	**10,177,911**	5,758,893	5,700,177
Telecommunications	**7,962,754**	8,485,284	8,592,624
Advertising	**5,386,191**	3,893,990	10,230,060
Bank charges	**2,768,698**	2,019,916	2,022,084
Membership dues	**2,305,255**	2,262,263	2,032,510
Freight	**1,644,285**	1,353,644	2,500,242
Entertainment and representation	**1,244,282**	1,273,992	1,304,326
Fuel and lubricants	**312,423**	631,191	465,981
Other expenses	**51,455,848**	30,141,027	28,531,558
	P316,108,405	P247,539,281	P213,792,075

Other expenses consist of fees paid for periodicals, VISA and check processing. The following table shows the disaggregation of other expense by the reportable segments of the Bank.

	2019	2018	2017
Retail banking	**P38,085,489**	P20,086,987	P19,775,778
Treasury	**6,228,757**	6,009,274	6,054,263
Institutional banking	**2,474,133**	1,841,733	799,631
Others	**4,667,469**	2,203,033	1,901,886
	P51,455,848	P30,141,027	P28,531,558

23. Basic/Diluted Earnings Per Share

Earnings per share is computed as follows:

	2019	2018	2017
Net income	**P330,683,222**	P237,355,239	P287,954,120
Weighted number of shares outstanding	**261,653,668**	247,968,731	247,968,731
Basic/diluted earnings per share	**P1.26**	P0.96	P1.16

There are no potentially dilutive shares as at December 31, 2019, 2018 and 2017. Accordingly, diluted EPS is the same as basic EPS.

24. Operating Segment Information

The Bank is organized based on the products and services that it offers and operates three principal areas namely: Treasury, Institutional Banking and Retail Banking.

Treasury - principally provides money market, trading and treasury services, as well as the management of the Bank's funding operations by use of government securities and placements and acceptances with other banks.

Institutional Banking - principally handles loans, trade finance and other credit facilities and deposit and current accounts for institutional customers.

Retail Banking - addresses the individual and retail markets. It covers deposit taking and servicing, consumer lending such as home mortgages and personal loans.

Others - principally handling supportive roles which are performed by Operations, Finance and Corporate Affairs Group, Institutional Credit Risk Management Group and Retail Credit Management Group and other divisions under the direct stewardship of the Office of the President.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Interest income is reported at the net as management primarily relies on the net interest income as performance measure, not the gross income and expense.

The Bank has no significant customers which contributes 10.0% or more of the total revenue, net of interest expense.

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on a pool rate which approximates the cost of funds.

The following table presents revenue and income information of operating segments presented in accordance with PFRS as of and for the years ended December 31, 2019, 2018 and 2017 (amount in thousands):

	2019				
	Treasury	**Institutional Banking**	**Retail Banking**	**Others**	**Total**
Net interest income					
Third party	**P158,855**	**P934,404**	**P1,185,330**	**P -**	**P2,278,589**
Intersegment	**(82,927**	**(244,462)**	**327,676**	**(287)**	**-**
	75,928	**689,942**	**1,513,006**	**1732)**	**2,278,589**
Non-interest income	**283,187**	**59,212**	**304,598**	**8,361**	**655,358**
Revenue - net of interest expense	**359,115**	**749,154**	**1,817,604**	**8,074**	**2,933,947**
Non-interest expenses	**157,656**	**501,766**	**1,143,859**	**770,454**	**2,573,735**
Income (loss) before income taxes	**201,459**	**247,388**	**673,745**	**(762,380)**	**360,212**
Income taxes	**81,056**	**2,346**	**(53,972)**	**99**	**29,529**
Net (loss) income	**P120,403**	**P245,042**	**P727,717**	**(P762,479)**	**P330,683**
Service fees and commission income	**P71**	**P42,066**	**P179,500**	**P6,619**	**P228,256**
Depreciation and amortization	**P2,796**	**P6,701**	**P72,167**	**P66,263**	**P147,927**
Software amortization	**P4**	**P12,700**	**P15,603**	**P13,583**	**P41,890**
Impairment losses	**P804**	**P215,410**	**P291,620**	**P1,079**	**P508,913**

	2018				
	Treasury	Institutional Banking	Retail Banking	Others	Total
Net interest income					
Third party	P96,319	P725,008	P1,141,922	P -	P1,963,249
Intersegment	53,901	(226,568)	172,965	(298)	-
	150,220	498,440	1,314,887	(298)	1,963,249
Non-interest income	84,264	87,382	309,360	7,230	488,236
Revenue - net of interest expense	234,484	585,822	1,624,247	6,932	2,451,485
Non-interest expenses	103,626	295,275	916,507	718,565	2,033,973
Income (loss) before income taxes	130,858	290,547	707,740	(711,633)	417,512
Income taxes	137,319	23,620	19,147	71	180,157
Net (loss) income	(P6,461)	P266,927	P688,593	(P711,704)	P237,355
Service fees and commission income	P268	P77,799	P174,271	P6,918	P259,256
Depreciation and amortization	P1,591	P1,995	P24,887	P29,294	P57,767
Software amortization	P4,172	P2,122	P4,564	P22,554	P33,412
Impairment losses	(P2,833)	P45,131	P172,032	P62	P214,392

	2017				
	Treasury	Institutional Banking	Retail Banking	Others	Total
Net interest income					
Third party	P101,412	P659,072	P1,045,332	P -	P1,805,816
Intersegment	81,111	(217,703)	137,035	(443)	-
	182,523	441,369	1,182,367	(443)	1,805,816
Non-interest income	149,782	74,161	314,974	6,404	545,321
Revenue - net of interest expense	332,305	515,530	1,497,341	5,961	2,351,137
Non-interest expenses	137,973	257,664	857,933	698,796	1,952,366
Income (loss) before income taxes	194,332	257,866	639,408	(692,835)	398,771
Income taxes	68,535	26,950	15,332	-	110,817
Net income (loss)	P125,797	P230,916	P624,076	(P692,835)	P287,954
Service fees and commission income	P498	P62,322	P177,727	P5,340	P245,887
Depreciation and amortization	P1,563	P2,675	P26,179	P28,406	P58,823
Software amortization	P7,150	P33	P1,898	P24,304	P33,385
Impairment losses	P -	P63,290	P137,124	P -	P200,414

Segment information for the statements of financial position is as follows (amounts in thousands):

	Year	Segment Assets	Segment Liabilities	Capital Expenditures
Treasury	**2019**	**P12,597,793**	**P3,976,841**	**P2,071**
	2018	13,965,949	7,955,737	1,676
Institutional Banking	**2019**	**29,931,119**	**20,006,104**	**8,619**
	2018	28,848,378	20,759,230	493
Retail Banking	**2019**	**12,725,371**	**19,971,515**	**3,572**
	2018	11,276,432	16,781,370	5,500
Others	**2019**	**412,498**	**2,329,884**	**27,347**
	2018	284,138	1,514,575	12,375
Total	**2019**	**P55,666,781**	**P46,284,344**	**P41,609**
Total	2018	P54,374,897	P47,010,912	P20,044

Presented below is the summary of information on reportable segments:

	2019	2018	2017
Revenues - net of interest expense			
Total revenue for reportable segments	**P2,933,947**	P2,451,485	P2,351,137
Income before Taxes			
Total profit for reportable segments	**360,212**	417,512	398,771

	2019	2018
Assets		
Total assets for reportable segments	**P55,666,781**	P54,374,897
Liabilities		
Total liabilities for reportable segments	**46,284,344**	47,010,912

25. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

The Bank treats other subsidiaries and branch offices of the Parent Bank as related parties (collectively referred to as "affiliates").

The Bank has loan transactions with investees and with certain DOSRI. Existing banking regulations limit the amount of individual loans to DOSRI, 70.0% of which must be secured, to the total of their respective deposits and book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed the respective total regulatory capital or 15.0% of total loan portfolio, whichever is lower.

On March 15, 2004, the BSP issued Circular 423 which provides for the amended definition of DOSRI accounts. It clarifies that loans granted to officers and employees under an approved fringe benefit program is excluded from the individual ceiling but is subject to 5.0% aggregate ceiling.

The following table shows information relating to DOSRI loans (in thousands):

	2019	2018
Total outstanding DOSRI loans	**P418**	P725
Percent of DOSRI loans to total loan portfolio	**0.0%**	0.0%
Percent of unsecured DOSRI loans to total DOSRI loans	**Nil**	Nil
Percent of past due DOSRI loans to total DOSRI loans	**Nil**	Nil
Percent of non-performing DOSRI loans to total DOSRI loans	**Nil**	Nil

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said Circular, total outstanding exposures to each of the bank's subsidiaries and affiliates shall not exceed 10.0% of bank's net worth, the unsecured portion of which shall not exceed 5.0% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.0% of the net worth of the lending bank. BSP Circular No. 560 is effective on February 15, 2007.

The significant account balances with respect to related parties included in the financial statements (after appropriate eliminations have been made) are as follows:

			Outstanding Balance			
Category/Transaction	Year	Amount of the Transaction	Due from Related Parties	Due to Related Parties	Terms	Conditions
Parent						
Current Deposits						
Deposits	2019	P8,652,816,257	P7,353,611	P -	Demandable;	Unsecured;
Withdrawals		(8,680,995,042)	-	-	non-interest bearing	no impairment
Deposits	2018	5,241,379,621	35,532,396	-	Demandable;	Unsecured;
Withdrawals		(5,272,460,445)	-	-	non-interest bearing	no impairment
Bills Payable						
Availments	2019	-	-	-	3 years;	Unsecured;
Settlements		(4,131,213,945)	-	3,779,086,918	interest bearing	no impairment
Availments	2018	23,369,159,004	-	-	1-3 months and 3 years;	Unsecured;
Settlements		(19,203,608,141)	-	7,910,300,863	interest bearing	no impairment
Future Stock Subscription						
Deposits for future stock subscription	2019	1,437,380,796	-	1,437,380,796	Demandable; non-interest bearing	Unsecured; no impairment
Interest Expense on Bills Payable	2019	149,971,042	-	262,326	Demandable; interest bearing	Unsecured; no impairment
	2018	93,121,232	-	16,039,805	Demandable; interest bearing	Unsecured: no impairment
Entities under Common Control						
Current Deposits to CTBC - Hongkong						
Deposits	2019	24,994,149	40,774,869	-	Demandable;	Unsecured;
Withdrawals		(3,591,478)	-	-	non-interest bearing	no impairment
Deposits	2018	95,249,054	19,342,198	-	Demandable;	Unsecured;
Withdrawals		(105,537,531)	-	-	non-interest bearing	no impairment
Current Deposits to CTBC - Canada						
Deposits	2019	60,944,502	3,576,296	-	Demandable;	Unsecured;
Withdrawals		(58,638,504)	-	-	non-interest bearing	no impairment
Deposits	2018	82,117,506	1,270,298	-	Demandable;	Unsecured;
Withdrawals		(82,497,939)	-	-	non-interest bearing	no impairment
Key Management Personnel						
Loans and Receivables						
Additions	2019	11,135,128	20,861,241	-	1-5 years; interest bearing	Secured and unsecured; with impairment
Collections		(12,998,504)	-	-	1-5 years; interest bearing	Secured and unsecured; with impairment
Additions	2018	12,545,468	22,724,617	-	1-5 years; interest bearing	Secured and unsecured; with impairment
Collections		(13,807,035)	-	-		
Interest Income on Loans and Receivables	2019	1,790,450	1,790,450	-	Demandable; interest bearing	Unsecured; no impairment
	2018	1,844,371	1,844,371	-	Demandable; interest bearing	Unsecured; no impairment
Other Related Parties						
Employees' retirement fund held by Trust Operations						
Deposit Liabilities						
Deposits	2019	140,433,228	-	1,579,756	1-3years,	Secured,
Withdrawals		(140,435,003)	-	-	interest bearing	no impairment
Deposits	2018	420,469,392	-	1,579,635	1-3years,	Secured,
Withdrawals		(420,467,497)	-	-	interest bearing	no impairment
Interest Expense on Deposit Liabilities	2019	930	-	-	Demandable; interest bearing	Unsecured; no impairment
	2018	5,226	-	-	Demandable; interest bearing	Unsecured; no impairment
TOTAL	**2019**		**P74,356,467**	**P5,218,309,796**		
TOTAL	2018		P80,713,880	P7,927,920,303		

All transactions with related parties are to be settled in cash.

Impairment losses recognized on loans and receivables from key management personnel is P0.3 million for the year ended December 31, 2019 (2018: P0.2 million; 2017: nil).

The remuneration of directors and other members of key management personnel are as follows:

	2019	2018	2017
Short-term benefits	**P91,591,501**	P102,892,441	P117,926,986
Post-employment benefits	**-**	6,597,256	11,721,994
Other long-term benefits	**1,929,633**	3,318,208	953,021
	P93,521,134	P112,807,905	P130,602,001

In accordance with the Bank's By-Laws, profit share of officers and employees is computed at 10.0% of net income after tax.

The Bank's compensation to Key Management Personnel is shown as part of "Compensation and fringe benefits" in the statements of income.

Furthermore, the Bank has a separate funded noncontributory defined benefit plans covering substantially all its officers and regular employees. Under this retirement plan, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements. The Bank's employee benefit fund (or "retirement plan asset") is in the form of a trust account being maintained by the Bank's Trust Operations Department ("Trustee").

As discussed in Note 19, the Bank's retirement plan assets are invested in various debt and equity instruments, such as government securities, corporate papers, equity securities traded in PSE, as well as investments in BSP's special deposit account and placements with the Bank. The Bank's retirement plan assets do not have investments in real properties.

Other than placements with the Bank, the Bank's retirement plan assets do not have investments in securities, whether debt or equity, issued by the Bank as at December 31, 2019 and 2018.

As at December 31, 2019 and 2018, the carrying values of the Bank's retirement plan assets, which approximate its fair value, amounted to P191.2 million and P192.8 million, respectively (see Note 19).

26. Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments entered into by the Bank, recorded as derivative assets or derivative liabilities, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as at December 31, 2019 and 2018 and are not indicative of either market risk or credit risk (in thousands).

	2019		
	Assets	**Liabilities**	**Notional Amount**
Freestanding Derivatives -			
Currency forwards and swaps			
Buy:			
USD/PHP	**P -**	**P99,175**	**USD41,800**
Sell:			
USD/PHP	**77,016**	**-**	**USD55,029**
	P77,016	**P99,175**	

	2018		
	Assets	Liabilities	Notional Amount
Freestanding Derivatives -			
Currency forwards and swaps			
Buy:			
USD/PHP	P882	P25,353	USD69,750
Sell:			
USD/PHP	67,063	100	USD102,532
	P67,945	P25,453	

The Bank entered into currency forwards and swap contracts to manage its foreign exchange risks. Currency forwards are contractual agreements to buy or sell a specified currency at a specific price and date in the future. Currency swaps are contractual agreements to exchange principal and interest payments at fixed intervals denominated in two different currencies.

The net movements in fair value changes of derivatives are as follows (amount in thousands):

	2019	2018
Net derivative asset at beginning of year	**P42,492**	P12,737
Net changes in fair value of derivatives	**(65,005)**	29,713
Fair value of settled contracts	**354**	42
Net derivative asset at end of year	**(P22,159)**	P42,492

27. Classification and Measurement of Financial Instruments under PFRS 9

The following table provides a reconciliation between line items in the statements of financial position and categories of financial instruments:

		2019					
	Note	Mandatorily at FVTPL	Designated as at FVTPL	FVOCI - Debt Instruments	FVOCI - Equity Instruments	Amortized Cost	Total Carrying Amount
Financial Assets							
Cash and other cash items	*17*	**P -**	**P -**	**P -**	**P -**	**P725,063,226**	**P725,063,226**
Due from BSP	*17*	**-**	**-**	**-**	**-**	**4,277,491,280**	**4,277,491,280**
Due from other banks	*17*	**-**	**-**	**-**	**-**	**1,591,079,273**	**1,591,079,273**
Interbank loans receivable - net		**-**	**-**	**-**	**-**	**1,518,431,320**	**1,518,431,320**
Financial assets at FVTPL	*7, 17*	**81,140,674**	**-**	**-**	**-**	**-**	**81,140,674**
Financial assets at FVOCI	*7, 17*	**-**	**-**	**6,420,539,349**	**13,120,817**	**-**	**6,433,660,166**
Investment securities at amortized cost - net	*7, 17*	**-**	**-**	**-**	**-**	**2,852,383,715**	**2,852,383,715**
Loans and receivables - net	*8*	**-**	**-**	**-**	**-**	**36,987,482,471**	**36,987,482,471**
Other assets*	*17*	**-**	**-**	**-**	**-**	**37,354,963**	**37,354,963**
Total Financial Assets		**P81,140,674**	**P -**	**P6,420,539,349**	**P13,120,817**	**P47,989,286,248**	**P54,504,087,088**
Financial Liabilities							
Deposit liabilities	*13, 17*	**P -**	**P -**	**P -**	**P -**	**P37,685,524,645**	**P37,685,524,645**
Financial liabilities at FVTPL	*17, 26*	**99,175,116**	**-**	**-**	**-**	**-**	**99,175,116**
Bills payable	*14, 17*	**-**	**-**	**-**	**-**	**4,774,481,380**	**4,774,481,380**
Outstanding acceptances	*17*	**-**	**-**	**-**	**-**	**54,618,030**	**54,618,030**
Manager's checks	*17*	**-**	**-**	**-**	**-**	**73,938,307**	**73,938,307**
Accrued interest, taxes and other expenses**	*17*	**-**	**-**	**-**	**-**	**466,121,317**	**466,121,317**
Other liabilities***	*17*	**-**	**-**	**-**	**-**	**1,567,040,709**	**1,567,040,709**
Total Financial Liabilities		**P99,175,116**	**P -**	**P -**	**P -**	**P44,621,724,388**	**P44,720,899,504**

**Includes returned checks and other cash items and rent deposit.*
***Excludes retirement liability, accrued taxes and other non-financial accruals.*
****Excludes withholding taxes payable, provision liability and deposits for future stock subscription.*

		2018					
	Note	Mandatorily at FVTPL	Designated as at FVTPL	FVOCI - Debt Instruments	FVOCI - Equity Instruments	Amortized Cost	Total Carrying Amount
Financial Assets							
Cash and other cash items	*17*	P -	P -	P -	P -	P504,999,873	P504,999,873
Due from BSP	*17*	-	-	-	-	5,001,859,955	5,001,859,955
Due from other banks	*17*	-	-	-	-	1,266,759,792	1,266,759,792
Interbank loans receivable - net		-	-	-	-	6,142,778,572	6,142,778,572
Financial assets at FVTPL	*7, 17*	127,362,442	-	-	-	-	127,362,442
Financial assets at FVOCI	*7, 17*	-	-	2,399,898,231	13,320,817	-	2,413,219,048
Investment securities at amortized cost	*7, 17*	-	-	-	-	2,790,519,408	2,790,519,408
Loans and receivables - net	*8*	-	-	-	-	35,197,027,258	35,197,027,258
Other assets*	*17*	-	-	-	-	38,569,682	38,569,682
Total Financial Assets		P127,362,442	P -	P2,399,898,231	P13,320,817	P50,942,514,540	P53,483,096,030
Financial Liabilities							
Deposit liabilities	*13, 17*	P -	P -	P -	P -	P36,361,391,250	P36,361,391,250
Financial liabilities at FVTPL	*17, 26*	25,452,851	-	-	-	-	25,452,851
Bills payable	*14, 17*	-	-	-	-	7,910,300,863	7,910,300,863
Outstanding acceptances	*17*	-	-	-	-	194,467,418	194,467,418
Manager's checks	*17*	-	-	-	-	80,275,446	80,275,446
Accrued interest, taxes and other expenses**	*17*	-	-	-	-	384,830,185	384,830,185
Other liabilities***	*17*	-	-	-	-	1,928,685,203	1,928,685,203
Total Financial Liabilities		P25,452,851	P -	P -	P -	P46,859,950,365	P46,885,403,216

**Includes returned checks and other cash items and rent deposit.*
***Excludes retirement liability, accrued taxes and other non-financial accruals.*
**** Excludes withholding taxes payable, provision liability and deposits for future stock subscription.*

28. Event After the Reporting Period

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

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

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

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

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

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

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

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

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

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

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

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

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

29. Supplementary Information Required under BSP Circular No. 1074

The following supplementary information is required by Appendix 55 - Disclosure Requirements to the Audited Financial Statements (AFS) to Section 174 of the MORB of the BSP, amended by BSP Circular No. 1074, *Amendments to Regulations on Financial Audit of Banks*.

A. Financial Performance Indicators

The following basic ratios measure the financial performance of the Bank:

		2019	2018	2017
a.	Net income	**P330,683,222**	P237,355,239	P287,954,120
b.	Average total equity	**8,373,211,275**	7,352,087,196	7,234,671,341
	Return on average equity (a/b)	**3.9%**	3.2%	4.0%
c.	Net income	**P330,683,222**	P237,355,239	P287,954,120
d.	Average total assets	**55,020,839,232**	47,350,584,917	38,195,012,674
	Return on average assets (c/d)	**0.6%**	0.5%	0.8%
e.	Net interest income	**P2,278,588,945**	P1,963,249,288	P1,805,815,596
f.	Average interest earning assets	**49,915,579,319**	42,276,464,492	33,133,016,700
	Net interest margin on average earning assets (e/f)	**4.6%**	4.6%	5.5%

Note: Average balances were determined as the average of the current and previous calendar balances of the respective statements of financial position accounts.

B. Commitments and Contingencies

In the normal course of business, the Bank enters into various commitments and incurs contingent liabilities that are not presented in the accompanying financial statements. The Bank does not anticipate any material losses as a result of these commitments and contingent liabilities.

For regulatory reporting purposes, the following is a summary of the commitments and contingent liabilities at their equivalent peso contractual amounts (amount in thousands):

	2019	2018
Standby letters of credit	**P2,294,083**	P1,984,501
Trust department accounts	**1,711,936**	1,499,267
Credit commitments	**1,246,887**	421,538
Sight/usance import letters of credit	**249,445**	1,311,865
Outward bills for collection	**181,804**	1,141,728
Others	**12,090**	23,339

Securities and other properties held by the Bank in a fiduciary or agency capacity for its customers are not included in the Bank's statements of financial position since these items are not assets of the Bank. As at December 31, 2019 and 2018, total assets held by the Bank's Trust Department amounted to P1.7 billion and P1.5 billion, respectively (see Note 25).

In connection with the trust operations of the Bank, government securities with carrying value of P19.5 million (face value of P20.0 million) as of December 31, 2019 and 2018 are deposited with the BSP in compliance with existing banking regulations relative to the trust functions of the Bank.

In compliance with existing BSP regulations, 10.0% of the Bank's income from trust business is appropriated to retained earnings. This yearly appropriation is required until the retained earnings for trust functions equals 20.0% of the Bank's regulatory net worth. No part of such retained earnings shall at any time be paid out as dividends, but losses accruing in the course of business may be charged against such surplus. As at December 31, 2019 and 2018, the reserve for trust functions recorded under "Statutory reserve" in the statements of financial position amounted to P5.0 million.

As at December 31, 2019 and 2018, off-balance sheet commitments and contingent liabilities with credit risk exposure amounted to P3.8 million and P3.7 million. These include unused commercial letters of credit and credit commitments which are subject to ECL starting January 1, 2018.

Other Commitments

The assets pledged by the Bank are strictly for the purpose of providing collateral for the counterparty. To the extent that the counterparty is permitted to sell and/or re-pledge the assets, they are classified in the statements of financial position as pledged collateral. The pledged assets will be returned to the Bank when the underlying transaction is terminated but, in the event of the Bank's default, the counterparty is entitled to apply the collateral in order to settle the liability.

No asset is being pledged by the Bank to secure outstanding liabilities as at December 31, 2019 and 2018.

Other relevant disclosures required by BSP Circular No. 1074 are in Notes 3, 5 and 18.

30. Supplementary Information Required Under Revenue Regulations 15-2010

On November 25, 2010, the BIR issued Revenue Regulations (RR) No. 15-2010 for the amendments in certain provisions of RR No. 21-2002, as *Amended, Implementing Section 6(H) of the Tax Code of 1997, Authorizing the Commissioner of Internal Revenue to Prescribe Additional Procedural and/or Documentary Requirements in Connection with the Preparation and Submission of Financial Statements Accompanying the Bank's Tax Returns*.

In compliance with the above RR, the Bank presents information on taxes, duties and license fees paid or accrued during the taxable years.

The details of taxes and licenses account in 2019 are as follows:

Gross receipt tax (GRT)	**P174,819,007**
Documentary stamp tax	**74,737,299**
Business licenses	**4,556,728**
Bank car registration	**237,584**
Real property tax	**170,687**
Annual registration fee	**13,000**
Community tax certificate	**10,500**
Business taxes	**117,966**
	P254,662,771

The NIRC of 1997 provides for the imposition of GRT on gross receipts derived by banks from sources within the Philippines. Accordingly, the Bank's gross receipts are subject to GRT as re-imposed in RA No. 9238 beginning January 1, 2004.

Details of the GRT remitted in 2019 are as follows:

	Tax Base	Total Remittances	Balance
Income subject to 5.0%	**P2,632,326,647**	**P120,171,816**	**P11,444,516**
Income subject to 1.0%	**18,736,304**	**168,060**	**19,303**
Other income subject to 7.0%	**614,504,455**	**41,399,847**	**1,615,465**
	P3,265,567,406	**P161,739,723**	**P13,079,284**

Documentary Stamp Tax

Movement in documentary stamp tax as follows:

	Balance
Documentary stamps on hand, December 31, 2018	**P21,981,935**
Purchases (BIR Form 2000)	**260,000,000**
Documentary stamps used	**(269,989,094)**
Documentary stamps on hand, December 31, 2019	**P11,992,841**

Withholding Taxes

Details of total remittances of withholding taxes in 2019 are as follows:

	Total Remittances	Balance
Withholding taxes on compensation and benefits	**P158,232,356**	**P17,482,963**
Final withholding tax on interest on deposits	**134,071,977**	**7,367,154**
Expanded withholding taxes	**25,801,489**	**1,798,322**
	P318,105,822	**P26,648,439**

Outstanding amount of withholding taxes are included in "Other liabilities" account in the statements of financial position.

Deficiency Tax

On March 16, 2015, the Bank received a Preliminary Assessment Notice (PAN) from the BIR, covering the taxable year 2011, amounting to P200.6 million, inclusive of penalties and interest. The said PAN pertains to the allocation of expenses under Revenue Regulations No. 4-2011 (RR 4-11).

Tax Case

In relation to RR 4-11, on April 6, 2015, several local banks and branches of foreign banks, including the Bank, filed a Petition for Declaratory Relief (with urgent application for the issuance of a Temporary Restraining Order and/or a Writ of Preliminary Injunction) with the Makati Regional Trial Court (RTC).

On April 27, 2015, the Makati RTC granted the application for a Writ of Preliminary Injunction and issued an Order stopping the BIR from enforcing, carrying-out, and implementing RR 4-11. The BIR moved for the reconsideration, but the same was denied. The case is now undergoing pre-trial conference which will eventually lead to trial stage proper. Pending these incidents, however, the court issued injunction against the BIR stays. Pre-trial conference was concluded in 2017, with Makati RTC directing the submission of legal memorandum. Both plaintiff and defendant complied with the court's directive. With the submission of the legal memoranda, Makati RTC has considered the case submitted for decision.

On June 26, 2018, our external counsel, ACCRA Law Office, received RTC-Makati's ruling which favoured the consortium banks and nullified the BIR regulation (RR 4-11) which then BIR Commissioner Henares issued and from where the tax assessments arose. In other words, the Court absolved the banks from their alleged tax liabilities. In its November 2018 report, ACCRA Law Office informed the consortium banks that BIR filed an appeal with the Supreme Court and ACCRA Law Office is now waiting for the Supreme Court's resolution whether it will reject/dismiss the appeal outright, or direct the consortium banks to file their Comment on this appeal before rendering its decision.

As at December 31, 2019, acting on BIR's appeal, the Supreme Court issued its Resolution dated March 27, 2019 requiring the banks to submit their comment on BIR's petition. As required, the Bank's external counsel, ACCRA Law Office, submitted the Comment which opposed the BIR's appeal and prayed for the confirmation of RTC-Makati's ruling. Both BIR and the banks are now waiting for further orders or resolution from the Supreme Court.

CTBC BANK (PHILIPPINES) COMMERCIAL BANK CORPORATION
INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

CTBC BANK (PHILIPPINES) CORPORATION
Fort Legend Towers, Third Avenue corner 31st Street, Bonifacio Global City, Taguig City

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2019

Unappropriated retained earnings, as adjusted to available for dividend declaration, beginning[1]	**P -**
Net income during the year closed to retained earnings	**330,683,222**
Less: Non-actual/unrealized income (expenses)	
Unrealized foreign exchange gain-net (except those attributable to cash and cash equivalents)	**(59,525,816)**
Fair value adjustment (marking to market gains)	**443,328**
Gain on foreclose of investment properties during the year	**7,636,138**
Deferred tax benefit	**150,665,692**
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRSs	**310,583**
Net income actually earned during the year	**260,681,735**
Add/Less:	
Dividend declaration during the period	**-**
Appropriations of Retained Earnings during the period	
Trust operations	**-**
Treasury shares[1, 2]	**-**
Minimum capital requirements per BSP Circular No. 854, BASEL III requirements, and ICAAP[1]	**(260,681,735)**
Reversal of appropriations	**-**
Effects of prior period adjustments	**-**
Total retained earnings, available for dividend declaration[1], ending	**P -**

[1] - At the regular meeting of the BOD held on June 23, 2015, the BOD approved the restriction of the full amount of retained earnings for the following purposes:
i.) to comply with minimum capital requirement set forth under BSP Circular No. 854.
ii.) to comply with the requirements of the ICAAP pursuant to BSP Circular No. 639;
iii.) to cover the resulting treasury shares acquired in relation to the Bank's delisting and share buyback exercise; and
iv.) to provide for buffer in preparation for BASEL III requirements

[2] - Amount includes transaction cost.

CTBC BANK (PHILIPPINES) CORPORATION
Fort Legend Towers, Third Avenue corner 31st Street, Bonifacio Global City, Taguig City

SCHEDULES REQUIRED BY ANNEX 68-J
DECEMBER 31, 2019

Philippine Securities and Exchange Commission (SEC) issued the Revised Securities Regulation Code Rule (SRC) 68. It prescribed the additional information and schedule requirements for issuers of securities to the public.

Below are the additional information and schedules required by the Revised SRC Rule 68. These are presented for purposes of filing with the SEC and is not required part of the basic financial statements.

Schedule A:	Financial Assets
Schedule B:	Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
Schedule C:	Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements
Schedule D:	Long-Term Debt
Schedule E:	Indebtedness to Related Parties (Long-Term Loans from Related Companies)
Schedule F:	Guarantees of Securities of Other Issuers
Schedule G:	Capital Stock

CTBC BANK (PHILIPPINES) CORPORATION
Fort Legend Towers, Third Avenue corner 31st Street, Bonifacio Global City, Taguig City

SCHEDULE A – FINANCIAL ASSETS
DECEMBER 31, 2019

Financial Assets

Below is the detailed schedule of financial assets in equity and debt securities of the Bank as of December 31, 2019:

Name of Issuing Entity and Association of Each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount Shown in the Statement of Financial Position	Value Based on Market Quotation at End of Year	Income Received and Accrued
Financial Assets at FVTPL					
Government securities:					
Retail treasury bonds	-	P3,368,247	P3,375,053	P3,375,053	P14,330
Philippine treasury bills	-	746,573	749,863	749,863	-
Sub-total	-	4,114,820	4,124,916	4,124,916	14,330
Derivative assets					
Ecossential Foods Corporation	-	1,508,037	36,864	36,864	-
ANZ Banking Group Limited - Philippine Branch	-	538,500,000	29,869,287	29,869,287	-
BDO Unibank, Inc.	-	1,229,315,000	15,121,360	15,121,360	-
Bank of the Philippine Islands	-	266,200,000	12,849,654	12,849,654	-
China Banking Corporation	-	271,450,000	17,470,842	17,470,842	-
Metropolitan Bank and Trust Co.	-	304,956,000	1,552,913	1,552,913	-
Rizal Commercial Banking Corporation	-	255,800,000	114,838	114,838	-
Sub-total	-	2,867,729,037	77,015,758	77,015,758	-
	-	P2,871,843,857	P81,140,674	P81,140,674	P14,330
Financial Assets at FVOCI					
Government securities:					
Fixed rate treasury notes	-	P501,876,942	P511,275,624	P511,275,624	P8,680,747
Retail treasury bonds	-	1,442,968,877	1,463,765,688	1,463,765,688	4,897,847
Republic of the Philippines (ROP) bonds	-	1,710,740,641	1,729,443,296	1,729,443,296	27,648,837
Republic of Indonesia (ROI) bonds	-	386,175,423	404,253,637	404,253,637	6,400,756
Philippine treasury bills	-	34,102,800	34,589,631	34,589,631	-
United States treasury bills	-	2,276,529,930	2,277,211,473	2,277,211,473	-
Sub-total	-	6,352,394,613	6,420,539,349	6,420,539,349	47,628,187
Equity securities:					
BANCNET	50,000	-	6,940,717	6,940,717	-
PCHC	21,000	-	5,000,100	5,000,100	-
BAP	5,000	-	500,000	500,000	-
Orchard Gold and Country Club	1	-	400,000	400,000	-
Subic Bay Yacht Club Corporation	1	-	280,000	280,000	-
Sub-total	76,002	-	13,120,817	13,120,817	-
	76,002	P6,352,394,613	P6,433,660,166	P6,433,660,166	P47,628,187

Forward

Name of Issuing Entity and Association of Each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount Shown in the Statement of Financial Position	Value Based on Market Quotation at End of Year	Income Received and Accrued
Investment Securities at Amortized Cost					
Government securities:					
Fixed rate treasury notes	-	**P55,255,067**	**P55,127,803**	**P55,603,966**	**P1,189,236**
Retail treasury bonds	-	**461,737,207**	**460,830,507**	**482,743,991**	**2,098,958**
ROP bonds	-	**2,207,361,430**	**2,145,380,361**	**2,290,902,149**	**46,271,930**
ROI bonds	-	**172,159,127**	**171,543,232**	**171,278,837**	**2,759,256**
Philippine treasury bills	-	**746,573**	**19,501,812**	**19,652,193**	**-**
Total	**-**	**P2,897,259,404**	**P2,852,383,715**	**P3,020,181,136**	**P52,319,380**

CTBC BANK (PHILIPPINES) CORPORATION
Fort Legend Towers, Third Avenue corner 31st Street,
Bonifacio Global City, Taguig City

SCHEDULE B – AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
DECEMBER 31, 2019

Name and Designation of Debtor	Balance at Beginning of Year	Additions	Amounts Collected	Amounts Written Off	Current	Not Current	Ending Balance
Employee Loans/Total	P22,724,617	P11,135,128	(P12,998,504)	P -	P20,861,241	P -	P20,861,241

CTBC BANK (PHILIPPINES) CORPORATION
Fort Legend Towers, Third Avenue corner 31st Street,
Bonifacio Global City, Taguig City

SCHEDULE C – AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2019

Name and Designation of Debtor	Balance at Beginning Period	Additions	Amounts Collected	Amounts Written Off	Current	Noncurrent	Balance at End of Period
			None to report				

CTBC BANK (PHILIPPINES) CORPORATION
Fort Legend Towers, Third Avenue corner 31st Street,
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SCHEDULE D - LONG-TERM DEBT
DECEMBER 31, 2019

Type of Issue and Type of Obligation	Amount Authorized by Indenture	Amount shown under caption "Current Portion of Long-Term Debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet	Interest Rates	Amounts or Numbers of Periodic Installments	Maturity Dates
Deposit liabilities - time	P470,873,913	P -	P470,873,913	2.52% to 4.57%	Various	Various
Bills payable	1,000,000,000	-	995,394,463	5.04%	Interest is payable quarterly	4/29/2022
Bills payable	USD75,000,000	-	3,779,086,917	3.48%	Interest is payable monthly	12/21/2021

CTBC BANK (PHILIPPINES) CORPORATION
Fort Legend Towers, Third Avenue corner 31st Street,
Bonifacio Global City, Taguig City

SCHEDULE E - INDEBTEDNESS TO RELATED PARTIES
DECEMBER 31, 2019

Name of Related Parties	Balance at Beginning of Year	Balance at End of Year	Nature, Terms and Conditions
CTBC Bank Co. Ltd.	P7,910,300,863	P3,779,086,918	3 years; interest bearing; unsecured

CTBC BANK (PHILIPPINES) CORPORATION
Fort Legend Towers, Third Avenue corner 31st Street,
Bonifacio Global City, Taguig City

SCHEDULE F – GUARANTEES OF SECURITIES OF OTHER ISSUERS
DECEMBER 31, 2019

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount of guaranteed and outstanding	Amount owned by person of which statement is filed	Nature of Guarantee

None to report

CTBC BANK (PHILIPPINES) CORPORATION
Fort Legend Towers, Third Avenue corner 31st Street,
Bonifacio Global City, Taguig City

SCHEDULE G – CAPITAL STOCK
DECEMBER 31, 2019

Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under the related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common shares	300,000,000	300,000,000	-	299,012,001 Additional common shares and reissuance of treasury shares in September 2019	60	987,939

Required information is disclosed in Note 18: Equity to the basic financial statements of the Bank.

CTBC BANK (PHILIPPINES) CORPORATION
Fort Legend Towers, Third Avenue corner 31st Street, Bonifacio Global City, Taguig City

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2019

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

	2019	2018
Current assets	**P30,857,532,935**	P32,305,832,275
Current liabilities	**41,038,988,301**	42,351,497,845
Ratio of current assets to current liabilities	**75.2%**	76.3%
Net liquid assets[1]	**P14,527,690,823**	P11,435,446,831
Total deposits	**37,685,524,645**	36,361,391,250
Ratio of net liquid assets to total deposits	**38.5%**	31.4%

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

	2019	2018
Total liabilities	**P46,284,343,593**	P47,010,912,322
Total equity	**9,382,437,488**	7,363,985,061
Ratio of debt to equity	**493.3%**	638.4%

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

	2019	2018
Total assets	**P55,666,781,081**	P54,374,897,383
Total equity	**9,382,437,488**	7,363,985,061
Ratio of total assets to equity	**593.3%**	738.4%

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

	2019	2018
Income before interest and taxes	**P1,325,723,446**	P1,032,770,725
Interest expense	**965,511,787**	615,258,433
Interest coverage ratio	**137.3%**	167.9%

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

	2019	2018
Net income	**P330,683,222**	P237,355,239
Average total equity[2]	**8,373,211,274**	7,352,087,196
Return on average equity	**3.9%**	3.2%
Net income	**P330,683,222**	P237,355,239
Average total assets[2]	**55,020,839,232**	47,350,584,917
Return on average assets	**0.6%**	0.5%
Net interest income	**P2,278,588,945**	P1,963,249,288
Average interest earning assets[2]	**49,915,579,319**	42,276,464,492
Net interest margin on average earning assets	**4.6%**	4.6%

1/ Net liquid assets consist of cash, due from BSP, due from other banks, interbank loans, securities held for trade and available for sale less derivatives liabilities and interbank borrowings.

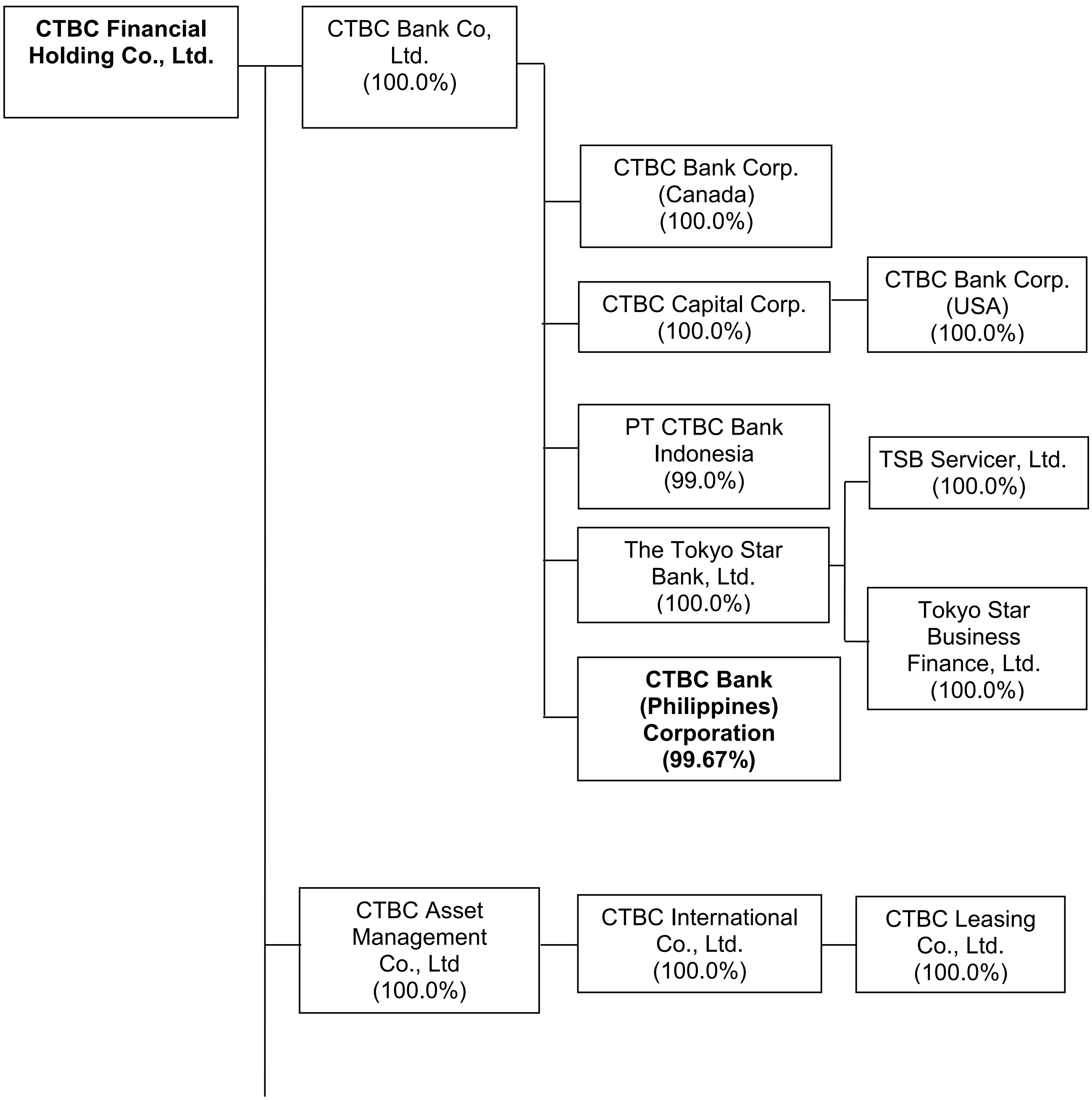
2/ Average balances were determined as the average of the current and previous calendar balances of the respective statements of financial position accounts.

PART IV - SCHEDULE A

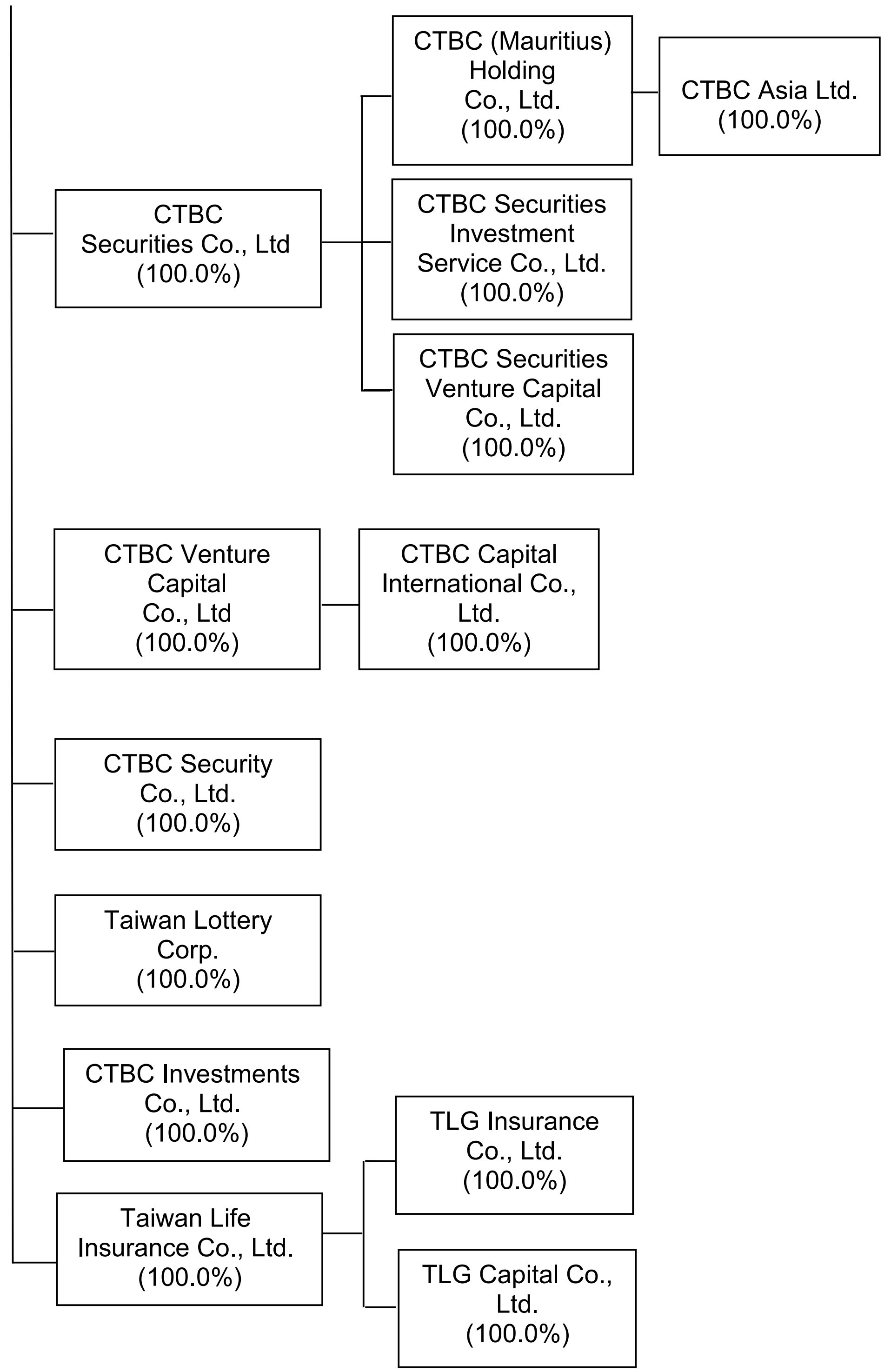
CTBC BANK (PHILIPPINES) CORPORATION
Fort Legend Towers, Third Avenue corner 31st Street,
Bonifacio Global City, Taguig City

RELATIONSHIP MAP
DECEMBER 31, 2019

Below is a map showing the relationship between and among the Group and its ultimate parent Bank, subsidiaries, and associates as of December 31, 2019



(Forward)


CTBC (Mauritius) Holding Co., Ltd. (100.0%)
CTBC Asia Ltd. (100.0%)
CTBC Securities Co., Ltd (100.0%)
CTBC Securities Investment Service Co., Ltd. (100.0%)
CTBC Securities Venture Capital Co., Ltd. (100.0%)
CTBC Venture Capital Co., Ltd (100.0%)
CTBC Capital International Co., Ltd. (100.0%)
CTBC Security Co., Ltd. (100.0%)
Taiwan Lottery Corp. (100.0%)
CTBC Investments Co., Ltd. (100.0%)
TLG Insurance Co., Ltd. (100.0%)
Taiwan Life Insurance Co., Ltd. (100.0%)
TLG Capital Co., Ltd. (100.0%)

Amendment to PFRS 7, Disclosure: Offsetting Financial Assets and Financial Liabilities
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32, *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangements of 'similar agreement,' irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

a. Gross amounts of those recognized financial assets and recognized financial liabilities;
b. Amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statements of financial position;
c. Net amounts presented in the statements of financial position;
d. Amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
   - Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32;
   - Amounts related to financial collateral (including cash collateral); and
e. Net amount after deducting the amounts in (d) from the amounts in (c) above.

Pursuant to the amendments to PFRS 7 requiring the Bank to disclose information about rights to offset and related arrangements, the Bank's financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements as of December 31, 2019 and 2018 are as follows (in millions):

	2019					
				Related Amounts not Offset in the Statements of Financial Position		
	Gross Amounts of Recognized Financial Assets	Gross Amounts of Recognized Financial Liabilities Offset in the Statements of Financial Position	Net Amounts of Financial Assets Presented in the Statements of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount
Financial Assets						
Derivatives-trading assets	P77	P -	P77	P -	P -	P -
Derivatives held for risk management	-	-	-	-	-	-
Reverse sale and repurchase, securities borrowing and similar agreements	-	-	-	-	-	-
Loans and receivables	-	-	-	3,669	3,669	-
Total	P77	P -	P77	P3,669	P3,669	-
Financial Liabilities						
Derivatives-trading liabilities	P99	P -	P99	P -	P -	P -
Derivatives held for risk management	-	-	-	-	-	-
Sale and repurchase, securities lending and similar agreements	-	-	-	-	-	-
Customer deposits	-	-	-	-	-	-
Total	P99	P -	P99	P -	P -	P -

	2018					
	Gross Amounts of Recognized Financial Assets	Gross Amounts of Recognized Financial Liabilities Offset in the Statements of Financial Position	Net Amounts of Financial Assets Presented in the Statements of Financial Position	Related Amounts not Offset in the Statements of Financial Position		
				Financial Instruments	Cash Collateral Received	Net Amount
Financial Assets						
Derivatives-trading assets	P68	P -	P68	P -	P -	P -
Derivatives held for risk management	-	-	-	-	-	-
Reverse sale and repurchase, securities borrowing and similar agreements	-	-	-	-	-	-
Loans and receivables	-	-	-	3,293	3,293	-
Total	P68	P -	P68	P3,293	P3,293	P -
Financial Liabilities						
Derivatives-trading liabilities	P25	P -	P25	P -	P -	P -
Derivatives held for risk management	-	-	-	-	-	-
Sale and repurchase, securities lending and similar agreements	-	-	-	-	-	-
Customer deposits	-	-	-	-	-	-
Total	P25	P -	P25	P -	P -	P -

The gross amounts of recognized financial assets and financial liabilities and their net amounts as presented in the statements of financial position are on the following basis:

- Derivative assets and liabilities - fair value;
- Assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing - amortized cost;
- Loans and advances to customers - amortized cost; and
- Customer deposits - amortized cost.

The amounts that are offset in the statements of financial position are measured on the same basis.

The tables below reconcile the 'net amounts of financial assets and financial liabilities presented in the statements of financial position,' as set out above, to the line items presented in the statements of financial position are as follows (in millions):

		2019			
Types of Financial Assets	***Note***	**Net Amounts**	**Line Item in The Statement of Financial Position**	**Carrying Amount in Statement of Financial Position**	**Financial Assets not in Scope of Offsetting Disclosures**
Derivative-trading assets	7	**P77**	**Financial assets at FVTPL**	**P -**	**P -**
Derivatives held for risk management		**-**	**-**	**-**	**-**
Reverse sale and repurchase, securities borrowing and similar agreements		**-**	**-**	**-**	**-**
Loans and receivables		**-**	**Loans and receivables - net**	**-**	**-**
Financial Liabilities					
Derivative-trading liabilities		**99**	**Financial liabilities at FVTPL - net**	**-**	**-**
Sale and repurchase securities lending and similar agreements		**-**	**-**	**-**	**-**
Derivatives held for risk management		**-**	**-**	**-**	**-**
Customer deposits		**-**	**-**	**-**	**-**

		2018			
Types of Financial Assets	*Note*	Net Amounts	Line Item in The Statement of Financial Position	Carrying Amount in Statement of Financial Position	Financial Assets not in Scope of Offsetting Disclosures
Derivative-trading assets	7	P68	Financial assets at FVTPL	P -	P -
Derivatives held for risk management		-	-	-	-
Reverse sale and repurchase, securities borrowing and similar agreements		-	-	-	-
Loans and receivables		-	Loans and receivables - net	-	-
Financial Liabilities					
Derivative-trading liabilities		25	Financial liabilities at FVTPL - net	-	-
Sale and repurchase securities lending and similar agreements		-	-	-	-
Derivatives held for risk management		-	-	-	-
Customer deposits		-	-	-	-

D P W F S   T I F F U

For

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A S 0 9 5 0 0 8 8 1 4

COMPANY NAME

CTBC BANK (PHILIPPINES) CORPORATION
[Formerly Chinatrust (Philippines) Commercial Bank Corporation]

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

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
A A F S		

COMPANY INFORMATION

Company's email Address	Company's Telephone Number/s	Mobile Number

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
110		December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Andrew A. Falcon	andrew.falcon@ctbcbank.com.ph	811-8509	

CONTACT PERSON's ADDRESS

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

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

ANNEXES

(Additional Disclosures not included in the SEC 2019 Annual Report)

Annexes to Annual Report Year 2019

Table of Contents

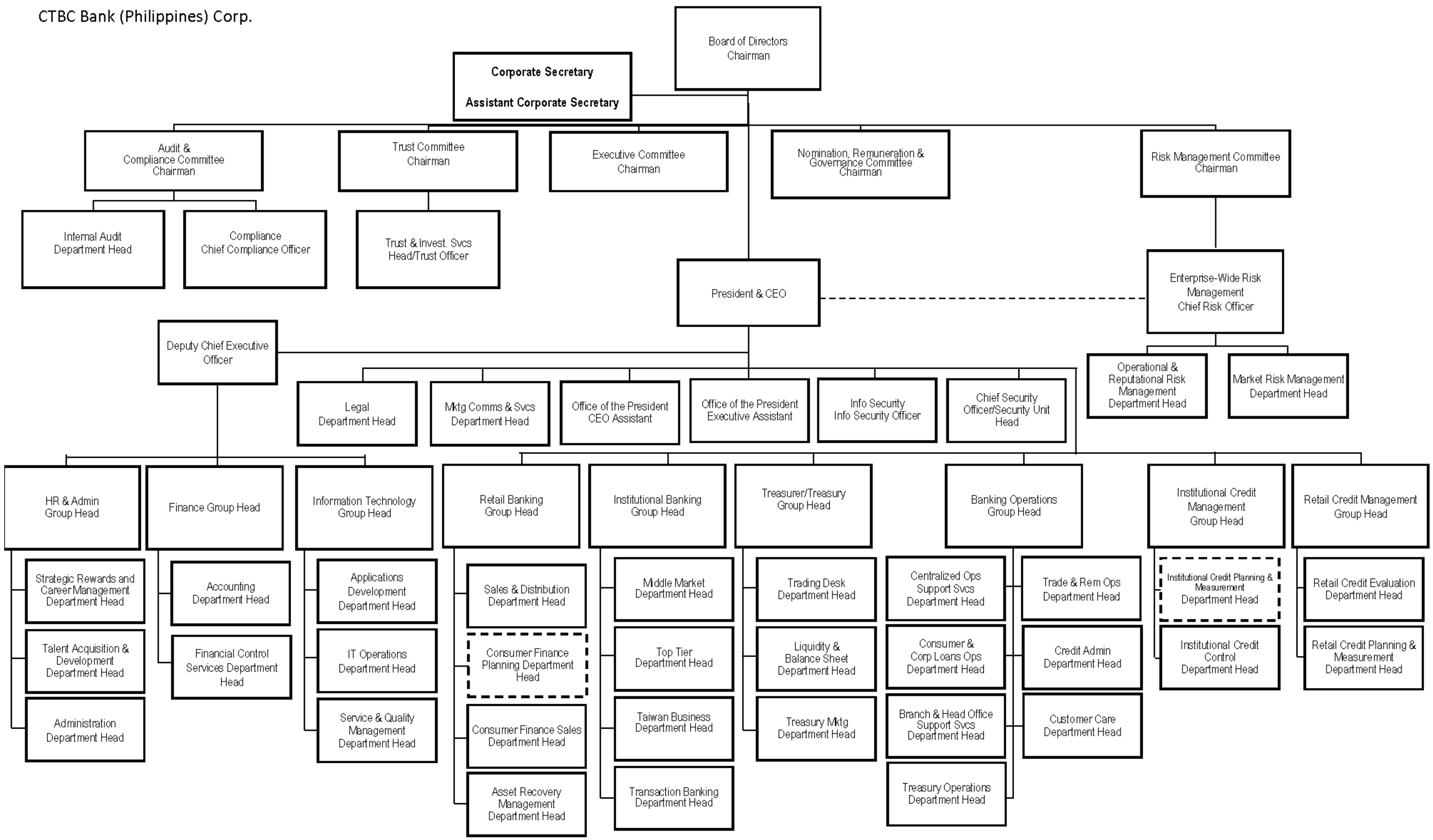
Annexes to Annual Report Year 2019

ANNEX 1: BANK ORGANIZATIONAL STRUCTURE **Website : www.ctbcbank.com.ph**

Bankwide Organizational Structure

As of 31 December 2019

CTBC Bank (Philippines) Corp.



ANNEX 2: Corporate Governance

A. Corporate Governance Structure and Practices

Board oversight on good governance of the Bank is very essential for the stability and success of the institution. As such, part of the implementation of the governance structure, designated board committees ensures that their respective oversight covers all areas how the risks, the business and controls are effectively monitored and efficiently managed.

Good Corporate Governance is the foundation of safe and sound banking operations and a reflection of the collective values and competence of the board of directors and senior management team. It embodies the principles of fairness, accountability and transparency thus promoting the protection of the rights of all stakeholders and as stated in the Bank's Vision and Mission and Code of Ethics.

The Board is primarily responsible for the governance of the Bank. The Bank's financial condition, results of operations, current and potential level of risk exposures and the quality of the control environment are the ultimate responsibility of the board of directors. As such, Board Governance is the deciding component and a crucial part in the functions of the institution. Good governance ensures that objectives are realized, resources are well-managed, and the interests of the stakeholders are protected and reflected in the decisions and oversight on the effective implementation of the governance standards and principles.

The Bank sets and adopts factors to ensure good corporate governance and oversight to the implementation of its processes and performance.

B. Selection Process for the Board and Senior Management

INDEPENDENT DIRECTOR AND NON-EXECUTIVE DIRECTORS

In selecting independent and non-executive directors, the number and types of entities where the candidate is likewise elected as such, shall be considered to ensure that he will be able to devote sufficient time to effectively carry out his duties and responsibilities. In this regard, the following shall apply:

(1) A non-executive director may concurrently serve as director in a maximum of five (5) publicly listed companies. In applying this provision to concurrent directorship in entities within a conglomerate, each entity where the non-executive director is concurrently serving as director shall be considered separately in assessing compliance with this requirement; and

(2) An independent director of a Bank may only serve as such for a maximum cumulative term of nine (9) years. After which, the independent director shall be perpetually barred from serving as independent director in the same BSFI, but may continue to serve as regular director. The nine (9) year maximum cumulative term for independent directors shall be reckoned from 2012.

(3) An independent director is a person who, apart from shareholdings and fees received from the corporation, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to materially interfere with the exercise of independent judgment in carrying out the responsibilities as a director.

DIRECTORS

The Bank ensures that the selection, election and re-election process for the members of the board of directors is adequate, fair and reflective of the standards set by the board. The Bank's Selection/Appointment, Re-election, Disqualification, Removal, Reinstatement and Suspension is through the Appointment by the parent bank and approved by the Board of Directors and in accordance with this Corporate Governance Manual and in the provision of our By-Laws.

SENIOR MANAGEMENT

The selection process for Senior Management begins by first identifying successors ready to assume senior management roles through the Bank's Management Succession Plan. In the absence of a ready successor, however, the Bank takes a look at external candidates who possess the appropriate educational background, skills, experience and competencies to perform the function. In determining suitability, Management draws out the values, culture and expectations of a candidate to make sure they are aligned with those of the organization. Once candidates are shortlisted, the Board serves as the final approving authority following a rigorous interview and background screening process.

C. Board's Overall Responsibility

The Board of Directors is primarily responsible for defining the Bank's vision and mission. They have the fiduciary responsibility to the Bank and all its shareholders including minority shareholders. It shall approve and oversee the implementation of the risk governance framework and the systems of checks and balances. It shall establish a sound corporate governance framework.

Further, the Board of Directors shall approve the selection of the President & CEO and key members of Senior Management and control functions and oversee their performance.

D. Role and Contribution of Executive, Non-Executive and Independent Directors and of the Chairman of the Board

CHAIRMAN OF THE BOARD

The Chairperson of the board of directors shall provide leadership in the board of directors. He shall ensure effective functioning of the board of directors, including maintaining a relationship of trust with members of the board of directors.

Following are the responsibilities:

(1) Ensure that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns;

(2) Ensure a sound decision-making process;

(3) Encourage and promote critical discussion;

(4) Ensure that dissenting views can be expressed and discussed within the decision-making process;

(5) Ensure that members of the board of directors receive accurate, timely and relevant information;

(6) Ensure the conduct of proper orientation for first-time directors and provide training opportunities for all directors; and

(7) Ensure conduct of performance evaluation of the board of directors at least once a year.

CHIEF EXECUTIVE OFFICER

The CEO shall be the overall-in-charge for the management of the business and affairs of the Bank governed by the strategic direction and risk appetite approved by the board of directors. He shall be primarily accountable to the board of directors in championing the desired conduct and behavior, implementing strategies, and in promoting the long-term interest of the Bank.

One of the critical duties and responsibilities of the Board of Directors is the selection of the Chief Executive Officer (CEO) and the members of the management team.

Members of the Management Team are primarily tasked to:

a. Oversee the implementation of approved business plans and strategies and management of the Bank's day to day operations;

b. Translate to their performance the fitness and propriety of the management on effectively achieving the Bank's objectives;

c. Cascade the tone of governance and culture of control within the Bank;

d. Ensure that the reports and information package submitted by the management to the board also reflect the quality and extent of its performance;

e. Involve in the development of strategies and in monitoring achieving of the business plans;

f. Effectively monitor adherence to the policies and procedures and promptness of actions to address the deficiencies and weaknesses noted.

g. Plans provided to retain competent staff and attract new employees who believe and adhere to the values of the organization and inform the board on a timely basis of the Bank's operating performance as well as the development in the business environment.

h. Responsible for the implementation and consistent adherence by all personnel to the policies approved by the board of directors in relation to controls, independent oversight and checks and balances systems, ensuring among others that:

(i) Financial statements are prepared in accordance with the accounting standards on the prescribed financial reporting framework. Documentation sufficient to support the financial statements is maintained. This responsibility includes ensuring that the external auditor who audits and reports on the financial statements has complete and unhindered access to, and is provided with, all necessary information that can materially affect them and, consequently, the auditor's report on them, to the extent allowed by law. Management also has the responsibility to provide all information to regulatory agencies that are entitled to such information by law or regulation.

(ii) Management is responsible for maintaining, monitoring and evaluating the adequacy and effectiveness of the internal control system on an ongoing basis, and for reporting on the effectiveness and sustainability of the FIs risk management and control procedures and infrastructure. In fulfilling its duties and responsibilities, management should take all necessary measures to ensure that there is continuous, adequate and effective internal audit process.

i. Effective oversight on the Bank's disclosure practices.

Executive Director (ED) is a director who has the executive responsibility and performs work related to the operations of the Bank's operations.

Non-Executive Director (NED) refers to those who are not part of the day to day management of the Bank's operations.

E. Board Composition & its Members

Board Composition as of 31 Dec 2019	Type of Directorships	The Principal Stockholder Represented if Nominee	The Number of Years Served as Director (September 1995-December 2019)	Number of direct and indirect shares held	Percentage of Shares Held to Total Outstanding Shares of the Bank
Jack Lee a.k.a. Lee Wen-Hung	Director	CTBC Bank Co., Ltd.	8	1	0%
William B. Go	Director	CTBC Bank Co., Ltd.	24	52	0%
Oliver D. Jimeno	Director	CTBC Bank Co., Ltd.	5 months	1	0%
Chen Yeun-Ginn a.k.a YG Chen	Director	CTBC Bank Co., Ltd.	1	1	0%
Huang Chih-Chung a.k.a. C.C. Huang	Director	CTBC Bank Co., Ltd.	5	1	0%
Edwin B. Villanueva	Independent Director	CTBC Bank Co., Ltd.	17	1	0%
Alexander A. Patricio	Independent Director	CTBC Bank Co., Ltd.	1	1	0%
Stephen D. Sy	Independent Director	CTBC Bank Co., Ltd.	5 months	1	0%

F. Board Qualification

Qualifications of the Chairperson of the Board of Directors.

To promote checks and balances, the chairperson of the Board of Directors shall be a non-executive director or an independent director and must not have served as CEO of the BSFI within the past three (3) years. The positions of the chairperson and the CEO shall not be held by one (1) person. In exceptional cases where the position of chairperson of the board of directors and CEO is allowed to be held by one (1) person as approved by the Monetary Board, a lead independent director shall be appointed.

Qualifications of a Directors

A director shall have the following minimum qualifications:

1. He must be fit and proper for the position of a director. In determining whether a person is fit and proper for the position of a director, the following matters must be considered: integrity/probity, physical/mental fitness; relevant education/financial literacy/training; possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind; and sufficiency of time to fully carry out responsibilities.

In assessing a director's integrity/probity, consideration shall be given to the director's market reputation, observed conduct and behavior, as well as his ability to continuously comply with company policies and applicable laws and regulations, including market conduct rules, and the relevant requirements and standards of any regulatory body, professional body, clearing house or exchange, or government and any of its instrumentalities/agencies.

An elected director has the burden to prove that he possesses all the foregoing minimum qualifications and none of the cases mentioned under Section 138 (Persons disqualified to become directors).

A director shall submit to the Bangko Sentral the required certifications and other documentary proof of such qualifications using Appendix 101 as guide within twenty (20) Banking days from the date of election. Non-submission of complete documentary requirements or their equivalent within the prescribed period shall be construed as his failure to establish his qualifications for the position and results in his removal from the board of directors.

The Bangko Sentral shall also consider its own records in determining the qualifications of a director**.**

The members of the Board of Directors shall possess the foregoing qualifications in addition to those required or prescribed under R.A. No. 8791 and other applicable laws and regulations.

2. He must have attended a seminar on corporate governance for board of directors. A director shall submit to the Bangko Sentral a certification of compliance with the Bangko Sentral-prescribed syllabus on corporate governance for first-time directors and documentary proof of such compliance: Provided, That the following persons are exempted from complying with the aforementioned requirement:

(a) Filipino citizens with recognized stature, influence and reputation in the Banking community and whose business practices stand as testimonies to good corporate governance;

(b) Distinguished Filipino and foreign nationals who served as senior officials in central Banks and/or financial regulatory agencies, including former Monetary Board members; or

(c) Former Chief Justices and Associate Justices of the Philippine Supreme Court:

Provided, further, That this exemption shall not apply to the annual training requirements for the members of the board of directors.

G. List of Board Level Committees Including Membership and Function

(Refer to SEC Report 17-A, pp. 37-38)

H. Director's Attendance at Board and Committee Meetings

The members of the Board of Directors who were present ("□") or absent ("x") during the meetings of the Bank's Board of Directors for the year 2019, are as follows:

Name of Directors	Dates of Meetings									
	29 Jan 2019	7 Mar 2019	30 Apr 2019	29 May 2019	12 Jul 2019	25 Jul 2019*	19 Sep 2019	8 Nov 2019	2 Dec 2019	19 Dec 2019
Lee Wen-Hung a.k.a. Jack Lee	√	√	√	√	√	√	√	√	√	√
William B. Go	√	√	√	√	√	√	√	√	X	√
Wei Erh-Chang a.k.a. Peter Wei	√	√	√	X	√	√	N / A	N / A	N / A	N / A
Oliver D. Jimeno**	N / A	N / A	N / A	N / A	N / A	√	√	√	√	√
Chen Yeun-Ginn a.k.a. James Chen and. Y.G. Chen	√	√	√	√	√	√	√	√	√	√
Huang Chih-Chung a.k.a. C.C. Huang	√	√	√	X	√	√	√	X	√	√
Edwin B. Villanueva	√	√	√	√	√	√	√	√	√	√
Ng Meng Tam	√	√	√	√	√	N / A	N / A	N / A	N / A	N / A
Alexander A. Patricio	√	√	√	√	√	√	X	√	√	√
Stephen D. Sy**	N / A	N / A	N / A	N / A	N / A	√	√	√	√	√

*Organizational and Regular Meeting
**New Director effective July 25, 2019

Organizational and Regular Meeting – Risk Management Committee

Risk Management Committee	3/7/2019	4/30/2019	7/24/2019	9/19/2019	11/8/2019	12/19/2019
Time Begin	9:00 AM	8:30 AM	4:45 PM	9:03 AM	8:36 AM	11:45 AM
Time End	10:33 AM	10:05 AM	6:20 PM	11:52 AM	10:04 AM	1:00 PM
Attendees:						
Alex Patricio	x	x	x		x	x
CC Huang	x	x	x	x	x	x
YG Chen	x	x	x	x		x
Ng Meng Tam	x	x	x			
Edwin Villanueva	x	x	x	x	x	x
Stephen Sy				x	x	x
Jack Lee		*	*	*	*	*
Peter Wei	*	*	*			
Oliver Jimeno			*	*	*	*
William Go						

X – RMC members and signatories
* - also present during RMC

Organizational and Regular Meeting – Trust Committee

Trust Committee Members	March 6 2019	April 29 2019	July 24 2019	Sept 18 2019	Nov 7 2019	Dec 19 2019
Jack Lee	✓	✓	✓	✓	✓	✓
William Go	✓	✓	✓	✓	✓	✓
CC Huang	✓	✓	✓	✓	✓	✓
Peter Wei, Member	✓					
James Y.G. Chen		✓				
Oliver Jimeno			✓	✓	✓	✓
Gerardo Bien	✓	✓	✓	✓	✓	✓
Present -	✓					
Absent -	×					
Not a Committee Member						

Organizational and Regular Meeting – Audit Committee

Name of Directors (Audit Committee)	Date of Meeting for the Year 2019					
	6-Mar	29-Apr	24-Jul	18-Sep	7-Nov	19-Dec
Edwin Villanueva	✓	✓	✓	✓	✓	✓
Ng Meng Tam	✓	✓	✓	N/A	N/A	N/A
Alexander A. Patricio	N/A	N/A	✓	X	X	N/A
Stephen Sy	N/A	N/A	N/A	✓	✓	✓

Organizational and Regular Meeting – NRG Committee

Name of Directors (Nomination Remuneration and Governance Committee)	Date of Meeting for the Year 2019								
	29-Jan	6-Mar	29-Apr	29-May	12-Jul	18-Sep	7-Nov	2-Dec	19-Dec
Ng Meng Tam	✓	✓	✓	✓	✓	N/A	N/A	N/A	N/A
Jack Lee	✓	✓	✓	✓	✓	✓	✓	✓	✓
William Go	✓	✓	✓	✓	✓	✓	✓	x	✓
Edwin Villanueva	✓	✓	✓	✓	✓	✓	✓	✓	✓
Alexander Patricio	✓	✓	✓	✓	✓	x	x	✓	✓
Stephen Sy	N/A	N/A	N/A	N/A	N/A	✓	✓	✓	✓

I. Changes in the Board of Directors – CORSEC
(Refer to SEC Report 17-A, page 6)

J. List of Executive Officer & Senior Management

Executive Officers

The following are the Bank's executive officers/senior management and Mancom:

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

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

LOLITO RAMON A. CERRER, JR., Filipino, earned his AB Philosophy degree from the Ateneo De Manila University. He is Senior Vice President and Consumer Finance Sales Unsecured Head in April 2017. Prior to joining CTBC Bank, he was the Head of Personal

Loans of Security Bank, a role he performed for five years. He likewise had stints at Philippine Savings Bank, APEX Distributors Inc., Metrovet Philippines, Century Canning Corporation, Universal Food Corporation and Philippines Commercial International Bank. At the early part of his career, Jun taught philosophy at the Holy Apostles Senior Seminary. Jun is 57 years old.

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

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

REMO ROMULO M. GARROVILLO, JR., Filipino, holds an AB Economics degree from Ateneo de Manila University. . He is Senior Vice President and Head of Retail Banking Group. He joined CTBC Bank on December 09, 2014 as Head of Global Transaction and Other Banking Channels followed by his appointment as full-fledged Retail Banking Group Head effective July 25, 2019. Prior to CTBC Bank, he was Director of Merchant Acquisition of Globe Telecom. He started his banking career at Union Bank of the Philippines in 1999, initially as Customer Service Officer and later on as Cash Solutions Manager. In 2003, he joined Philippine National Bank (PNB) as Assistant Vice President and Head of its e-Business Solutions Division. After his three year stint with PNB, he moved to East West Banking Corporation in 2006 where he was Head of the Product Development and Marketing Support Division. In 2007, he joined Rizal Commercial Banking Corporation (RCBC) as Assistant Vice President of Channel Management and Product Development. He left RCBC as Senior Vice President and Head of Global Transactions Services. Mr. Garrovillo is 41 years old.

MARIA GRETCHEN S. MACABASCO, Filipino, earned her Bachelor's degree in Business Management from Ateneo de Manila University. She is Senior Vice President and Head of Top Tier Department under Institutional Banking Group. Prior to joining the CTBC Bank in

August 2008, she was Senior Vice President and Head of Trade of Australia and New Zealand Bank, Manila Branch. She also served as First Vice President and Structured Products Group Head at Philippine Bank of Communications. She worked almost 6 years at ABN AMRO Philippines, most recently as Vice President and Working Capital Head. Previous to her position with ABN AMRO, she worked for almost 16 years at Citibank N.A. Manila where her last role was Assistant Vice President/Relationship Manager under Global Relationship Banking. Ms. Macabasco is 56 years old.

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

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

MARVIN I. TIBURCIO, Filipino, obtained his Bachelor of Arts in Management Economics from Ateneo De Manila University. He is currently Senior Vice President and Head of Middle Market Department of Institutional Banking Group. Mr. Tiburcio joined CTBC Bank in 2008. Prior to joining CTBC Bank, he served as Assistant Vice President/Corporate Banking Division Head of EastWest Banking Corp., a position he held for five years. While at EastWest, he was exposed to branch banking when he performed the role of Head of Binondo Business Center for three years. Previous to this position in EastWest, he was a Manager/Credit and Compliance Officer with Philippine Banking Corporation. Mr. Tiburcio is 48 years old.

ANDREW A. FALCON, Filipino, is a Certified Public Accountant. He earned his Bachelor's degree in Business Administration and Accountancy from University of the Philippines. He joined CTBC Bank as Vice President and Head of Financial Control Department in June 2014. After steering the department for more than three years, he was appointed Officer-in-Charge of Finance and Corporate Affairs Group in October 2017. He was promoted to First Vice President and full-fledged Group Head in January 2018. Prior to joining the Bank, Mr. Falcon had stints in SGV and Co., Globe Telecom, Inc., Philippine Batteries Inc., Philippine Savings Bank and the latest of which was with FedEx as Controller. He is 38 years old.

THERESE MARIE A. MARIN, Filipino, obtained her AB Communication Arts degree from De La Salle University. She is First Vice President and Head of Marketing Communications and Services Department. Her extensive marketing and communications experience started in 1994 with Security Bank Corporation where she was Advertising and Publications Supervisor. She worked with International Exchange Bank (iBank) for 10 years where her last role was as Marketing Communications Officer. She joined CTBC Bank as Marketing Services Head in 2007. She is 48 years old.

GERARDO V. BIEN, Filipino, holds a Bachelor of Science in Business Administration degree from Aquinas University (now known as University of Santo Tomas-Legazpi). He is an Assistant Vice President and Trust Officer of the Bank. Gerry is a seasoned banker and Trust professional, having a total work experience of 22 years in the industry gained from two banks. Before joining CTBC Bank in June 2011, Gerry worked at United Coconut Planters Bank and Standard Chartered Bank. He is 60 years old.

JR-CHENG CHEN, a.k.a. Steven Chen, Taiwanese, joined CTBC Bank (Philippines) Corp. as Vice President (VP) and Institutional Credit Management Group Head on August 01, 2018. He brings extensive experience of more than 20 years from different banking institutions such as Citibank Taiwan, The Hong Kong and Shanghai Banking Corporation (HSBC) and Union Bank of California, Taipei, and gaining adept knowledge on credit risk management. Before his assignment in the country, he was the VP of Global Institutional Credit Risk Management Division at CTBC Bank Co. Ltd. Steven earned his Master's degree in Business Administration major in Derivatives and Risk Management and Bachelor's degree in Business Administration major in Finance Management from National Taiwan University. He is 45 years old.

MARITESS P. ELBINIAS, Filipino, earned her Bachelor of Laws and Bachelor of Arts in Economics from University of the Philippines. She is the Legal Department Head and Corporate Secretary with the rank of First Vice President. Before she re-joined CTBC Bank in August 2008, Maritess was the Legal Head and Assistant Corporate Secretary for 9 years. She is an adept corporate lawyer with more than 20 years of extensive experience in corporate governance from different institutions. She is 56 years old.

MELANY C. EVANGELISTA, Filipino, holds a Bachelor of Arts in Journalism (*cum laude*) degree from Polytechnic University of the Philippines and obtained units in Master in Business Administration from Ateneo de Manila University. She has been with the Bank for almost 13 years and currently the Vice President and Human Resource and Administration Group Head. She has gained extensive knowledge and experience as a human resource practitioner ranging from recruitment, career management and employee relations, compensation and benefits, and training and communication in her 25 years of working experience. Before joining CTBC Bank, Melany was with Security Bank Corp. and Robinsons Bank for an aggregate 7 years. She is 46 years old.

RUTH O. PINGOL, Filipino, obtained her Bachelor of Arts (AB) and Bachelor of Secondary Education (BSE) Major in English from Philippine Normal University and earned her Certificate Course in Strategic Compliance for the Banking Industry from De La Salle University. She is currently Vice President and Chief Compliance Officer. Ms. Pingol joined CTBC Bank in July 2011. Prior to joining CTBC Bank, she served as a Compliance Officer of Philippine Savings Bank. Previous to this position, she was a Fraud Investigation Analyst in Bank of the Philippine Islands. Ms. Pingol is 43 years old.

K. Performance Assessment Program

DIRECTORS

GOVERNANCE SELF-RATING SYSTEM

The Board, using such resources or methods as it determines, is responsible to annually assess the effectiveness of the Board, Board Committees and each Director's contribution. The purpose of the evaluation process is to increase the overall effectiveness of the Board, not to target individual Board members.

The Directors participate in the evaluation. Each Director evaluates the performance of the Board as a whole, as an individual director, the Chairman of the Board, the Chief Executive Officer and Board Committees. The assessments are made as derived from the Board of Directors and Directors' Duties and Responsibilities as stated in this manual and in their respective charters. The results of the evaluation are used constructively by the Nomination, Remuneration and Governance Committee to discuss improvements with the Board and to provide developmental feedback to individual Directors.

BOARD SELF-ASSESSMENT

LOCAL REGULATOR REQUIREMENTS:
1. General Evaluation of the Board
2. Individual Self-Assessment by Directors
3. Qualitative Self-Assessment
4. Evaluation of the Board Chairman
5. Evaluation of the Chief Executive Officer
6. Board Committee Assessments
   - Executive Committee Assessment (ExCom)
   - Nomination & Remuneration Governance Committee (NRGC)
   - Audit Committee (Audit Com)
   - Risk Management Committee (RMC)
   - Trust Committee (Trust Com**)**

SENIOR MANAGEMENT

More than a traditional vehicle for measuring performance, the Bank's Performance Appraisal program serves as a vital feedback system for drawing out strengths and pinpointing areas for development. It is meant to not just ensure performance of employees is at par with the standards set by the Bank, but also to provide a platform for constructive dialogue between supervisors and subordinates with the objective of enhancing performance and identifying the potentials of employees. The results of Performance Appraisal are used in Management's decisions as they are linked to the Bank's rewards program (i.e. Promotion, Merit Increase, Profit Sharing Bonus and Performance Bonus).

L. Orientation and Education Program

Directors Continuing Education

The Bank has in place a system for orientation of its new directors, and a continuing regulatory updates for the members of the Board. New Directors undergo the requisite corporate governance seminar provided by SEC and/or Bangko Sentral accredited external training provider (ETP). Senior management are also readily available to meet a new Director to give orientation of the Bank's organization and operations. The Bank's Articles of Incorporation and Amended By-Laws, Manual of Corporate Governance, and other policies are available to the Directors. On Continuing Education, Directors are encouraged to attend training programs to keep them informed and abreast with the fast changing times and regulations. In addition, the Bank through its Compliance Officer and other units gives continuing regulatory updates to the members of the Board, which include but not limited to the following: Data

Privacy Act, Anti-Money Laundering and Terrorist Financing Prevention Program, SEC, BSP and other regulatory issuances.

Senior Management Continuing Education

The Bank's New Talent Orientation Program (NTOP) is designed to support newly hired officers and staff as they begin their journey with CTBC Bank. It orients new talents on a wide range of topics from the Bank's history, company policies, performance appraisal, compensation and benefits, and rewards programs among other things. NTOP is also meant to acquaint new talents with the Bank's products and services which serves to educate them about what the Bank has to offer.

The Bank's Training Program helps to provide technical, behavioral and personal development to its officers and staff. Supervising Officers play a key role in identifying the training and developmental needs of their subordinates through an exercise called Training Needs Analysis. Depending on the developmental needs of employees, the Bank may provide in-house workshops and/or arrange attendance to external training programs.

M. Retirement and Succession Policy

Directors

Succession planning is important to the Bank. The Nomination, Remuneration and Governance Committee reviews and evaluates the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring the appointment of the Board. Successions and nominations to the Board are pursuant to the Bank's Amended By-laws, the General Banking Act of 2000, Securities and Regulations Code and implementing rules and regulations, and SEC and BSP regulations. For senior management and other positions requiring leadership qualities including key executive positions, the Bank has a succession policy where internal candidates are identified for future vacancies. Potential successors from internal candidates are identified in consultation with the President and CEO and the Board. Ultimately, the Bank aims to achieve a good mix of of fresh talents and qualified candidates from the potential successors, in consonance with the business and strategic directions of the Bank.

There is no retirement age for Directors as the Bank believes that it benefits in retaining Directors whose wisdom and experience increases through the years, enabling them to continually provide valuable contributions to the Bank. Independent Directors are subject to the term limits of nine (9) years pursuant to BSP Circular Letter 2016 – 073 Advisory on the Term Limits for Independent Directors and SEC Memorandum Circular No. 4 Series of 2017.

Senior Management

An employee who has reached sixty years old with at least five years of service with the Bank may retire from the Bank and be eligible for retirement benefits. Consistent with the law, the Bank observes a mandatory retirement age of 65. A qualified employee may be entitled to as low as 75% or as high as 175% of his Plan Salary depending on the years of credited service at the time of the retirement. Moreover, the retirement benefit of an employee who has rendered at least ten years of credited service and is at least age fifty shall be tax exempt in accordance with Republic Act No. 4917.

The Bank's Management Succession Plan aims to identify and develop potential successors of employees occupying key management positions in the organization. The Bank's Human Resource and Administration Group plays a key role as it coordinates with Senior Management to identify critical positions in the organization and evaluate the potential successors to the incumbents in terms of their level of readiness. Potential successors are prepared to assume bigger roles through various training and development programs and interventions as well as exposure to senior management interactions. The Succession Plan is approved by the Board on an annual basis.

N. Remuneration Policy

Remuneration Policy and Structure for Executive and Non-Executive Directors

The Bank's By Laws in Article III. Section 9. Directors' Fees provides: "A per diem in such amount as the Board may approve shall be paid to each director for attendance at any meeting of the Board of Directors or of any Committee constituted under Article V hereof, for each day of session and fees as may be determined by the Board of Directors and subject to stockholders' approval. However, nothing herein contained shall be construed to preclude any director from serving in any other capacity and receiving compensation therefore. "

Moreover, the Bank's Corporation Governance Manual provides: Remuneration of the Members of the Board and Officers.

The Board of Directors shall approve remuneration and other incentives policy that is appropriate and consistent with the Bank's operating and risk culture, long-term business and risk appetite, performance and control environment. The policy shall cover all employees and should be designed to encourage good performance that supports the interest of the bank and its stakeholders. It shall be aligned with prudent risk taking and explicitly discourage excessive risk taking as defined by internal policies.

The NRGC shall monitor and review the remuneration and other incentives policy including plans, processes and outcomes, at least annually, to ensure that it operates and achieves the objectives as intended.

Remuneration Policy for Senior Management

The Bank's remuneration philosophy is to ensure that its employees are properly compensated through a salary, benefits and incentives program that is competitive in the industry. It provides salaries that are fair and commensurate to the position and functional responsibility of its employees. Salaries and benefits are reviewed annually vis-à-vis other banks, so that retention of talents is strengthened. Merit increases and promotional increases are provided to performers in line with the Bank's performance-oriented culture. Moreover, the Bank complies with all statutory requirements of the Labor Code of the Philippines (e.g. minimum wage, leaves, 13th month pay, government contributions, etc.), and in most cases, provides more than what the law requires.

Over and above compensation and benefits, the Bank offers profit sharing and performance bonuses to deserving employees who perform at par with Management's expectations. Incentives are also given to those with sales and revenue-generating functions, to provide additional motivation for them to surpass their business goals.

O. Policies and Procedures on Related Party Transactions

The Bank has established a formal policy on Related Party Transactions. The RPT Policy is regularly updated and approved by the Board and where the procedures from different units of the Bank are cross-referenced to. It identifies, evaluates and captures relevant transactions that may present risks on potential abuse in terms of related party transactions taking into account the related standards in observing arms - length, dealings and subjecting transactions to effective system of checks and balances, approval, reporting and disclosure process.

For good corporate governance and employing safe and sound banking practice, the need to restrict lending and other transactions to a Related Party are embodied in the documents in order to prevent potential abuses, avoid conflict of interest and protect the interest of the stakeholders. The Bank shall establish a system of record of the names of Bank's DOSRI (Directors, Officers, Stockholders and Related Interests) and Related Parties including up to the second (2nd) degree of consanguinity and/or affinity. This shall also include the Bank's parent bank's list or names of its Related Parties directly inputted in the system. A system shall be established as reference in evaluating applications. Through these information and disclosures, the Bank will be able to identify and determine whether they have a direct or indirect or on behalf of third parties have a financial interest in any transaction or matters affecting the Bank. In case of personal interest in the transaction, said directors or officers shall abstain from the discussion, approval and management of the said transaction or matters.

While the Bank, neither being part of a local conglomerate nor directed by BSP to create Related Party Transaction Committee, has established a clear delegation of roles and responsibilities of the Board of Directors and Senior Management.

On nature, terms and conditions, original and outstanding individual / aggregate balances, including off balance sheet commitments, the Bank's RPT Policy is used as reference to determine the Materiality Thresholds and Excluded Transactions, Internal Limits for Internal and Aggregate Exposures. This process shall be continuously monitored and enhanced to accommodate and align the regulatory requirements in the actual adoption of the procedures. Other important requirements include the Whistle Blowing Mechanism, Restitution of losses and other remedies for abusive RPTs and reportorial requirements and disclosure are likewise given emphasis.

P. Self-Assessment Function

INTERNAL AUDIT

Internal audit is an independent, objective assurance and consulting function established by the bank to examine, evaluate and improve the effectiveness of internal control, risk management and governance systems and processes. The internal audit function both assess and complement operational management, risk management, compliance and other control functions. In this respect, internal audit is conducted in frequencies commensurate with the assessed levels of risk in specific banking areas.

The Bank has a permanent internal audit function that is accountable to the Board of Directors through the Audit Committee.

While management is primarily responsible for maintaining a sound internal control system in the bank, the internal auditors assist the Bank's management by examining and evaluating the adequacy and effectiveness of control, commensurate with the extent of the potential exposure/risk in the various segments of the entity's operations.

COMPLIANCE

Compliance Risk Management System of the Bank establishes the appropriate controls to identify and mitigate the compliance risks, material financial loss or loss to reputation.

The Bank's Compliance Department is independent in its function that identifies, assesses, advises, monitors and reports on the possible breaches on compliance risks. It creates a dynamic compliance system and fosters a culture of compliance within the institution. Compliance Department oversees the Bank's adherence to the requirements of the regulatory agencies to ensure that the Bank conducts safe and sound banking practices and is a responsibility and shared accountability of all personnel, officers and the board of directors.

I. Strategies & Processes

In ensuring oversight and monitoring of Compliance Risks, the Compliance Department through its Chief Compliance Officer, aims to mitigate both risk areas through identification of the roles and responsibilities of Compliance within the line, operating and business units of the Bank and its resolution in cases of possible breaches.

II. Structure & Organization

As of December 2019, Compliance Department is composed of eight (8) Compliance Officers and four (4) Compliance Associates including the Chief Compliance Officer who is also the Corporate Governance Officer, Associated Person and Responsible Officer. Their respective functions are embodied in the Bank's Compliance Charter and Compliance Manual.

Internally, Unit Compliance & Risk Officers (UCRO) and Sub-UCROs designated by their respective group heads, independently function as compliance officers of their groups and report to the Compliance Department on compliance matters.

III. Scope & Nature of Risk Reporting and Measurement Systems

Compliance Department is an independent unit reporting directly to the Board of Directors through the Audit Committee for Compliance matters and to Nomination and Remuneration Committee for the Governance Functions. Administratively, Compliance Department is under the Office of the President. Independent Compliance Testing is established to have a risk based, quantitative and qualitative review of the Bank's compliance to the regulatory requirements.

IV. Strategies and Processes for Mitigating Risks

The Compliance Program of the Bank provides for the clear and documented guideline that defined the Compliance structure, its functions, roles and responsibilities. In ensuring that these risks are monitored and mitigated, a comprehensive compliance system has been established to ensure that integrity and adherence in the regulatory requirements as well as in the accuracy and timeliness of reporting requirements of the Bank.

The Bank's Compliance program likewise defined a constructive working relationship between the Bank and the Regulators by having an open and clear communication line as well as appropriate monitoring and tracking until resolution of possible noted breaches ensuring safe and sound banking operations is upheld within the institution.

Q. Dividend Policy

(Refer to SEC Report 17-A, page 16)

R. Corporate Social Responsibility Initiatives

The Bank's corporate social responsibility has always thrived on the personal involvement of its employees and as such, various outreach programs were initiated by different units of the Bank. On an institutional approach, the Bank continuously looks for program/s it can support or Foundations it can partner with that have the same advocacy as the Bank which is to promote education to the underprivileged elementary students in communities where the Bank maintains a presence.

S. Consumer Protection Practices

Roles and Responsibilities of the Board of Directors

1. Primarily responsible for approving and overseeing the implementation of the Bank's consumer protection policies as well as mechanism to ensure compliance with the said policy.

2. Responsible for monitoring and overseeing the performance of the Senior Management in managing the day to day consumer protection activities of the Bank.

3. Delegate the other duties and responsibilities to the Senior Management or a committee for the purpose.

4. Responsible for developing and maintaining a sound CPRMS that is integrated into the overall framework for the entire product and service life-cycle.

Roles and Responsibilities of Senior Management

1. Responsible for the implementation of the consumer protection policies as well as mechanism to ensure compliance with said policies.
2. Manage the day to day consumer protection activities of the Bank.
3. Responsible for developing the Bank's consumer protection strategy and establishing an effective management oversight over the Bank's consumer protection programs.
4. Periodically review the effectiveness of the Bank's Consumer Protection Risk Management System (CPRMS), including how findings are reported and whether the audit

mechanisms in place provide adequate oversight. Quality and timeliness of the information provided to the key-decision makers regarding the Bank's CPRMS are important in assessing the program's effectiveness.

5. Ensure that the sufficient resources have been devoted to the program.
6. Make certain that CPRMS weaknesses are addressed and corrective actions are taken in a timely manner.

The Consumer Protection Risk Management System of the Bank

Ensure that *Consumer Protection Risk Management System (CPRMS) forms part of the Bank Wide Risk Management System.

*Consumer Protection Risk Management System (CPRMS):

1. A means by which the Bank identifies, measures, monitors and controls consumer protection risks inherent in its operations. These include both risks to the financial consumer and the Bank; this should be directly proportionate to the Bank's asset size, structure and complexity of operation;

2. Compliance Consumer Framework carefully devises implements and monitors foundation for ensuring the Banks adherence to the consumer protection standards of conduct and compliance with the requirements.

The Consumer Assistance Management System Policies and Procedures and its Corporate Structure

The Bank has complied with the requirements of the Circular 857 on BSP Regulations on Financial Consumer Protection. Initially, a unit in the Customer Care Department has been created to serve as the centralized complaint handling department in the Bank and the central recipient of all clients' complaints, requests and other concerns and Customer Management Portal (CMP) is the system used as a tool.

Operational and Reputational Risk Management Department (ORRMD) shall report directly to the Operations Committee of Management and Risk Management Committee of the Board. This aims to monitor, evaluate the overall complaints, requests and other concerns of the Bank's clients.

Compliance Department has established the Consumer Protection Compliance Program as a formal document, approved by the Board to provide reference bank-wide. The manual comprises the Roles and Responsibilities of the Board of Directors, Senior Management and concerned units/groups as well as the principles of the Bank's General Consumer Protection Standards.

Other units and departments such as the Internal Audit Department, Customer Care Department, Credit Risks Departments and Business Units are hereby notified of the necessary amendments and/or creation as the case may be that they need to adopt in their respective units/departments written documents to align with the Bank's Consumer Protection Compliance Program Manual.

The Consumer Protection Risk Management System of the Bank

The Bank ensures that *Consumer Protection Risk Management System (CPRMS) forms part of the Bank Wide Risk Management System. *Consumer Protection Risk Management System (CPRMS):

1. A means by which the Bank identify, measure, monitor and control consumer protection risks inherent in its operations. These include both risks to the financial consumer and the Bank and should be directly proportionate to the Bank's asset size, structure and complexity of operation;

2. This is carefully devised, implemented and monitored to provide foundation for ensuring the Banks adherence to the consumer protection standards of conduct and compliance with the requirements.

ANNEX 3: Risk Management System & Structure

BANK'S RISK PHILOSOPY

The Bank operates according to its established risk philosophy, where the Board is responsible for approving, reviewing, supervising, and overseeing the Bank's risk strategy, policies, appetite and limits. Following the Board's instruction, the Bank's senior management team and various risk management committees set up independent risk management functions and make sure the risks are being properly understood, controlled and managed, in addition to the risk processes which must be clearly aligned with the Bank's business strategies.

This risk philosophy serves as basis for the establishment of its risk management system.

BANK'S RISK APPETITE

Along with the business of taking risks, the Bank operates according to its established risk philosophy, where the Board is responsible for approving, reviewing, supervising and overseeing the Bank's risk strategy, risk policies, risk appetite and risk limits. Following the Board's instruction, the Bank's Senior Management team and various risk management committees set up independent risk management functions and make sure the risks being properly understood, controlled and managed, in addition to the risk processes which must be clearly aligned with the Bank's business strategies. To ensure the Bank's operations, strategies and risk appetite are in line with the Board's policy, performance against Risk Appetite is measured and reported to senior management and/or Board regularly throughout the year. The aim is to protect the Bank against unforeseen losses that could arise from taking risk beyond the Bank's risk appetite, so as to achieve the ultimate goal of maximizing shareholder values. However, if breaching of appetite or limit occurs under certain circumstances, the risk management team should seek approval from Senior Management and/or Board, and to ensure appropriate action may be taken.

The Bank defines Risk Appetite as the level of risk the Bank chooses to take in pursuit of its vision and business objectives. The Bank aligns its risk appetite with the Parent Bank's vision to become one of the best managed banks in the world, building both customer and shareholder values.

With this global mission & vision, the Bank intends to build and expand its businesses and ensure that it meets its business objectives. Part of the Bank strategy is to maximize its operating efficiency, expand its business scope, strengthen its manpower quality and as well as its asset quality. To achieve the purposes mentioned, the Bank sets its risk appetite in consideration of all the relevant risks and connects it to its overall business vision and objectives.

RISK MANAGEMENT COMMITTEE

In the foregoing discussion, the Board organized the Risk Management Committee to ensure that the Bank is able to manage its risk-taking activities so that it can position itself for better opportunities.

The RMC is responsible for the development and oversight of the Bank's Risk Management Program. It provides the general direction and defines the risk philosophy of the Bank.

The RMC oversees the system of limits on discretionary authority that the Board delegates to management, who will ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached.

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

The Committee shall be composed of at least three (3) members of the Board of Directors, majority of whom shall be independent directors, including the chairperson. The RMC chairperson shall not be the chairperson of the board of directors, or any other board-level committee. The members shall possess a range of expertise as well as adequate knowledge of the institution's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur. It shall oversee the system of limits to discretionary authority that the board delegates to management, ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached. The Bank's risk management units and the Chief Risk Officer (CRO) shall communicate formally and informally to the RMC any material information relative to the discharge of its function.

The RMC, shall, where appropriate, have access to external expert advice, particularly in relation to proposed strategic transactions, such as mergers and acquisitions.

The core responsibilities of the Risk Management Committee are:

1. ***Identify and evaluate risk exposures* –** The Committee shall assess the probability of each reported risk becoming reality including the reported estimate of possible effect and cost. Priority areas of concern are those risks that are most likely to occur and with high adverse impact to the bank when they happen.

2. ***Develop risk management strategies* –** The Committee shall approve a written plan defining the strategies for managing and controlling the major risks. It shall approve recommended practical strategies to mitigate the risks, avoid and minimize losses if the risk becomes real.

3. ***Oversee adherence to risk appetite* –** The Committee shall ensure that current and emerging risk exposures are consistent with the Bank's strategic direction and overall risk appetite. It shall assess the overall status of adherence to the risk appetite based on the quality of compliance with the limit structure, policies, and procedures relating to risk management and control, and performance of management, among others.

4. ***Establish and appropriate credit risk environment* –** The RMC shall be responsible for the approval and regular review of credit risk strategy and credit policy, as well as the

oversight of the implementation of a comprehensive and effective credit risk management system appropriate for the size, complexity and scope of operations of the Bank. The RMC shall ensure that the system provides for adequate policies, procedures and processes to identify, measure, monitor and control all credit risks inherent in the Bank's products and activities, both at the individual and portfolio levels on a consistent and continuing basis; and that an independent assessment of the system is periodically performed, the results of which shall be reported to it for appropriate action.

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

6. ***Review and revise the plan as needed* –** The Committee shall evaluate the risk management plan to ensure its continued relevancy, comprehensiveness, and effectiveness. It shall revisit strategies, look for emerging or changing exposures, and stay abreast of developments that affect the likelihood of harm or loss. The Committee shall report regularly to the Board of Directors the entity's over-all risk exposure, actions taken to mitigate the risks, and recommend further action or plans as necessary.

7. ***Review and update the Risk Management Committee Charter periodically or as deemed necessary.***

8. ***Review and evaluate Chief Risk Officer's performance annually.***

9. ***Endorse for confirmation of Board of Directors the Performance Rating of the CRO.***

10. ***Perform oversight functions over the IT Steering Committee (ITSC)* –** The Risk Management Committee shall oversee the ITSC function and regularly provide adequate information to the Board regarding IT performance, status of major IT projects or other significant issues to enable the Board to make well-informed decisions about the Bank's IT Operations.

The Chief Risk Officer being directly reporting to the RMC has the following roles and responsibilities:

- To oversee the risk management function and to support the board of directors in the development of risk appetite and risk appetite statement (RAS) of the Bank and for translating the risk appetite into a risk limits structure.

- Ongoing monitoring of the Bank's risk profile and risk exposures with respect to the following:
    - Risk Appetite.
    - Performance vs. Risk Tolerance.
    - Risk trends.
    - Risk concentrations.

   - Allowance for Loan Losses.
   - Key Performance Indicators for risk.
   - Capital Adequacy

- To consider and recommend to the Board for approval, through the RMC, the Bank's Risk Tolerance.

- To recommend to the Board on an annual basis the Bank's Risk Tolerance, including Risk Type Limits for Institutional Credit Risk, Retail Credit Risk, Liquidity Risk and Market Risk for the following year.

- To consider any breaches of the Bank's Risk Tolerance and each of the approved Risk Type Limits and to recommend whether the Board should approve the reduction plan and/or ratify the excess request.

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

- To provide independent oversight function on credit risk management organization, including, but not limited to, the following:
   - Risk management and control functions that are independent from the credit originating and administration functions.
   - Meaningful inputs in policy formulation and limits setting, design and implementation of the Bank's internal credit risk rating systems by way of endorsement of credit policies, guidelines and procedures.
   - Periodic exposure and exception monitoring by way of the review of credit risk management reports.
   - Review of the validation of Internal Rating System and Credit Scoring Models on a regularly basis.
   - Problem loan management by way of attendance at Credit Committee meeting.
   - Unbiased assessment of the quality of individual credits and aggregate credit portfolio, including appropriateness of credit risk rating, classification and adequacy of allowance for loan losses by way of independent credit review.

- To evaluate annually the Bank's internal risk control framework through ICAAP process to satisfy itself on the design and completeness of the framework relative to the Bank's activities and risk profile.

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

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

  - Daily Value at Risk and any significant credit risk measurement system such as Internal Rating System.
  - Risk Self-Assessment of Operational Risk.

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

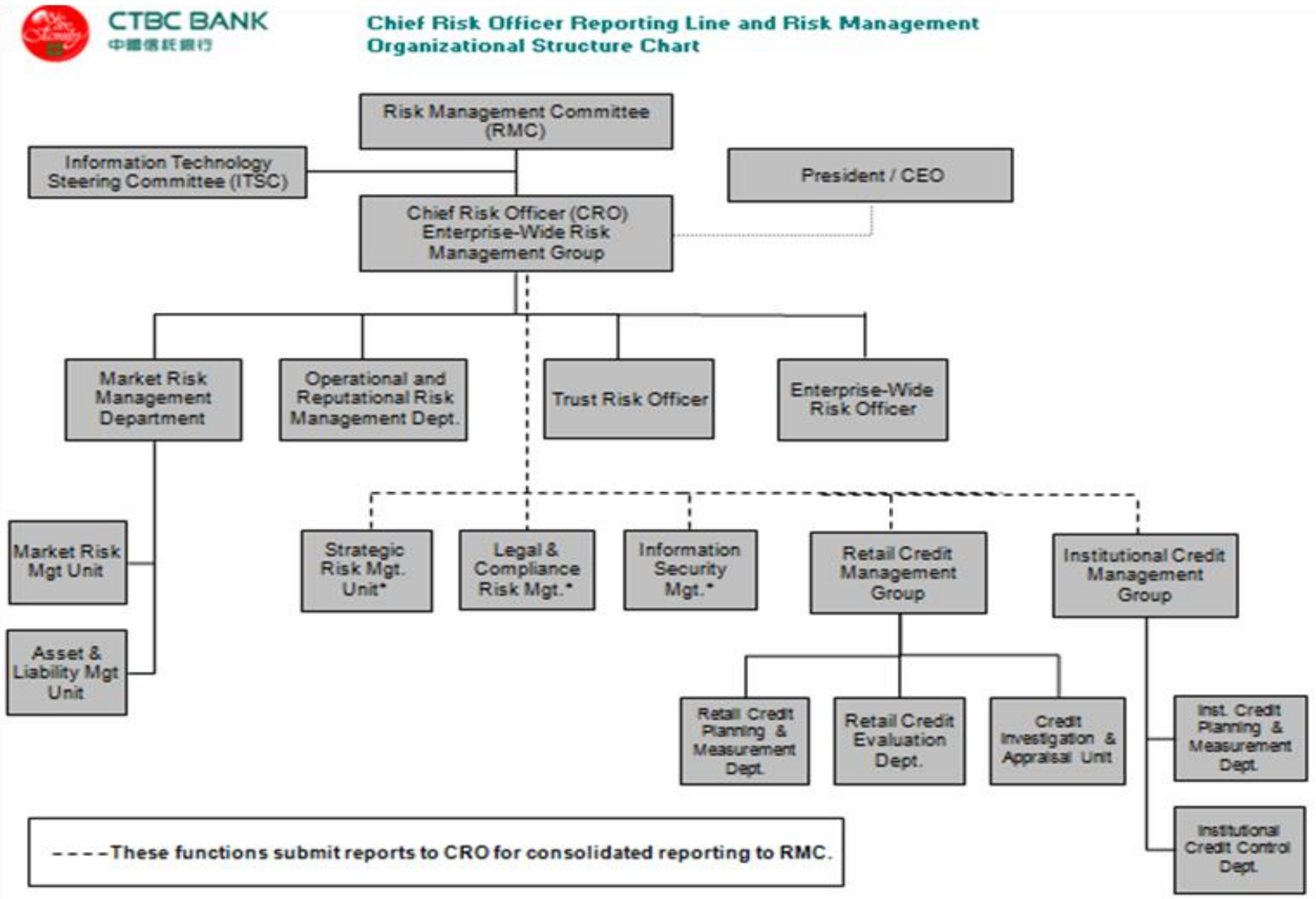
The Chief Risk Officer shall be appointed and replaced with prior approval of the Board of Directors. In case of replacement, the Bank shall report to Supervision and Examination Sector of BSP within five (5) days from the time it has been approved by the Board of Directors.

The following are the different Risk Groups governed by the CRO:

- Office of the CRO
- Market Risk Management Department (MRMD)
  - MRMD manages the market risk, liquidity risk and interest rate risk in the banking book. It sets limits by taking into account the market predictions, capital, annual budgets, experience of the risk taking units and the Bank's risk appetite.
  - Review Assets and Liabilities management.
  - Endorse Market, Liquidity Risks, and IRRBB policies and oversee the effectiveness and administration of such policies.
  - Review and establish parameters for Market, Liquidity Risks, and IRRBB and evaluate compliance with such limit.
  - Provide oversight of management and guidance to the Board on Market and Liquidity Risks and related issues.
  - Review and recommend to the Board the appropriate Liquidity levels.
  - Recommend to Treasury the Contingency Funding Plan.

- Operational and Reputational Risk Management Department (ORRMD)
  - ORRMD handles the consolidation of all risks reported by each risk monitoring unit. All risks are assessed, evaluated, monitored and reported to the RMC with appropriate recommendations as consolidated by the Department. Also, ORRMD ensures the implementation of all RMC policies and directives.
  - ORRMD is also accountable for operational risk monitoring and management of the Bank.
  - It reviews the important strategies and policies; periodically review operational risk reports and monitor the execution of action plan for major operational risk event.
  - Promote the risk-aware organization culture, develop and continuously improve the operational risk management framework and approach, establish risk assessment approach, establish operational risk indicators and monitor the change of operational risk.

- Supervision of the softer risks like the reputational risk management is part of the ORRMD functions.


CTBC BANK
中國信託銀行
Chief Risk Officer Reporting Line and Risk Management Organizational Structure Chart
Risk Management Committee (RMC)
Information Technology Steering Committee (ITSC)
President / CEO
Chief Risk Officer (CRO) Enterprise-Wide Risk Management Group
Market Risk Management Department
Operational and Reputational Risk Management Dept.
Trust Risk Officer
Enterprise-Wide Risk Officer
Market Risk Mgt Unit
Asset & Liability Mgt Unit
Strategic Risk Mgt. Unit*
Legal & Compliance Risk Mgt.*
Information Security Mgt.*
Retail Credit Management Group
Institutional Credit Management Group
Retail Credit Planning & Measurement Dept.
Retail Credit Evaluation Dept.
Credit Investigation & Appraisal Unit
Inst. Credit Planning & Measurement Dept.
Institutional Credit Control Dept.
----These functions submit reports to CRO for consolidated reporting to RMC.

ANNEX 4: Capital Structure and Capital Adequacy

The Bank's capital adequacy ratio (CAR), as of December 31, 2019 is at 19.975%. This is a above the minimum CAR requirement of 10%. The CAR is expressed as a percentage of qualifying capital to risk-weighted assets.

The total qualifying capital of the Bank consists of Tier 1 (core) and Tier 2 (supplementary) capital. Tier 1 comprise Common Equity Tier 1 (CET1), made up of common stock, additional paid-in capital and surplus, and other comprehensive income, such as unrealized gain/loss and cumulative foreign currency translation adjustment. CET1 is adjusted further by deducting the treasury shares, any unsecured DOSRI and deferred tax asset. On the other hand, Tier 2 capital comprises mainly general loan loss provisions. As of year-end, total Tier 1 and 2 capital, amount to Php8,768.339MM and Php413.752MM, respectively.

Total Risk Weighted Assets (RWA) are calculated using the standardized approach for credit & market risk, while basic indicator approach was used for operational risk. Total RWA under the Pillar I is Php45,968.420MM. Breakdown is indicated in the table below.

To compute for CET1 ratio, Tier 1, and the capital adequacy ratio of the Bank, the relevant qualifying capital is divided over the total RWA. Details as follows:

The Capital Adequacy Ratio, as of December 31, 2019

Nature of Item	Calculation	Amount In Millions PHP	
A. Qualifying Capital			
Tier 1 Capital	T1= CET1 + AT1	8,768.339	
Common Equity Tier 1 Capital	*CET1*	8,768.339	See Breakdown
Additional Tier 1 Capital	*AT1*	0.000	See Breakdown
Tier 2 Capital	T2	413.752	See Breakdown
Total Qualifying Capital (QC)	***T1 + T2***	**9,182.092**	
B. Total Risk Weighted Assets			**Minimum Capital Requirement**
Total Credit Risk-Weighted Assets	CRWA	41,301.636	4,130.164
Total Market Risk-Weighted Assets	MRWA	483.262	48.326
Total Operational Risk-Weighted Assets	ORWA	4,183.522	418.352
Total Risk-Weighted Assets (RWA)	***CRWA + MRWA + ORWA***	**45,968.420**	**4,596.842**
C. RISK-BASED CAPITAL ADEQUACY RATIO			
Common Equity Tier 1 Ratio	CET1 / Total RWA	19.075%	
of which 10.14% is Capital Conservation Buffer	***CET1 Ratio - 6%***		
Tier 1 Capital Ratio	Tier1 / Total RWA	19.075%	
Total Capital Adequacy Ratio	***Total QC / Total RWA***	**19.975%**	

Nature of Item	Calculation	YEAR 2019	YEAR 2018
A. Qualifying Capital			
Tier 1 Capital	T1= CET1 + AT1	8,768.339	6,925.984
Common Equity Tier 1 Capital	*CET1*	8,768.339	6,925.984
Additional Tier 1 Capital	*AT1*	0.000	0.000
Tier 2 Capital	T2	413.752	404.700
Total Qualifying Capital (QC)	***T1 + T2***	**9,182.092**	**7,330.685**
B. Total Risk Weighted Assets			
Total Credit Risk-Weighted Assets	CRWA	41,301.636	40,441.700
Total Market Risk-Weighted Assets	MRWA	483.262	428.475
Total Operational Risk-Weighted Assets	ORWA	4,183.522	4,008.247
Total Risk-Weighted Assets (RWA)	***CRWA + MRWA + ORWA***	**45,968.420**	**44,878.422**
C. RISK-BASED CAPITAL ADEQUACY RATIO			
Common Equity Tier 1 Ratio	CET1 / Total RWA	19.075%	15.433%
Tier 1 Capital Ratio	Tier1 / Total RWA	19.075%	15.433%
Total Capital Adequacy Ratio	***Total QC / Total RWA***	**19.975%**	**16.335%**

Breakdown of Qualifying Capital

Item		Nature of Item	Amount (In Millions PHP)	
A. Tier 1 Capital				
A.1	**Common Equity Tier 1 (CET1) Capital**			**9,200.627**
	(1)	Paid-up common stock	3,000.000	
	(2)	Additional paid-in capital	1,073.284	
	(3)	Retained earnings	4,753.201	
	(4)	Undivided profits	342.274	
	(5)	Other comprehensive income	31.869	
		(i) Net unrealized gains or losses on AFS securities		107.970
		(ii) Cumulative foreign currency translation		-9.665
		(iii) Retirement benefit		-66.436
A.2	**Regulatory Adjustments to CET1 Capital (Minus)**			432.288
	(1)	Common stock treasury shares	0.000	
	(2)	Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	4.213	
	(3)	Deferred tax assets	428.075	
A.3	**TOTAL COMMON EQUITY TIER 1 CAPITAL (A.1 minus A.2)**			8,768.339
A.4	**Additional Tier 1 (AT1) Capital**			0.000
A.5	**Regulatory Adjustments to Additional Tier 1 (AT1) Capital**			0.000
A.6	**TOTAL ADDITIONAL TIER 1 CAPITAL (A.4 minus A.5)**			0.000
A.7	**TOTAL TIER 1 CAPITAL (Sum of A.3 and A.6)**			**8,768.339**
B. Tier 2 (T2) Capital				
B.1	(1)	General loan loss provision, limited to a maximum of 1% of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio	413.752	
B.2	**TOTAL TIER 2 CAPITAL**			**413.752**
C. TOTAL QUALIFYING CAPITAL (Sum of A.7 and B.2)				**9,182.092**

RECONCILIATION OF REGULATORY CAPITAL
BACK TO THE BALANCE SHEET IN THE AUDITED FINANCIAL STATEMENT

Item		Nature of Item (In Millions PHP)	Regulatory Capital	Reconciling Items	Audited Financial Statements	Adjustments for regulatory compliance
		A. Tier 1 Capital				
A.1	**Common Equity Tier 1 (CET1) Capital**		**9,200.627**	**181.810**	**9,382.437**	
	(1)	Paid-up common stock	3,000.000	0.000	3,000.000	
	(2)	Additional paid-in capital	1,073.284	0.000	1,073.284	
	(3)	Retained earnings	4,753.201	191.637	4,944.838	Difference in the impairment methodology.
	(4)	Undivided profits	342.274	-11.590	330.683	
	(5)	Other comprehensive income	**31.869**	**1.764**	**33.633**	
		(i) Net unrealized gains or losses on AFS securities	107.970	0.264	108.234	Reclassification of AFS Securities to Other Investment
		(ii) Cumulative foreign currency translation	-9.665	1.500	-8.166	Cumulative translation for adjustments on FCY accounts to comply with BSP regulatory requirement
		(iii) Retirement benefit	-66.436	0.000	-66.436	
	LESS:					
A.2	**Regulatory Adjustments to CET1 Capital**		**432.288**	**-432.288**	**0.000**	
	(1)	Common stock treasury shares	0.000	0.000	0.000	
	(2)	Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	4.213	-4.213	NA	Forms part of the balance sheet assets.
	(3)	Deferred tax assets	428.075	-428.075	NA	Forms part of the balance sheet assets.
A.3	**TOTAL COMMON EQUITY TIER 1 CAPITAL (A.1 minus A.2)**		**8,768.339**	**614.098**	**9,382.437**	
A.4	**Additional Tier 1 (AT1) Capital**		0.000	0.000	0.000	
A.5	**Regulatory Adjustments to Additional Tier 1 (AT1) Capital**		0.000	0.000	0.000	
A.6	**TOTAL ADDITIONAL TIER 1 CAPITAL (A.4 minus A.5)**		**0.000**	**0.000**	**0.000**	
A.7	**TOTAL TIER 1 CAPITAL (Sum of A.3 and A.6)**		**8,768.339**	**614.098**	**9,382.437**	
		B. Tier 2 (T2) Capital				
B.1	(1)	General loan loss provision, limited to a maximum of 1% of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio	413.752	-413.752	NA	Forms part of the balance sheet assets.
B.2	**TOTAL TIER 2 CAPITAL**		**413.752**	**-413.752**	**0.000**	
C. TOTAL CAPITAL (Sum of A.7 and B.2)			**9,182.092**	**200.346**	**9,382.437**	

ANNEX 5: Credit Risk

A. QUANTITATIVE INFORMATION, as of December 31, 2019

1. Breakdown of Credit Risk Weighted Assets

Credit Risk-Weighted Assets	Amount in Millions PHP
On-Balance Sheet Assets	38,757.443
Assets in the Trading Book (Derivatives and Repo-style Transactions)	69.489
Off-Balance Sheet Assets	2,548.315
Total Gross Risk-Weighted Assets	**41,375.248**
Deductions : General loan loss provision [in excess of the amount permitted to be included in Upper Tier 2]	73.611
Total Credit Risk-Weighted Assets	**41,301.636**

2. Credit Risk Exposures: On-Balance Sheet Assets (In Millions PHP)

EXPOSURE TYPE (In Millions PHP)	Exposures not Covered by CRM	TOTAL RISK WEIGHTED EXPOSURES
Sovereign Exposures	8,026.875	1,937.421
Sovereign Exposures - Non Res	2,681.463	0.000
Multilateral Development Banks	0.000	0.000
Bank (excluding loans)	2,561.642	1,172.599
Interbank Loans		
Interbank Call Loans	0.000	0.000
Interbank Term Loans	3,746.534	2,886.357
Local Government Units	0.000	0.000
Government Corporation	0.000	0.000
Corporate Exposures	24,068.357	24,068.357
Micro, Small, and Medium Enterprise	0.000	0.000
Housing Loans	1,434.455	1,434.455
Loans to Individuals	4,890.957	4,890.957

EXPOSURE TYPE (In Millions PHP)	Exposures not Covered by CRM	TOTAL RISK WEIGHTED EXPOSURES
Defaulted Exposures		
Housing Loans	12.202	12.202
Loans other than Housing Loans	591.767	887.650
Other Defaulted Exposures	0.000	0.000
ROPA	168.110	252.165
Other Exposures		
Cash on Hand	720.426	0.000
Cash & Other Cash Items	5.903	1.181
Other Assets	3,981.318	1,214.099
TOTAL	**52,890.009**	**38,757.443**

Breakdown per Exposure Type & Risk Buckets (In Millions PHP)

EXPOSURE TYPE (In Millions PHP)	Exposures, Net of Specific Provisions	Exposures Covered by CRM 2/	Exposures not Covered by CRM	Risk Weights							TOTAL RISK WEIGHTED EXPOSURES
				0%	20%	50%	75%	100%	150%	TOTAL	
	1	2	3=1-2	4	5	6	7	8	9	[Sum of 4 to 9]	
Sovereign Exposures	8,026.875	0.000	8,026.875	4,152.033	0.000	3,874.842	0.000	0.000	0.000	8,026.875	1,937.421
Sovereign Exposures - Non Res	2,681.463	0.000	2,681.463	2,681.463	0.000	0.000	0.000	0.000	0.000	2,681.463	0.000
Multilateral Development Banks	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Bank (excluding loans)	2,561.642	0.000	2,561.642	0.000	1,040.968	1,112.537	0.000	408.137	0.000	2,561.642	1,172.599
Interbank Loans											
Interbank Call Loans	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Interbank Term Loans	3,746.534	0.000	3,746.534	0.000	336.267	1,182.327	0.000	2,227.940	0.000	3,746.534	2,886.357
Local Government Units	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Government Corporation	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Corporate Exposures	27,736.617	3,668.260	24,068.357	0.000	0.000	0.000	0.000	24,068.357	0.000	24,068.357	24,068.357
Micro, Small, and Medium Enterprise	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Housing Loans	1,434.455	0.000	1,434.455	0.000	0.000	0.000	0.000	1,434.455	0.000	1,434.455	1,434.455
Loans to Individuals	4,890.957	0.000	4,890.957	0.000	0.000	0.000	0.000	4,890.957	0.000	4,890.957	4,890.957
Defaulted Exposures											
Housing Loans	12.202	0.000	12.202	0.000	0.000	0.000	0.000	12.202	0.000	12.202	12.202
Loans other than Housing Loans	591.767	0.000	591.767	0.000	0.000	0.000	0.000	0.000	591.767	591.767	887.650
Other Defaulted Exposures	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
ROPA	168.110	0.000	168.110	0.000	0.000	0.000	0.000	0.000	168.110	168.110	252.165
Other Exposures											
Cash on Hand	720.426	0.000	720.426	720.426	0.000	0.000	0.000	0.000	0.000	720.426	0.000
Cash & Other Cash Items	5.903	0.000	5.903	0.000	5.903	0.000	0.000	0.000	0.000	5.903	1.181
Other Assets	3,981.318	0.000	3,981.318	2,681.463	0.000	171.511	0.000	1,128.343	0.000	3,981.318	1,214.099
TOTAL	**56,558.269**	**3,668.260**	**52,890.009**	**10,235.386**	**1,383.137**	**6,341.217**	**0.000**	**34,170.392**	**759.877**	52,890.009	**38,757.443**

1/ Risk weight used is based on the external credit assessment institutions like Standard & Poor's, Moody's and Fitch's credit rating.
2/Credit risk mitigants are mainly cash deposit collateral.

3. Credit Risk Exposures: Assets in the Trading Book (Derivatives & Repo Style Transactions (In Millions PHP)

EXPOSURE TYPE	NOTIONAL AMOUNT	Credit Equivalent Amount	Risk Weights 1/							TOTAL RISK WEIGHTED
			0%	20%	50%	75%	100%	150%	TOTAL	
Exchange Rate Contracts										
Banks	1,869.235	93.571	0.000	35.164	35.625	0.000	22.782	0.000	93.571	47.628
Corporates	2,182.502	21.862	0.000	0.000	0.000	0.000	21.862	0.000	21.862	21.862
TOTAL	**4,051.737**	**115.433**	**0.000**	**35.164**	**35.625**	**0.000**	**44.644**	**0.000**	**115.433**	**69.489**

1/ Risk weight used is based on the external credit assessment institutions like Standard & Poor's, Moody's and Fitch's credit rating.

4. Credit Risk Exposures: Off Balance Sheet Assets

EXPOSURE TYPE *(Amounts in Millions PHP)*	Notional Principal Amount	Credit Conversion Factor (CCF)	Credit Equivalent Amount	Risk Weight 1/	Credit Risk Weighted Assets
Financial standby letters of credit - domestic	836.869	100%	836.869	100%	836.869
Financial standby letters of credit - foreign	1,367.145	100%	1,367.145	100%	1,367.145
Performance Standby LCs – domestic (net of margin deposit) established as a guarantee that a business transaction will be performed	78.710	50%	39.355	100%	39.355
Performance Standby LCs – foreign (net of margin deposit) established as a guarantee that a business transaction will be performed	11.358	50%	5.679	100%	5.679
Trade related guarantees – shipside bonds/airway bills	0.000	20%	0.000	100%	0.000
Sight LCs - domestic (net of margin deposit)	26.533	20%	5.307	100%	5.307
Sight LCs - foreign (net of margin deposit)	195.194	20%	39.039	100%	39.039
Usance LCs - domestic (net of margin deposit)	0.213	20%	0.043	100%	0.043
Usance LCs - foreign (net of margin deposit)	27.505	20%	5.501	100%	5.501
Committed credit lines for commercial papers issued	1,246.887	20%	249.377	100%	249.377
Other commitments which can be unconditionally cancelled at any time by the bank without prior notice and those not involving credit risk	4,691.562	0%	0.000	100%	0.000
Spot foreign exchange contracts (bought and sold)	2,785.623				
Late deposits/payments received	8.792				
Inward bills for collection	181.804				
Outward bills for collection	0.000				
Trust department accounts	1,711.936				
Items held for safekeeping/custodianship	3.351				
Items held as collaterals	0.001				
Others	0.054				
Total Notional Principal Amount	8,481.977				
TOTAL RISK-WEIGHTED OFF-BALANCE SHEET ASSETS					2,548.315

1/ Risk weight used is based on the external credit assessment institutions like Standard & Poor's, Moody's and Fitch's credit rating.

B. QUALITATIVE INFORMATION

Credit risk is the risk that one party to a financial transaction will fail to honor an obligation and cause the Bank to incur a financial loss. Credit risk arises primarily from the Bank's corporate and consumer loans (customer credit risk) and investment securities (issuer credit risk). Assessment of credit risk varies based on the types of the loan or financial transaction. For consumer loans, credit risk is measured at a portfolio level. However, identification of risk is determined on customer segment performance to derive risk-ranking determinants that constitute the formulation of the credit application scorecard. To ensure consistency in the identification of credit risk, scorecard performance is reviewed monthly to assess its efficiency in its risk determination function.

Credit risk management will be discussed in two parts:

1. Credit Risk covering Corporate Loans – managed and controlled by Institutional Credit Management Group (ICMG).
2. Credit Risk covering Retail Loans - managed and controlled by Retail Credit Management Group (RCMG).

CREDIT RISK COVERING CORPORATE LOANS

I. Strategic & Processes

ICMG manages the credit risk arising from the Bank's corporate loan business. It formulates credit policies and guidelines based on regulatory standards and the Bank's own risk appetite. Likewise, it ensures that the management of credit in the corporate loan portfolio is in compliance to all credit policies and guidelines.

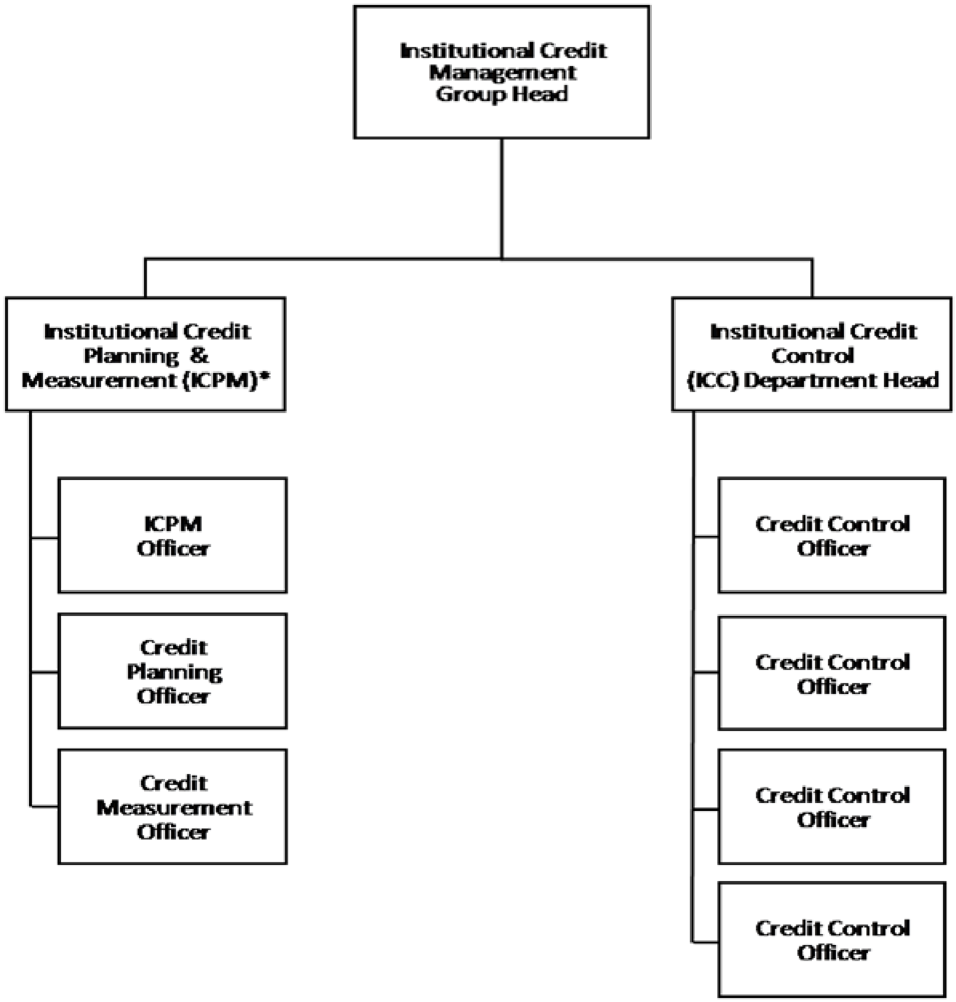
Each credit proposal undergoes an evaluation process in order to determine its acceptability. The evaluation process involves the identification of credit risks after having assessed key factors including, target market/industry, management, appropriateness of credit facilities, terms and conditions,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

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

Sample table of the ORR is as follows:

Category	ORR	Moody's Equivalent Grades
Investment Grades	0	Applicable to only the central government, central Bank and their agencies of the Republic of China and sovereign states with S&P medium- and long-term ratings at AA- or higher, or multilateral development banks with risk weights at 0% approved by the Basel Committee on Banking Supervision.
	1	Aa3 or higher
	2	A1 ~ A3
	3	Baa1
	4	Baa2
	5	Baa3
Sub-Investment Grades	6	Ba1
	7	Ba2
	8	Ba2*-
	9	Ba3
High-Risk Grades	10	B1
	11	B2
	12	B3
	13	Caa1 ~ Ca
Watch-List Grade	14	
Default Grades	15	
	16	
	17	

II. Structures and Organization



The main responsibilities of the Institutional Credit Management Group are as follows:

- Formulates credit policies and guidelines for the institutional banking business, and oversees the effectiveness and administration of these.
- Establish the parameters for credit risk and concentration, and review compliance with such limits
- Evaluate, endorse or approve credit proposals originating from IBG
- Review the quality of the Bank's institutional banking portfolio
- Review the adequacy of allowance for loan losses
- Provide guidance to management on credit risks and credit-related issues

III. Scope & Nature of Risk Reporting and Measurement Systems

Loan Review Report (LRR) / Early Warning 1(a) and (b), 2 and 3 (EW1 (a) and (b), EW2 and EW3) / Account Planning Reports

One of the Bank's risk monitoring exercises is its semi-annual review of corporate accounts via the Loan Review Report (LRR). Exempted from this are accounts fully-secured by cash or government securities, accounts whose sole credit facility with the Bank is fully secured by unconditional and irrevocable Sovereign Guarantee or under a specific credit/product program, watch-list (EW2/EW3) or classified accounts (Loans Especially Mentioned, Substandard, Doubtful, and Loss), and banks with uncommitted lines. The LRR, accomplished six (6) months after approval date, covers the borrower's relationship with the Bank, updated financial performance, repayment capability, identification of major risks, outlook, etc. It also assesses account classification and ORR. If deterioration in credit is identified, either Institutional Banking Group (IBG) or ICMG have the discretion to include it in any of the Early Warning (EW) buckets, which calls for the submission of a Notification report, quarterly or more frequent LRR (for EW1(a) accounts), and Account Planning reports (for EW1(b), EW2 and EW3 accounts). If deemed appropriate, EW2 and EW3 accounts may be transferred to Asset Recovery Management Department (ARMD) for handling. Apart from these, the Relationship Manager (RM) is required to provide updates during Credit Committee meetings.

IBG RM or ARMD Special Accounts Officer (depending on the classified account owner) and Litigation Head of Legal Department are also required to report to the Credit Committee the status of the classified accounts once a month for an EW account. Depending on the outstanding exposure of an EW1(b)/EW2/EW3 account, the IBG RM regularly prepares the Account Planning reports for approval either of SCO, Credit Committee or Executive Committee. The Account Planning report covers the loan details of the account including the outstanding principal, loan loss provision, the action plan and present status of the account which includes the progress diary enumerating the series of events that took place covering the Account Planning period and financial/operation analysis. The same Account Planning report is referenced for the corresponding BSP classification.

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

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

IV. Strategies and Processes for Mitigating Risks

Apart from the evaluation process, certain lending and concentration limits and triggers have been established to further strengthen management of risk. These limits and triggers were based on both regulatory standards and the Bank's own risk appetite.

Internal Lending Limits

Limit of SINGLE BORROWER / GROUP (Total Credit Exposure)

- Single Borrower/Group Limit – shall not exceed 100% of SBL (SBL= 25% of CTBC Bank (Phils.) net worth;
- The Single Group definition will be based on BSP's regulation.
- The Total Credit Exposure includes contingent liabilities.

Limit of Real Estate Loans (Total Loan Portfolio).

- Shall not exceed 20% of the total loan portfolio, net of interbank loans receivable (IBLR);
- Real Estate Industry classification will be based on BSP's regulation on Real Estate Loans.

Limit of Industries (Total Net Worth or Unimpaired Capital)

- The limit ceiling for combined industries under "Monitored Risk" category shall be one hundred percent (100%) of the Bank's Net Worth.

Notes:

a. For those conglomerate groups which covers several industries, industry distribution will be proportioned based on the revenue contribution from each industry subject to Head of Institutional Credit Control Department's (ICCD) approval.
b. Bank Money Market lending to be excluded from IBG loan portfolio.
c. Industry classification shall be based on the nature of business of the obligor/borrower. However, for individual obligors, industry classification shall be based on the purpose of the loan.

d. Industry Classification will be based on Philippine Standard Industrial Classification (PSIC) – 2009 edition.

e. Government Agencies, credit secured by Republic of the Philippines (ROP) or 100% owned by the Government, credit secured by cash deposit, shall be excluded from the limit.

Limit of Top 10 Borrowers (IBG Portfolio)

- Shall not exceed 60% of the Total IBG Credit Exposure, net of InterBank Loans Receivable (IBLR).
- Any specific loan exposure of the Top 10 Borrowers which are fully secured by cash deposits, ROP Bonds, or unconditionally guaranteed by Republic of the Philippines (ROP) shall be excluded from the total loan exposure.

The Monitoring Mechanism

Warning Trigger

Set up warning trigger (90% of the Limit Ceiling) for Single Borrower/Group, Real Estate Loans (RELs), Industries under “Monitored Risk” Category, and for Top 10 Borrowers. Once triggered/breached, appropriate actions must be acted upon by the concerned units.

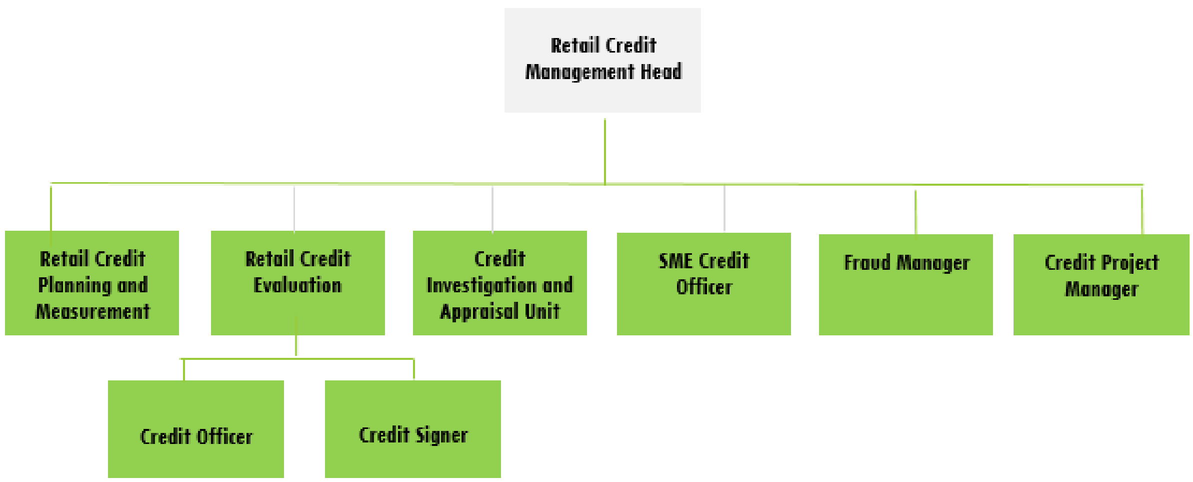
CREDIT RISK COVERING RETAIL LOANS

I. Strategies & Processes

RCMG manages the credit risk arising from the Bank’s retail loan businesses. It formulates credit policies based on various portfolio analyses, and is responsible for optimizing the risk-reward relationship of the Personal Loans, Mortgage Loans, and Small and Medium Enterprise (SME) Loans portfolios. Likewise, it ensures that the management of credit risk in the retail loan portfolios are in compliance to all credit policies and regulatory standards.

RCMG also manages the credit risk assessment and acceptance processes to safeguard the credit quality of the retail loan portfolio. It monitors and analyses various risk features and trends of the retail loan portfolio, identifies risk drivers and formulates risk mitigation strategies, accordingly. Results of these regular portfolio reviews are reported to the management team, RMC (Risk Management Committee) and, ultimately, to the BOD.

II. Structure & Organization



The following are the core responsibilities of Retail Credit Management Group as follows:

a. Review the quality of the Bank's credit portfolio and the factors affecting the portfolio behavior.

b. Formulate credit policies and oversee the effectiveness, implementation, and administration of these policies.

c. Evaluate the adequacy of allowance for loan losses.

d. Establish the credit risk limit parameters and asset concentration and review compliance with such limits.

e. Provide oversight of management and guidance to the BOD on retail credit risks and credit-related issues.

f. Manage risk assessment and control in processing retail loan applications.

g. Conduct credit investigation and appraisal.

RCMG is composed of two departments and one unit to carry out its mandate of managing retail credit risk. In addition, SME Credit Officer directly reports to RCMG head for SME loan evaluation and review.

Retail Credit Planning and Measurement Department (RCPMD)

Reviews and formulates credit policies based on empirical data and sound analyses covering existing portfolios as well as test programs. Policy changes are likewise instituted as a result of supporting new business initiatives, and as a response to changes in market behavior, as well as changes in regulatory conditions. The team is also responsible in generating various risk monitoring tools such as, but not limited to, monthly asset quality reports and RMC reports, as well as managing scorecard implementation, monitoring and review.

Retail Credit Evaluation Department (RCED)

Handles risk assessment and control in retail loan application processing covering pre-screening, verification, evaluation and decision in granting loans to eligible borrowers in the most efficient way possible. Likewise, RCED ensures that changes in policies as it relate to the credit process are implemented, accordingly.

Credit Investigation and Appraisal Unit (CIAU)

Responsible for credit investigation and appraisal. The team observes the CI code of ethics in information validation and data gathering activities to establish the credit worthiness of applicants and customers in the Bank. It is guided by internal policies and generally accepted appraisal principles and techniques in determining collateral value.

III. Scope & Nature of Risk Reporting and Measurement Systems

Retail Credit regularly conducts a portfolio performance review of its retail loan products covering loan origination, account maintenance and account closures. In addition, various portfolio analyses at various levels of granularity are performed to identify the most significant factor/s of defaulting loans, as well as factor/s that lead/s to better portfolio quality.

Risk Reporting

For product and portfolio performance monitoring, review and analysis, the reports are summarized below:

1. Retail Credit Risk Portfolio Review is a tracking of the retail loan portfolio’s critical risk indicators on a monthly basis, which includes non-performing loans, delinquency ratios, charge-offs, recoveries, aging flows, portfolio delinquency performance by various segment cuts, scorecard MIS, as well as credit process MIS such as approval rate, reject rate, deviation approval etc.

2. Based on the foregoing, RMC reports are produced and presented to the members of the committee every 2 months. This report contains statistical and analytical data on portfolio growth, portfolio mix, portfolio asset quality indicators as well as through the door information on loan origination and loan portfolio profile.

Measurement Systems

For Personal Loan (Public) product, customized application scorecard and behaviour scorecard are adopted to evaluate the repayment willingness for new applicants and existing customers respectively. For Personal Loan (Corporate) and Mortgage Loan product, the defined product guidelines and procedures are implemented to measure the repayment ability of applicants. For SME product, CSR (Credit Score Rating) and ORR (Obligor's Risk Rate) are used to determine the acceptability of a loan application.

IV. Strategies and Processes for Mitigating Risks

Risk Strategy is performed via a program lending approach for the retail loan business. Set credit parameters for risk acceptance and portfolio limits are established and followed to ensure process efficiency and credit portfolio quality in the course of the credit approval process.

Existing approval authorities are sanctioned based on qualification, competence and capacity. The approving authority hierarchy follows the core credit policy of the parent bank, such that credit delegation is defined functionally by credit officer and senior credit officer levels, by amounts and by risk level per product program/guideline.

The credit approval process for the three retail loan products is summarized as table below:

Process	Personal Loan (Public)	Personal Loan (Corporate)	Mortgage Loan	SME Loan
Pre-screening	Y	Y	Y	**Y**
Duplicate Check	Y	Y	Y	**Y**
Policy Check	Y	Y	Y	**Y**
Credit Scorecard	Y	N	N	**Y**
Credit Verification	Y	Y	Y	**Y**
Appraisal	N	N	Y	**Y**
Deviation Review	Y	Y	Y	**Y**
Approval / Reject	**Y**	**Y**	**Y**	**Y**

ANNEX 6: MARKET RISK

A. QUANTITATIVE INFORMATION, as of December 31, 2019

MARKET RISK-WEIGHTED ASSETS (Amounts in P0.000 million)

Item	Nature of Item	Amounts in P0.000 Million
A.	Using Standardized Approach	
A.1	Interest Rate Exposures	114.757
A.2	Equity Exposures	
A.3	Foreign Exchange Exposures	368.506
A.4	Options	0.000
A.5	Sub-total (Sum of A.1 to A.4)	483.262
B.	Using Internal Models Approach	
C.	TOTAL MARKET RISK-WEIGHTED ASSETS	483.262

B. QUALITATIVE INFORMATION

I. Strategies & Processes

The Bank's market risk exposures arise from either trading or non-trading portfolios:

- The trading portfolio includes positions arising from trading activities, which aim at benefiting from short-term price movements, such as proprietary trading and market making.
- The non-trading portfolio includes positions not held for the purpose of earning short-term capital gains.

The Market Risk Management Policy and Asset and Liability Management Policy are the cornerstone of risk management of trading and non-trading purpose activities in the Bank. These policies are developed to establish well risk management mechanisms, to facilitate the communication about risk management within the Bank and to provide proper management of risk exposure in accordance with the risk appetite of the Bank.

II. Structure & Organization

- The Board is the highest authority and bears the primary responsibility of market risk management. The Board develops the strategy and culture of market risk management through regular review and approved of risk policies, market risk appetite, limits, and controls, and oversight of market risk profile of the Bank.
- The RMC supervises the compliance and accomplishment of the policies and provides guidance on the market risk management mechanism based on the culture developed by the Board.
- CRO, who is independent from executive functions, business line and operations functions, provides independent oversight function on risk management.
- Market Risk Management Department (MRMD) performs the second line of defense by designing and executing appropriate risk identification, measurement, monitoring, controlling and reporting. In addition, MRMD, in close coordination with relevant banking units, develops and regularly review the market risk management policy and relevant procedures to provide an applicable guideline of Market risk management.

III. Scope & Nature of Risk Reporting and Measurement Systems

Market risk is the risk that the Bank's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level, volatility or correlation of market risk factors, such as interest rates (including credit spread), foreign exchange, equities and commodities. The market liquidity of these types of instruments is also covered. The Bank's market risk originates from its holdings in its foreign exchange instruments, debt securities and derivatives.

MRMD define appropriate and consistent market risk measurement methodologies in line with the business characteristics and risk sources to properly evaluate the primary market risk exposures. The measurement results shall be applied to daily management and shall serve as a foundation for market risk planning, monitoring, and controlling. The most common measurements include:

a. Value at Risk, (VaR)

Value at Risk measures the maximum potential loss under a particular confidence interval and a given holding period. VaR is used to express the risk appetite of the Bank. The VaR model has been developed as an independent and reliable quantitative technique for internal risk management purpose.

b. Stress Testing

Stress testing is a risk management technique used to reveal particular vulnerability of the Bank to a given set of stressed circumstances. The stress scenario might include an extreme or large movement of risk factors, volatilities and/or correlations. Stress testing is used as a supplement to the VaR analysis to capture the tail risk and to fulfil supervisory examination requirement.

c. Factor Sensitivity

Factor sensitivity is measured to monitor the cross-product exposures within each risk type, including but not limited to foreign exchange and interest rate, equity.

- ✓ PVBP, the change in fair value as the yield curve parallel shifts up by 0.01% (1bp), is used to measure interest rate risk exposures of the Bank's trading portfolios.
- ✓ FX Delta, the change in net present value as the foreign exchange rate moves up by one unit (100%), is used to measure foreign exchange risk exposure of the Bank's trading portfolios.

MRMD shall submit the market risk management information to the highest ranking risk management executive and relevant senior executives on a daily basis. Likewise, MRMD conduct a periodic reporting of integrated market risk profile to the RMC and to the Board to evaluate risk concentration and capacity of the Bank and to form necessary risk strategy.

IV. Strategies and Processes for Mitigating Risks

To manage the exposures within the bank's risk appetite, the Bank may reduce the exposure or apply hedging measures upon internal approval to mitigate the overall level of risks of portfolio.
This might include but not limited to:

- Adjust risk appetite - Reduce limits to preclude extension of trading losses such as reducing VaR limits, MTD MAT etc.
- Adjust monitoring frequency – Adjust monitoring frequency in case of intraday volatility surge
- Take hedging strategies – Mitigate risk exposure by using hedging instrument such as NDF or FX option to brought down foreign exposure and IRS or CDS to lessen interest rate exposure.

ANNEX 7: OPERATIONAL RISK

A. QUANTITATIVE INFORMATION

OPERATIONAL RISK Under Stressed Scenario	In Million PHP
*Total Residual Risk**	*94.74*
TOTAL CAPITAL CHARGE	118.42
OPRISK WEIGHTED ASSET Scenario Based	1,184.22
OPRISK WEIGHTED ASSET Based on BIA	4,184.00
FINAL OPRWA BASED ON BIA (The higher b/n the Scenario based or the BIA)	**4,184.00**

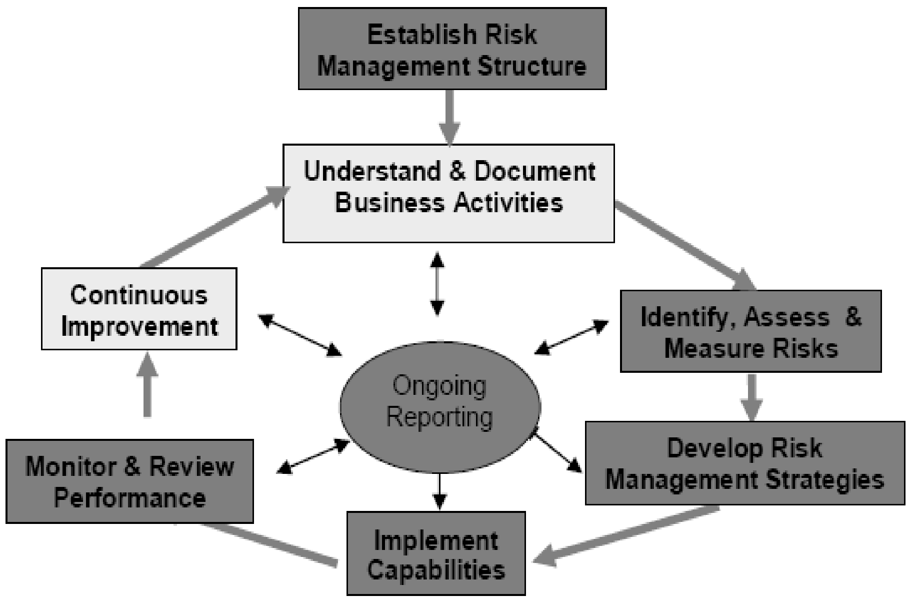
Event Type (per Basel)	TOTAL PER EVENT TYPE	
	Gross Risk Exposure (In Million PHP)	Residual Risk Exposure (In Million PHP)
Internal Fraud	202.75	40.77
External Fraud	74.83	8.69
Employment Practices and Workplace Safety	31.86	3.12
Clients, Products and Business Practices	15.00	6.00
Damage to Physical Assets	3.69	0.48
Business Disruption and System Failures	28.80	10.06
Execution, Delivery and Process Management	60.92	25.61
TOTAL	**417.85**	**94.74**
ADJUSTED CAPITAL CHARGE		**118.42**
OPRISK WEIGHTED ASSET Scenario Based		**1,184.22**
OPRISK WEIGHTED ASSET Based on BIA		**4,184.00**

B. QUALITATIVE INFORMATION

I. Strategies & Processes

To ensure that all operational risks of the different Business and Operating Units are reported and properly managed, the Bank promotes the Operational Risk Process Cycle to have a periodic risk process assessment.

The Bank's Operational Risk Process is illustrated as follows:



The Bank requires all operating units, on a monthly basis, to formulate and use key risk indicators which represent standard measures that would indicate effectiveness of operational risk management activities.

Example of typical risk indicators are:
- Outstanding and prior audit findings not sufficiency addressed.
- Frauds and losses/attempts.
- Control weaknesses.
- Reconciling Item.
- IT failure.
- People problem/turnover.
- Others.

Historical losses / risk events are collected to help assess current risk measure being adopted.

Risk Monitoring Tools

- **Key Risk Indicators (KRIs) -** Key Risk Indicators (KRI's) are an important detection (and sometimes preventative) control over risk. Key Risk Indicators comprise three main types: proactive, prospective (leading) and reactive (lagging).

a. Proactive indicators measure performance against planned levels of preventative risk management activities. Examples include training (e.g. average training hours per staff member), risk self-assessments (number completed, coverage, depth of staff involvement), stress testing (number completed, coverage), and controls testing and re-performance (number completed, frequency, coverage).
b. Prospective indicators measure business or environmental activities or characteristics that may or are likely to result in risk events increasing in frequency or impact. An adverse movement in a prospective indicator is a warning sign, and should result in increased supervisory controls or strengthened primary preventive controls. Examples of prospective indicators are numbers of system change requests, product launches, and prospective staff turnover.
c. Reactive indicators measure actual losses and Risk Events. Examples are system outages, fraud losses, and data entry errors.

- **Incident Management –** The objectives of incident management processes are the following:
  a. Assess the impact on appetite / tolerance
  b. Identify the root cause of the loss
  c. Identify process improvement opportunities
  d. Reduce losses
  e. Business learning

Responsibility for Risk Event reviews shall rest with the risk owner, being the manager responsible for the process or product.

Responsibility for oversight of the Risk Event review process rests with ORRMD (the outcomes of which may require reporting to the Operations Committee). This responsibility includes:

f. Notifying the appropriate BSP department within 10 calendar days from date of discovery, of any operational risk event that may result in significant losses, activation of business continuity plan, or any material change in business and operating environment. Reporting is coursed through the Compliance Department.
g. Establishing parameters defining which events require a loss review to be undertaken. These parameters require Operational Risk Committee approval.

Review

Business unit risk profiles will be reviewed and assessed at least an annual basis across the entire business. The basis of the assessment will include reference to:

- Changes in business operations – including new products

- Emerging or changing risks
- Compliance monitoring activities
- Risk Event reporting
- Loss data
- Audit reviews – internal and external

Senior Management are required to provide an attestation by approving their BU risk profile following annual review. This attestation will verify that the risk profile for their business unit has been properly reviewed and updated accordingly.

Business risk profiles may be reviewed on a more frequent basis for a particular business unit if deemed appropriate due to changes or new developments.

Key Risk Identification and Assessment

This step involves the review of existing business processes, products and services for the purpose of identifying vulnerabilities and assessing the extent of damage that can happen should breaches occur.

The Bank uses Key Risk Indicators (KRI) to establish appropriate threshold and alert levels to track operational risk exposure over time and act as early warning signals in the prevention of risk event.

This process is formulated for each unit to adhere the following effectively:

1. Review of existing organizational structure, and clear identification of each function.
2. Identification of critical core processes of each area/function
3. Identification of vulnerabilities in the function in terms of:
    - People Risk
    - Process Risk
    - System Risk
    - Event Risk
    - Business Risk

In accordance to the RCA Framework, KRIs are to be formulated for each of the identified key risks of a Group or Department. Identified key risk indicators shall be formally documented through the use of the Annual Risk Assessment (ARA) Report – WS C – Key Control Mechanism

KRIs and their corresponding standards/thresholds shall be reviewed on an annual basis, coinciding with the Risk and Control Assessment (RCA) exercise. Revisions to the KRIs and their thresholds shall be approved by the corresponding department head.

II. Structure & Organization

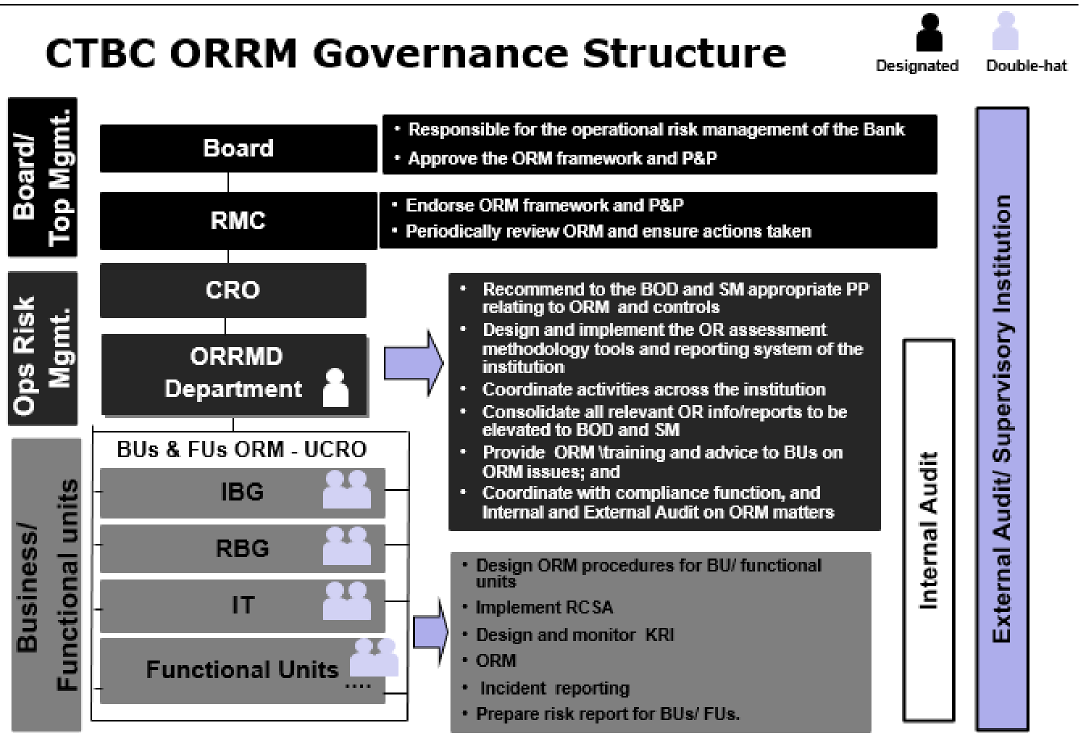
CTBC Bank, Philippines has established a framework of roles and responsibilities consistent with the generally recognized principles of sound Operational Risk Management practice. Ultimate responsibility for the appropriate management of Operational Risk rests with the CTBC Bank Philippines Board of Directors (BOD). The BOD established the Risk Management Committee (RMC) which is responsible for the development and oversight of the Bank's risk management program and for the provision of general direction and risk philosophy of the Bank.

On a management level, the Operations Committee was established to monitor and discuss operational risk issues of the Bank. The principal purpose of the Committee is to deal with the risk issues identified by the Business Units and control Functions of the Bank.

The business or functional units are the first line of risk management defence. As such, they have the day-to-day responsibility and accountability of executing processes and controls to ensure that Bank risks are managed well and kept within acceptable levels.

As second line of risk defence, Operational and Reputational Risk Management Function is responsible for establishing, overseeing and supporting CTBC's Operational Risk Management ("ORM") framework. Among its key responsibilities include policy recommendation, coordination of risk activities, design ORM methodologies, tools, and reporting system, and monitoring and reporting of incidents.

The Internal Audit Function is an essential part of the risk management system that takes the lead in the ongoing monitoring of the internal control process and providing an independent assessment of system integrity.



III. Scope & Nature of Risk Reporting and Measurement Systems

Operational and Reputational Risk Management Department (ORRMD) aims for an environment with sound risk management. In order to achieve this, ORRMD shall make use of various operational risk assessment tools in identifying, measuring, and understanding the operational risks inherent to the bank. The tools shall also help ORRMD establish the operational risk universe of the bank which may be used as basis in developing and implementing the necessary controls to mitigate the risks. Proper monitoring of the risks will also be done to determine the effectiveness of controls and actions taken.

ORRMD ensures that all information provided by the units through the risk assessment tools will be verified and accurately recorded in the operational risk templates.

The following are the ORM activities with corresponding assessment tools to facilitate the conduct of said activities:

1. Outsourcing Risk Assessment Kit is used to facilitate conduct of outsourcing risk assessment prior to engaging/re-engaging new and existing service providers.
2. Outsourcing Key Control Self Assessment (OKCSA) template is used in conducting the annual self assessment of business and functional units on the effectiveness of their implementation of key controls for outsourcing risk.
3. CTBC Bank Philippines implements the Risk and Control Assessment (RCA) Framework to effectively manage its operational risk. In the RCA, process risks and internal control activities are identified, examined, and assessed, providing reasonable assurance that the organization's business objectives will be met. The RCA Framework is composed of 3 main activities namely:

- Annual Risk Assessment (ARA) – refers to the process of identifying and assessing key risks to be faced by the Bank in the upcoming year and mapping key controls and/or indicators for each identified key risk.
- Management Control Assessment (MCA) – refers to the year-long process of assessing the effectiveness of key control through self-inspection, monitoring trend/s of risk indicators, and taking action on any identified vulnerability or gap
- Business Risk, Compliance, and Control (BRCC) Forum – refers to the integrated review on internal controls across first, second, and third lines of defense. Its main objective is to enable Senior Management to supervise the overall status of key risk trend, weakness in controls, and correction on major events and audit issues.

4. Key Risk Indicator (KRI) template is used to record and monitor local and Parent Bank required KRIs. These are
5. Operational Risk Self Assessment (ORSA) and Reputational Risk Self Assessment (RRSA)
6. Incident Reporting Template and Database

Results of operational risk assessment and monitoring activities are reported to the Operations Committee during its monthly sessions and to the Risk Management Committee during its bi-monthly meetings.

Stress Testing – The Bank utilizes the scenario based survey which is sometimes motivated by recent events which seek to assess the resilience of the Bank and the financial system to an exceptional but plausible scenario

IV. Strategies and Processes for Mitigating Risk

The process of risk mitigation is embedded within the risk management process as well as in the incident management process

a. In the risk management process, upon identification of a risk, business and operational units are required to identify existing controls and assess their effectiveness. Depending on the risk rating assigned, business and functional units decide on an action plan to remediate the risk. Persons or units responsible and target completion dates are determined for each action plan to facilitate monitoring.
b. In the incident management process, when root cause of the incident is identified, two action plans are drafted by the business or functional unit. One action plan is aimed at immediately addressing the incident and stopping further damage. The other one is a preventive action plan to avoid similar events from occurring again.

The following are the risk mitigation strategies adopted by business and functional units of the Bank. Risk mitigation to be employed shall be dependent on the risk assessment conducted.

Strategy	Description	Examples
Mitigate	• Reduces the probability of a risk and/or the impact that results from the occurrence of a risk • Aims at the implementation of controls that reduces the effects of risk occurrences, while not completely alleviating them	• Standardised processes • Formalised exception handling • Collaboration, checks, and balances
Avoid	• Eliminates the probability of a specific risk before it materializes • Normally realized by trading the risk for other risks that are less threatening or easier to deal with	• Process redesign • Discontinuance of a product or service offering
Transfer	• Also called risk sharing • Shifts risks or the consequences caused by the risk from one party to another	• Process outsourcing • Purchase of insurance policies
Accept	• Adapts to the unavoidability of the risk • A risk contingency plan is required in this strategy	• Adaption of regulatory requirements

Annex 8: Other Pillar II Risks

A. QUANTITATIVE INFORMATION, as of December 31, 2019

Under the Pillar II, internal capital adequacy assessment of the Bank considers other risks inherent to the Bank like the interest rate risk in the banking books, compliance risk, and reputational risk and liquidity risks. The same is disclosed in the Internal Capital Adequacy Assessment Process Document (ICAAP) of the Bank which is updated yearly.

Results of the quantification show the following risk weighted assets (RWA):

Risk Type	RWA (In Millions PHP)	REMARKS
Liquidity	0	No capital charge is required on account of sound liquidity management and more than sufficient contingency funding.
IRRBB	1,663	Based on Economic Value of Equity (EVE) Approach
Compliance	30	Based on Complaince Risk Self-Assessment Survey
Reputational	211	Based on Reputation Risk Self-Assessment Survey
Legal	444	Based on Legal Risk Self-Assessment Survey
TOTAL RWA	**2,348**	

ANNEX 9: LIQUIDITY RISK

A. QUANTITATIVE INFORMATION, as of December 31, 2019

Maximum Cumulative Outflow

in USD millions

	CCY	Soft limit	Board Limit	ALCO Limit	Dec 19
Liquidity	LCY	7D MCO		(20)	95
		1M MCO		(50)	81
		2M MCO		(30)	67
	FCY	7D MCO		(130)	(40)
		1M MCO		(160)	(72)
		2M MCO		(160)	(134)
	Consolidated	7D MCO	(85)		55
		1M MCO	(95)		9
		2M MCO	(95)		(67)

B. QUALITATIVE INFORMATION

I. Strategies & Processes

Liquidity risk is defined as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when they come due with incurring of unacceptable losses or costs. The qualitative risk appetite of the Bank is defined as constantly maintaining a balanced asset and liability structure, diversifying funding sources, establishing stable deposit base and prudently arranging cash flows to ensure the Bank is capable of sustaining business growth and meet its obligations under normal and stressed liquidity scenarios. Base on this, the Bank set quantitative liquidity limits as a tool for authorizing and controlling specific forms of liquidity risk taken by the Bank to ensure liquidity risk exposure is consistent with the risk appetite of the Bank.

The most often seen limits are:

1. Short-term borrowing: This is to limit the Bank on unnecessary and/or excessive reliance on short term unstable funds source from other financial institutions. Such limit is established by taking into account external liquidity conditions, asset and liability structure, credit facilities granted to us and peer banks' liquidity status.

2. Maximum cumulated outflow (MCO): Limits are set on short-term cash flow gaps in order to prevent excessive mismatch of cash flows in varying tenors between cash inflow and outflow (e.g., over dependence on short-term funds to finance long-term assets, which may cause liquidity risk). The establishment of MCO limits should take gap structure, deposit stability, deposit rollover ratio and the Bank's borrowing flexibility into consideration.

When the annual business planning and budgeting discussion kicks off, the review of risk appetite and tolerance should be processed synchronously. Liquidity and Balance Sheet Management Department will make the limit proposals in accordance with the current year's limit framework. Market Risk Management Department (MRMD) will provide limit recommendations after taking into account risk tolerance, exposure, risk-reward tradeoffs, if necessary, and then consult with the Parent Bank. These limits are updated annually and are subject to the review and approval of the Board of Directors or other delegated authorities.

II. Structure & Organization

- The Board of Directors is responsible for approving policy of asset and liability management to establish the control framework and culture which could incorporate the risk appetite of the Bank into control mechanisms.

- The Risk Management Committee is a Board-level committee. It is in charge in the implementation of risk management policies and strategies approved by the Board and evaluate the magnitude, direction and distribution of risks across the Bank.

- The ALCO is a management-level committee established under the Chief Executive Officer (CEO), which aims to devise the asset-liability strategy of the Bank while evaluating the market situation.

- The Liquidity and Balance Sheet Management Department effectively manages interest rate and liquidity risks, and acts as the Bank's sole "window" that borrows and lends funds from/ to external parties such as interbank counterparties, BSP etc,. The Liquidity and Balance Sheet Management Department also ensure continuing alignment of overall liquidity and interest rate exposures with the Bank's risk appetite based on market conditions and the Bank's balance sheet structure. Furthermore, the Funding Management Unit shall develop and maintain the operation of the FTP mechanism, make stable profits within approved interest rate limits and shall adjust its positions in accordance with ALCO decisions.

- MRMD is responsible in managing liquidity risk. MRMD is independent of the risk-taking unit and in charge of formulating Asset and Liability Management Policy and establishing implementation guidelines; developing the methods of identification, measurement, monitoring and reporting of risk; and, studying asset and liability management related risk developments and challenges.

III. Scope & Nature of Risk Reporting and Measurement Systems

There are two types of liquidity risk: funding liquidity risk and market liquidity risk. Funding liquidity risk refers to the risk of inability to obtain funds at a reasonable cost within a reasonable timeframe to meet the financial obligations. Market liquidity risk arises when a specific asset cannot be sold for cash at a reasonable price within a reasonable timeframe. As it may have impact on funding liquidity risk, market liquidity risk must be factored in when assessing funding liquidity risk.

There is cost associated with the level of liquidity. Liquidity risk management aims to satisfy funding needs and maximize profits by allocating assets and liabilities in the most cost effective way within the approved risk tolerance.

All on- and off-balance sheet transactions are under the scope of liquidity risk management as they all affect the Bank's liquidity status.

In risk measurement, Liquidity risk is often quantified by a combination of various indicators. The most common indicators include:

- Loan to deposit ratio: This ratio indicates fund shortage or surplus.

- Maturity gap analysis: Analyzing maturity mismatch will help understand cash flow gap by time bucket. Liquidity risk could be measured by this analysis together with an assessment of the Bank's funding capacity.

- Liquidity Coverage Ratio (LCR): Being measured in accordance with BSP Circular 905 and 996. The LCR level is being compared against the Bank's internal threshold and reported on a daily basis.
- Net Stable Funding Ratio (NSFR): Similar with LCR, NSFR is being measured in accordance with BSP Circular 1007 beginning 2019. The NSFR level is likewise being compared against the Bank's internal threshold and reported on a daily basis.

MRMD is responsible to continuously develop appropriate liquidity-related indicators and monitoring frequencies based on the characteristics and complexity of assets and liabilities. The overall liquidity risk may not be reflected by single risk indicator. MRMD takes all relevant indicators into account when assessing liquidity risk.

IV. Strategies and Processes for Mitigating Risks

The liquidity risk limits are monitored on monthly basis. MRMD is responsible for independently monitoring the business units' compliance with the established limit framework, as well as disseminating monthly liquidity gap report and advisory summary to ALCO, RMC for senior management's review.

When the liquidity exposure exceeds the established limits, after the excess is confirmed, MRMD shall notify the unit allocated with the limit and the designated limit authority of such limit. Upon receipt of the notification, the unit that is allocated with the limit shall no longer transact to increase exposure. This limit breaching unit must be joined by the MRMD to analyze the causes and impacts of the excess, and draft an action plan addressing the issues. MRMD will submit the analysis and proposal to the limit authority for approval. The business unit involved and Liquidity and Balance Sheet Management Department will adjust positions in accordance with approved decisions. The excess shall be reported to the senior management or BOD for appropriate remedial actions.

The Bank applies a liquidity risk management strategy of maintaining sufficient cash and marketable securities, ensuring the availability of funding through an adequate amount of committed credit facilities and having the ability to close out market positions. In addition to its core deposit base, the Bank maintains a portfolio of marketable assets that can be readily liquidated in the event of an unforeseen interruption of cash flows. Additional funding may be secured from the inter-bank market by tapping the Bank's credit facilities. Further, the Bank maintains with the BSP reserves of its non-FCDU deposits.

Regular stress-testing is also performed. This includes identification of the Bank's assets which can be readily liquidated in case of massive withdrawals and adoption of different deposit run-off rates.

ANNEX 10: INTEREST RATE RISK IN THE `BANKING BOOK

QUANTITATIVE INFORMATION, as of December 31, 2019

Below tables show the sensitivity of the Bank's one-year earnings and economic value of equity to possible changes in interest rates as of end of December

Table6- Sensitivity of the Bank's Economic Value of Equity

in PHP	2019									
	Increase in	Impact to Economic value of Equity								
Currency	bps	1M	3M	6M	1Y	2Y	5Y	7Y	10Y Up	Total
(In Thousand										
	15	(809)	205	6,317	(2,347)	(7,502)	(13,566)	(896)	-	(18,599)
PHP	20	(1,078)	273	8,420	(3,128)	(9,996)	(18,067)	(1,192)	-	(24,769)
(in 000s)	25	(1,348)	341	10,521	(3,908)	(12,486)	(22,557)	(1,487)	-	(30,924)
	15	(576)	1,220	3,004	(43)	-	(1,107)	(458)	(42,059)	(40,020)
USD	20	(768)	1,626	4,004	(57)	-	(1,474)	(610)	(55,891)	(53,171)
(in 000s)	25	(960)	2,031	5,003	(72)	-	(1,840)	(761)	(69,631)	(66,229)

	2019									
	Decrease in	Impact to Economic value of Equity								
Currency	bps	1M	3M	6M	1Y	2Y	5Y	7Y	10Y Up	Total
(In Thousand										
	-15	810	(205)	(6,331)	2,353	7,535	13,665	906	-	18,733
PHP	-20	1,081	(273)	(8,444)	3,139	10,054	18,241	1,210	-	25,007
(in 000s)	-25	1,351	(342)	(10,559)	3,925	12,576	22,829	1,516	-	31,297
	-15	577	(1,222)	(3,011)	43	-	1,115	464	42,918	40,885
USD	-20	770	(1,630)	(4,016)	58	-	1,489	620	57,418	54,709
(in 000s)	-25	962	(2,038)	(5,022)	72	-	1,864	776	72,016	68,632

I. Strategies & Processes

The Bank's risk appetite and tolerance are set by its set of interest rate risk limits. IRRBB risk limits are tools for authorizing and controlling specific forms of interest rate risk taken by the Bank to ensure interest rate risk exposure in banking book is consistent with the risk appetite of the Bank

The Liquidity and Balance Sheet Management Department will make the limit proposals. MRMD will make limit recommendations taking into account risk tolerance, exposure, risk-reward tradeoffs and their proposals. These limits are updated annually and are subject to the review and approval of the Board of Directors or other delegated authorities.

II. Structure & Organization

- The Board of Directors is responsible for approving policy of asset and liability management to establish the control framework and culture which could incorporate the risk appetite of the Bank into control mechanisms.
- The Risk Management Committee is a Board-level committee. It is in charge of: implementation of risk management policies and strategies as approved by the Board; and, evaluation of the magnitude, direction and distribution of risks across the Bank.
- The ALCO is a management-level committee established under the Chief Executive Officer (CEO), which aims to devise the asset-liability strategy of the Bank while evaluating the market situation.
- The Liquidity and Balance Sheet Management Department effectively manages excess liquidity of the bank, and acts as the Bank's sole "window" that borrows and lends funds from / to external parties such as interbank counterparties, BSP etc,. The Liquidity and Balance Sheet Management Department aslo ensure continuing alignment of overall liquidity and interest rate exposures with the Bank's risk appetite based on market conditions and the Bank's balance sheet structure. Furthermore, the Funding Management Unit shall develop and maintain the operation of the FTP mechanism.
- Market Risk Management Department (MRMD) is responsible in managing interest rate risk in the banking book. MRMD is independent of the risk-taking unit and in charge of formulating Asset and Liability Management Policy and establishing implementation guidelines as needed; developing the methods of identification, measurement, monitoring and reporting of risk and pushing for the implementation; and, studying asset and liability management related issues.

III. Scope & Nature of Risk Reporting and Measurement Systems

Interest rate risk refers to the impact on the Bank's profits or on economic value of non-trading purpose[1] assets, liabilities and derivatives when interest rates change.

Interest rate risk management aims to keep interest rate exposures within the Bank's risk appetite through the establishment of authorities, responsibilities and management procedures. It provides guide to adjusting asset and liability structures in anticipation of interest rate changes so that the Bank's profit can be maximized.

[1]Non-trading purpose refers to a position not built for the purpose of earning capital gains

Interest rate risk stems from different sensitivity of assets and liabilities to interest rate change. The sensitivity of all on- and off-balance sheet items to interest rate movements must be duly examined when assessing interest rate risk.

Interest rate risk may be measured by the following tools:

1. **Repricing Gap Report** :

   This report measures the repricing gap between asset and liability by various time buckets in order to understand interest rate mismatches on a monthly basis.

   The assumption on loan payment and non-maturity deposits are as follows

	PHP	*USD and other FCY
Current Loans	Repricing date	Repricing date
Customer Loans		
Personal Loans	By half of Remaining life to maturity	Not applicable
Mortgage Loans	By remaining days to next repricing date	Not applicable
Corporate Loans	By remaining days to next repricing date	By remaining days to next repricing date
Restructured Loans	By remaining days to next repricing date	By remaining days to next repricing date
Trade Balances	By remaining days to next repricing date	By remaining days to next repricing date

	PHP	*USD and other FCY
Deposits	Repricing Date	Repricing Date
Checking	Full Amount, 6M	Not applicable
Demand	Full Amount, 6M	Not applicable
Savings	Full Amount, 6M	Full Amount, 6M

2. **Risk Sensitivity**:

   This measures the impact of 1 basis point change in interest rate on net interest income (NII) and that on economic value of equity (EVE). The analysis of such impact on NII (1bpΔNII) focuses on changes in interest income and expense within a year hence, a short-term perspective. The analysis of such impact on EVE (1bpΔEVE) is of a long-term perspective as it focuses on changes of economic value which will become net interest income received every year later on.

3. **Stress Test**:

Stress test evaluates the appropriateness of exposure of the Bank under some stressed conditions. Stress test methodologies and results shall be submitted to ALCO to comprehend the Bank's interest rate risk profile.

The above risk measurement may generate different results while adopting different methodologies and assumptions. MRMD is responsible to develop the measurement, monitoring frequency, and parameters by taking into account their respective characteristics/ complexity of assets and liabilities and methodologies used.

The following table provided additional information on the impact on economic value of equity under assumed upward or downward rate shocks scenarios as of December 31, 2019.

IRRBB ASSESSMENT - STRESS SCENARIO
amount in million PHP

	4Q 2019
Economic Value of Equity (EVE)	
Peso Book at ± 300bps	(347.9)
FCY Book at ± 250bps	(567.8)
Consolidated EVE	(915.7)
IRRBB Risk Weighted Assets (RWA)	
Peso Book	(3,479.2)
FCY Book	(5,678.0)
Consolidated RWA	(9,157.2)

IV. Strategies & Processes for Mitigating Risks

The interest rate risk limit shall be reviewed annually in accordance to the annual business strategy and budgeting planning to ensure the effectiveness.

The interest rate risk limits are monitored on monthly or daily basis (AFS and HTM securities). MRMD is responsible for independently monitoring the business units' compliance with the established limit framework, as well as distributing monthly repricing gap report and advisory summary submit to ALCO, RMC and BOD for review periodically.

If the extremely event occurs and risks arise, risk mitigation or remedial measures might be taken. This might include but not limited to

- Take hedging strategies – Mitigate risk exposure by using hedging instrument such as IRS to lessen interest rate exposure in banking book

- Interest rate forecast and balance sheet planning – adjust balance sheet to adjust repricing gap on the basis of forecast of short term and long term interest rate.

ANNEX 11: Compliance and Business Risk

Compliance Risk Management System of the Bank establishes the appropriate controls to identify and mitigate the compliance risks, material financial loss or loss to reputation. The Bank's Compliance Department is independent in its function that identifies, assesses, advises, monitors and reports on the possible breaches on compliance risks. It creates a dynamic compliance system and fosters a culture of compliance within the institution.

Compliance Department oversees the Bank's adherence to the requirements of the regulatory agencies to ensure that the Bank conducts safe and sound banking practices and is a responsibility and shared accountability of all personnel, officers and the board of directors.

I. Strategies & Processes

In ensuring oversight and monitoring of Compliance Risks, the Compliance Department through its Chief Compliance Officer, aims to mitigate both risk areas through identification of the roles and responsibilities of Compliance within the line, operating and business units of the Bank and its resolution in cases of possible breaches.

II. Structure & Organization

As of December 2019, Compliance Department is composed of eight (8) Compliance Officers and four (4) Compliance Associates including the Chief Compliance Officer who is also the Corporate Governance Officer, Associated Person and Responsible Officer. Their respective functions are embodied in the Bank's Compliance Charter and Compliance Manual.

Internally, Unit Compliance & Risk Officers (UCRO) and Sub-UCROs designated by their respective group heads, independently function as compliance officers of their groups and report to the Compliance Department on compliance matters.

III. Scope & Nature of Risk Reporting and Measurement Systems

Compliance Department is an independent unit reporting directly to the Board of Directors through the Audit Committee for Compliance matters and to Nomination and Remuneration Committee for the Governance Functions. Administratively, Compliance Department is under the Office of the President.
Independent Compliance Testing is established to have a risk based, quantitative and qualitative review of the Bank's compliance to the regulatory requirements.

IV. Strategies and Processes for Mitigating Risks

The Compliance Program of the Bank provides for the clear and documented guideline that defined the Compliance structure, its functions, roles and responsibilities. In ensuring that these risks are monitored and mitigated, a comprehensive compliance system has been established to ensure that integrity and adherence in the regulatory requirements as well as in the accuracy and timeliness of reporting requirements of the Bank.

The Bank's Compliance program likewise defined a constructive working relationship between the Bank and the Regulators by having an open and clear communication line as well as appropriate monitoring and tracking until resolution of possible noted breaches ensuring safe and sound banking operations is upheld within the institution.

ANNEX 12: REPUTATION RISK

I. Strategies & Processes

Reputational Risk Management Process

Reputational Risk is the risk or its likelihood that negative information, public opinion or publicity, regarding an institution and its business practices will lead to loss or reduction of revenue and /or decline in its customer base, and/or costly litigation

At CTBC Bank (Philippines), reputational risk is among the identified risks, which the Bank may be exposed to. Possible public embarrassment, erosion of trust from the customers, adverse impact on the revenue, are among the potential concerns of customers to continue doing business with the Bank.

The following describes the reputational risk management process of CTBC Bank Philippines.

1. CTBC Bank Philippines established a Reputational Risk Management Policy which is a document that covers the general policies to be observed in the proper management of Reputational Risks of CTBC Bank Philippines. This will help the Bank to identify, assess, control and mitigate possible reputational risks.
2. Identification, Assessment, Management and Control – To facilitate the identification, assessment, and management of reputational risks, CTBC Bank established a self-risk assessment mechanism, subject to regular review to assess its effectiveness and appropriateness. Such risk assessment mechanisms are the Risk and Control Assessment (discussed under Annex 6 Operational Risk) and the Reputational Risk Self Assessment (RRSA). The RRSA is a quarterly exercise that allows various units, departments and groups of the Bank to identify and report their respective reputational risks. Consolidation and evaluation of the survey results are done by the Operational and Reputational Risk Management Department (ORRMD). During the scenario analysis, external data are analyzed taking into account institution-specific business environment and internal control factors which will include historical and plausible risk events that may happen to the Bank. The scenario-based testing approach combines quantitative data and qualitative data in the analysis process. Results of the RRSA are reported to Management as part of regular ICAAP updates in the Risk Management Committee (RMC)
3. Monitoring and Reporting
    - In order to monitor and control reputational risk, early warning indicators of any changes to reputational risk shall be analyzed and evaluated for improvement, and reported to Management if necessary.
    - The information of internal reputational events and the result of the self-risk assessment shall be regularly analyzed for monitoring, management, and control of reputational risk.
    - The identification and assessment and the result of monitoring, management and control of reputational risk shall be regularly reported to Management so as to enable him to grasp the status of reputational risk and to take the necessary action.
    - In order to mitigate the loss of reputational risk, set-off and minimizing solution shall be positively pursued and implemented only after the assessment of cost

effectiveness.

4. Communications and Disclosures – With regard to the reputation events, personnel, financial or business related information, the Bank shall communicate regularly with the outsiders in a clear, honest, transparent and timely manner by way of a disclosure, announcement or press release/statement. This will help in preventing a communication vacuum and in alleviating or minimizing any damage to the Bank's reputation.
5. Independent Review and Audit – CTBC Bank shall ensure that independent reviews and audits, whether as a review dedicated to reputational risk or as part of a wider review of risk management, are conducted regularly so as to provide assurance and confidence that controls and actions to manage risks affecting reputation are operating as intended.
6. Incident Handling- CTBC Bank employs an incident management process for identifying, reporting, and mitigation of reputational risk incidents. The same process is used for the management of operational risk events. A reputational risk loss database is maintained by ORRMD to manage and track said events.

Crisis Management

CTBC Bank established a crisis management framework that provides guidance and direction to the Bank's management and staff when dealing with crisis. Key elements of the framework include approach, scope, crisis management plans, preparations and action checklists, contact lists, and draft spiels and press statements.

Stress Testing

Working towards an effective quantification process, the team made use of the template of the RRSA survey as part of CTBC's risk assessment process. Plausible as well as stressed situations were worked on, in the identification of the reputational risks. After identifying the major reputational risk events per risk classification, Business and Functional Units determine and assess maximum loss exposures. The capital charge resulting from the RRSA shall be considered as the stressed figures. The scenarios itself provided by the Business and Functional Units are already stressed based on expert judgment, perceived risks and existing controls

II. Structure & Organization

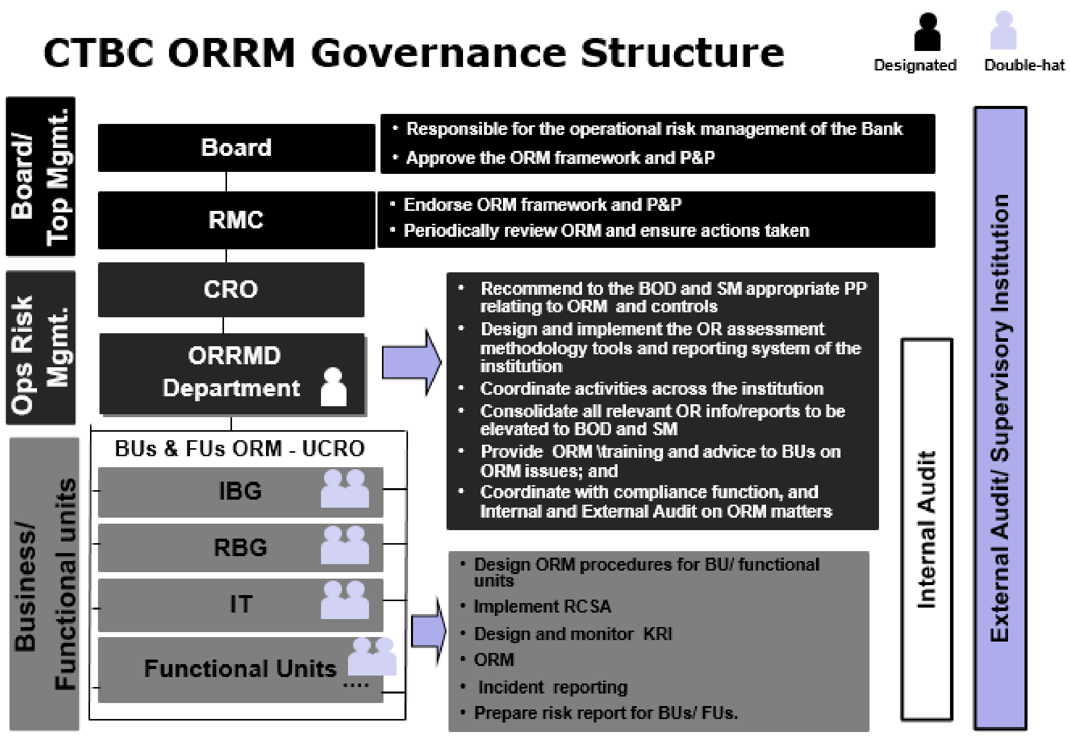
CTBC Bank, Philippines has established a framework of roles and responsibilities consistent with the generally recognized principles of sound Operational Risk Management practice, under which framework reputational risk falls. Ultimate responsibility for the appropriate management of Reputational Risk rests with the CTBC Bank Philippines Board of Directors (BOD). The BOD established the Risk Management Committee (RMC) which is responsible for the development and oversight of the Bank's risk management program and for the provision of general direction and risk philosophy of the Bank.

On a management level, the Operations Committee was established to monitor and discuss operational and reputational risk issues of the Bank. The principal purpose of the Committee is to deal with the risk issues identified by the Business Units and control Functions of the Bank.

The business or functional units are the first line of risk management defence. As such, they have the day-to-day responsibility and accountability of executing processes and controls to ensure that Bank risks are managed well and kept within acceptable levels.

As second line of risk defence, Operational and Reputational Risk Management Function is responsible for establishing, overseeing and supporting CTBC's Operational Risk Management ("ORM") and Reputational Risk Management (RRM) framework. Among its key responsibilities include policy recommendation, coordination of risk activities, design ORM and RRM methodologies, tools, and reporting system, and monitoring and reporting of incidents.

The Internal Audit Function is an essential part of the risk management system that takes the lead in the ongoing monitoring of the internal control process and providing an independent assessment of system integrity.



III. Scope & Nature of Risk Reporting and Measurement Systems

Monitoring and Reporting

In order to monitor and control reputational risk, early warning indicators of any changes to reputational risk shall be analyzed and evaluated for improvement, and reported to the CEO if necessary.

ORRMD with the assistance of other functional and business units shall regularly monitor scenarios that may impact on reputational events through market environment reports, social and political trends, and asset development reports, among others. MCSD will likewise monitor local media reports for possible reputational events. Such obtained information shall be forwarded by business units and MCSD to the ORRMD to be reported to Management.

Key results and findings from reputational risk management activities are reported in the Operations Committee and in the Risk Management Committee as part of regular reporting to Management.

IV. Strategies and Processes for Mitigating Risks

For an effective reputational risk monitoring and management infrastructure, CTBC Bank Philippines strongly supports the compilation of reputational events, including the corrective action from the various business, operational and support groups. This is an integral component of the management and monitoring of the implementation of the corrective action and continuous preventive position of the Bank. This forms part of the functional coverage of the ORRMD of the Bank.

To cover areas and reputational events which are assessed to be difficult to handle or costly to eliminate, special handling is needed. Together with the ORRMD, the Marketing Communications and Services Department (MCSD), with the guidance from the Top Management, will assist in addressing issues that require PR handling. Client correspondences and standard spiel, media interviews, press statements if not emanating from MCSD shall be pre-cleared with MCSD.

To preclude damage to the Bank’s name or to institute damage control for harm already done, action plans and strategies have to be continually revisited. This will ensure appropriateness of the action and strategies to the situation at hand.

ANNEX 13: STRATEGIC RISK

Strategic risk is the risk that the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions or lack of responsiveness to industry changes. This definition gives importance to business planning, where business decisions and its implementation are derived from.

The strategic risk of the Bank is a function of the compatibility of its strategic goals, the quality of carrying out its implementation, building the infrastructure to meet such goals.

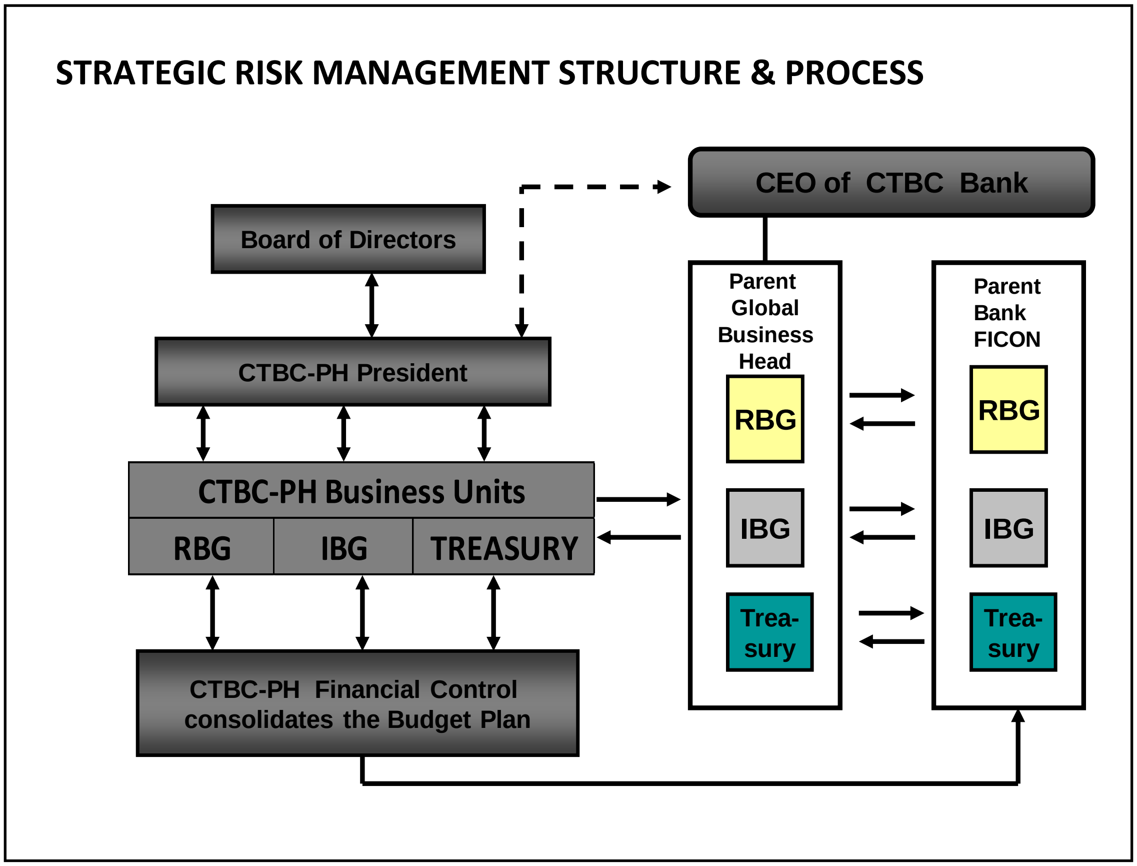
I. Strategies & Processes

Strategic risk management begins with the business planning. Business plans of the Bank establishes the strategies and priorities of the Bank. CTBC in preparing and drawing up its business plans considers prevailing macro-economic environment indicators, lists down external opportunities and threats for each business segment, re-evaluate its internal strengths and weaknesses, analyse the competition against other local and foreign banks and thereafter issues out the overall country strategy.

The overall country strategy is drilled down to the business segments, e.g. Institutional Banking Group, Treasury Group, Retail Banking Group. Annually, these business segments draw up a business plan that is endorsed for approval by the Global Business Heads.

After the formulation of the business plan, the Bank will then subject the budget plan to stress testing by scenario planning. Scenario planning is an advance stress testing that derives alternative future plausible and extreme scenarios from the Bank's Strengths/Weaknesses/Opportunities/Strengths analysis, business plans, possible deviations from its projected financial performance and probable effects on its capital. Scenario planning allows the Bank to make strategic adjustments for the future, if needed. The Bank determines the scenarios that could adversely affect earnings and these are identified through scenario planning. These scenarios are linked to the changes in net income through variance analysis between the budget vs actual income statement and balance sheet volumes of interest earning assets and interest bearing liabilities.

II. Structure & Organization



The strategic risk management function is being handled by the Finance Group (Capital Management Unit and Financial Control Department/ FICON) of the Bank with support from the business units and other functional departments such as Human Resources (HR), and Information Technology (IT) departments.

FICON performs the regular financial reporting and discussions with relevant business units, the CEO and the BOD. They handle the consolidation of the Bank's budget plan from the different business segments which are reported to both the local and global management.

Capital Management Unit subjects this budget plan to a stress testing and allocates a capital charge for strategic risk in the quantification of the budget capital adequacy ratio.

Business Units re-evaluates its internal strengths and weaknesses and analyse the competition in the industry and thereafter crafts out the business strategy and plans.

Business Units & the Finance Group have a matrix reporting to their global counterpart in the Parent Bank, where the global counterpart ensures business strategies and plans of the Bank is aligned with the business objectives of the Parent Bank subject to the approval of the CEO of CTBC Bank.

III. Scope & Nature of Risk Reporting and Measurement Systems

As part of setting the strategic goals of the Bank, capital planning and funding needs will be a major part of the supporting processes in drawing up the strategic plans for the next five years. Management information system (MIS) reports such as product profitability reports, customer specific marketing plans whether for a new customer or expanding existing business relationships based on customer profitability analysis will be in place thru information extracted from data warehouse systems. Finally, independent reviews and audits will be conducted at least annually by internal or external audit to ensure effectiveness and integrity of the strategic risk management framework of the Bank.

With the close and meticulous supervision/monitoring of Parent Bank on the progress of meeting the Bank's strategic goals, append below is the frequency of meetings & reporting, the nature of the reports, the reviewing authority and the evaluation and feedback process that has been put into place :

Quarterly business meetings and performance review (thru telecon) – Local Institutional Banking (IBG) Head with Global IBG Head, local Treasury Head with Global Treasury Head in Parent Bank; Reports presented shows financial results and management overview customer metrics information, market sentiment and competitors' new products . In addition, actual month-to-date (MTD) results are compared to the preceding two months, actual year-to-date (YTD) results compared to the YTD results for the same period last year. Likewise, YTD actual are compared against full year budget. Year on year growth and Budget achievement are also presented.

Local Board meeting is held every two (2) months, and the latest financial results are shown. In the Board meeting, the action plans of each business group to meet the budget or catch up (in case actual results are falling behind budget) with the budget are likewise presented and scrutinized by the Board Director members.

IV. Strategies and Processes for Mitigating Risks

When strategic adjustments need to be done, proper alignment of internal resources and processes will be made as well to ensure that all change issues and interdependencies between processes across departments be managed to accomplish these adjustments. HR will provide the training and development programs, while management succession plan will be part of the supporting processes in the achievement of the Bank's strategic goals.

Likewise, IT will develop new application systems to support new products and other new business initiatives. It will also have to enhance/customize existing systems to eliminate manual processing and thereby improve operational efficiency.

Success or failure of strategy depends on the Bank's resources, capability to implement the strategic goals and the ability to effectively monitor and control the progress of implementation. With the set-up of reporting structure, strategic issues are promptly identified and reported to the local CEO and then to the matrix reporting authority at Parent Bank.

ANNEX 14: Legal Risk

I. QUANTITATIVE INFORMATION

Legal risks belong to non-quantifiable risks that are not subject to specific numerical measurements but likewise require similar management attention. While unpredictable, non-quantifiable risks may cause severe impact on the Bank's statements of income. These risks are mitigated by developing a strong control culture, an organizational structure that is risk-aware, and an effective internal control system that continually monitors and updates processes and procedures.

Legal risks include the potential for the Bank to suffer a financial loss due to non-existent, incomplete, incorrect and/or unenforceable documentation used by the Bank to protect and enforce its rights under contracts and obligations. This risk is closely related to credit risk as it most often involves legal problems with counterparties to the Bank' transactions. It is also closely related to other non-quantifiable risks that have to be assessed: fiduciary, reputational risk and regulatory risk.

A legal review process is the primary control mechanism for legal risks and shall be part of every product program or process of the Bank. The review aims to validate the existence, propriety and enforceability of documents, and verify the capacity and authority of counterparties and customers to enter into transactions. The Bank's Legal Department is the primary unit assigned to identify, assess, manage and monitor the Bank's legal risk.

II. QUALITATIVE INFORMATION

Legal risks include the potential for the Bank to suffer a financial loss due to non-existent, incomplete, incorrect and unenforceable documentation used by the Bank to protect and enforce its rights under contracts and obligations. It also includes the possibility or potential for financial loss arising from the uncertainty of the legal proceedings. It is considered as one of non quantifiable risks not subject to specific numerical measurements, albeit in terms of litigation once a case is filed for whatever reason and nature the bank is exposed to possible adverse judgment, as well as legal expenses.

Legal risks, while belonging to non-quantifiable risks, require management's attention. Although unpredictable, non-quantifiable risk may cause severe impact on the Bank's profit and loss. These risks are mitigated by developing a strong "control culture" and an organizational structure that is risk-aware and with effective internal control system that continually monitors and updates processes and procedures. This risk is closely related to credit risk as it most often involves legal problems with counterparties to bank's transactions. Also, it is likewise related to other non quantifiable risks that have to be assessed, such as fiduciary, reputational risk and regulatory risk which are equally managed by responsible departments in the bank.

I. Strategies and Processes

The Bank's legal risk management framework seeks to ensure that there is an effective process in place to manage legal risk across the Bank. Legal risk management is integral to all aspects of Bank's transactions and activities that is why it is a shared responsibility not only by the Board of Directors, Committee members, but also by the functional units and of every bank officer through the observance of appropriate controls and monitoring. The Board of Directors and the President have the prime responsibility to establish a risk culture and risk management organization that incorporates risk processes as an essential part of the Bank's and the Trust and Investment Services Division's (TISD) strategic plans.

The Board-constituted Committees which are the (i) Executive Committee, (ii) Nomination and Remuneration and Governance Committee, (iii) Audit and Compliance Committee, (iv) Risk Management Committee and (v) Trust Committee, assume risk management responsibilities stated in the institution's By-Laws, delegated by the Board and those required by the law and regulatory bodies. The Bank's senior management committees which are the Management Committee, Credit Committee, Asset and Liability Committee, Human Resource Committee, and Information Technology Steering Committee, are responsible for the creation and oversight of the Bank's risk policies. These committees are actively involved in planning, approving, reviewing and assessing all risks involved.

II. Structure and organization of the Legal Department

The Legal Department which plays a very crucial support role in the bank's business is headed by a Legal Department Head, complemented by a Litigation Unit Head, a Documentation Officer, a paralegal and a department secretary. From time to time and as the need arises, the Legal Department engages a lawyer coming from the pool of its accredited external counsels to help and assist in the fulfilment of its documentation function. Legal Department has open reporting channel to the Office of the President (OTP), but remains independent. OTP exercises administrative control over Legal Department in terms of approval of leaves, requisition of supplies, among others, which are all governed by existing policies.

Too, aside from documentation, litigation of cases for or against the Bank, rendering opinions and oversight function on matters referred to the Bank's external counsel, the Legal Department performs corporate secretarial work and renders legal services to functional units.

III. Scope and Nature of Risk Reporting and Measurement System

The main objective of the department is to see to it that the institution observes the applicable laws, rules and regulations such that no violations thereof will unduly impede or interfere with its banking operations. The Legal Department also sees to it that all agreements of the Bank with its customers and other third parties afford the fullest legal protection to the Bank, and set forth in clear, unambiguous language, not susceptible to conflicts in interpretation, the obligation of the parties. In this manner, in the event of a claim, action or suit, brought by or against the Bank, the risk of loss resulting from a decision or judgment adverse to the Bank will be minimized. The Head of the Legal Department also acts as an adviser to the top management and the Board of Directors. To ensure that the Bank receive optimum legal advice, the Head of the Legal Department must not be restricted in expressing independent legal judgment on any matter referred for consultation.

In compliance with BSP recommendations, Legal Department through its Litigation Unit, prepares a Legal Risk Report for ICAAP wherein risk exposure of the Bank on claims or cases is identified, monitored and assessed. Cases included in the report are those suits instituted against the Bank as these legal actions were primarily lodged to exact payment for damages or supposed causes of action, including bank initiated criminal cases against erring employees since the Bank still spends for the professional fees of its chosen handling external counsels.

To determine the risk exposure of the Bank on litigated claims or cases, Legal Department uses the formula wherein the principal amount involve in every case or claim is multiplied by the percentage of the probable result or probability of losing. Probable result, meantime, is based on the most intelligible assessment of the handling lawyer of the case under consideration after taking into account different factors that affect the outcome of the case or litigation.

Apart from the Legal Risk Report for ICAAP, the Legal Department prepares and submits a monthly litigation report which it provides to the functional units, to Compliance Department and to Operational and Reputational Risk Management Department. Monthly, the Legal Department also submits to its counterpart in Head Office Taipei a Monthly Report - Litigation. Likewise, every other month the Legal Department submits its Items in Litigation ("ITL") report to the Board of Directors while its risk report on cases filed against the bank is submitted to the Risk Committee. On a quarterly basis, the Legal Department also submits Potential Litigation Report and, on annual basis, the Labor Disputes, Criminal Cases & Significant Litigation Report to HO.

IV. Strategies and Processes for Mitigating Risks

To mitigate risks, product manual and guidelines are reviewed by Legal Department. Such review form part of the bank's internal processes before such manuals or guidelines are finally approved. Contracts or agreements for service providers or other third parties are similarly endorsed by the functional units for review by the Legal Department to check whether the bank's rights and interests are protected, as well as to ensure that mandated provisions or requirements by the regulatory bodies or agencies are included.

Functional units also seek the necessary legal opinion from the Department to cover legal risks of bank transactions being handled by the unit. While the functional units, upon proper approval, may engage external counsel, the Department sees to it that the external counsel is fully apprised of the transaction and the needs of the referring functional unit are fully addressed by the legal opinion/services sought.

The Legal Department also exercises oversight function over the handling of bank cases by accredited external counsels. To ensure that these external counsels will provide and exert their utmost skills in litigation, the Department conducts an annual performance review and communicates to concerned external counsel the need to improve, if any. Surprise attendance in hearings of the external counsels is conducted by Legal Department's Litigation Unit to gain accurate insight on how the bank cases are being handled by the external counsel. Other strategies which the Legal Department applies are set out in its Legal Risk Manual.

ANNEX 15: List of Major Stockholders, as of December 31, 2019

Name of Stockholders	Nationality	Percentage of Stockholdings	Voting Status one (1) per share
CTBC Bank Co. LTD	Taiwanese	99.67%	299,012,001
MA. ASUNCION M. ORTOLL	Filipino	0.08%	241,551
ALFONSO LAO	Filipino	0.06%	75,000
ARLENE RAVALO ULANDAY & OR BETHEL ANN RAVALO & OR ELIODORO RAVALO	American	0.03%	65,992
CHEN LI MEI	Taiwanese	0.02%	29,095
BETTINA V. CHU	Filipino	0.01%	26,838
MARTIN M. ORTOLL	Filipino	0.01%	26,838
JOSE ANTONIO M. ORTOLL	Filipino	0.01%	26,838
CARLOS M. ORTOLL	Filipino	0.01%	26,838
MA. MARTA M. ORTOLL	Filipino	0.01%	26,838
MA. BEATRIZ ORTOLL-MANAHAN	Filipino	0.01%	26,838
MA. TERESA ORTOLL-GARCIA	Filipino	0.01%	26,838
MA. ELENA M. ORTOLL-MIJARES	Filipino	0.01%	26,838
REGAN C. SY	Filipino	0.01%	26,450
PCD NOMINEE CORP. (FILIPINO)	Filipino	0.00%	13,795
CHING L. TAN	Filipino	0.00%	13,225
RAZUL Z. REQUESTO	Filipino	0.00%	13,225
GUAT TIOC CHUNG	Filipino	0.00%	13,225
BERNARDITO U. CHU	Filipino	0.00%	13,225
OLIVERIO GUISON LAPERAL	Filipino	0.00%	13,225

ANNEX 16: ADDITIONAL INFORMATION ON PER COMMON SHARE DATA

In Php	As of December 31, 2019	As of December 31, 2018
Total Equity	9,382,437,488	7,363,985,061
no. of shares	300,000,000	247,968,731
Book Value per share	31.27	29.70

ANNEX 17: 2019 AUDIT COMMITTEE ACCOMPLISHMENT REPORT

Accomplishments

1. Conducted six committee meetings in 2019 and covered the periodic Internal Audit, Compliance, external audit and regulatory reports as follows:

    - March 6, 2019
    - April 29, 2019
    - July 24, 2019
    - September 18, 2019
    - November 7, 2019
    - December 19, 2019

2. Reviewed the bank's performance evaluation results on RG Manabat & Co. relative to their examination of the bank's 2018 financial statements.

3. Selected and appointed RG Manabat & Co. as the Bank's 2019 external auditor, including review and approval of the audit engagement contract, and oversee the audit engagement and deliverables relative to their examination of the Bank's audited financial statements as of December 31, 2019.

4. Reviewed the Bank's 2018 audited financial statements as certified by RG Manabat & Co. including the financial highlights, results of risk assessment, control and substantive testing on the bank's policy on PFRS 9 as to the classification and measurement of financial instruments, revenue recognition, valuation of non-financial assets, taxation, compliance with laws and regulations, related party transactions, provisions/contingencies, PFRS 15 (Revenue from Contracts with Customers) and PFRS 16 (Leases) and preliminary list of management letter comments. Endorsed the 2018 audited financial statements to the Board for approval of the shareholders and reviewed the bank's management representation letter issued to the external auditor.

5. Reviewed the audit plan of RG Manabat & Co. relative to their examination of the Bank's 2019 financial statements including the implementation of PFRS 16 - Leases and new interpretation of IFRIC 23 on uncertainty over income tax treatments.

6. Reviewed and approved the engagement proposal of Mendoza Querido & Co. (Moore Stephens) for the external assessment of the Bank's internal audit function to comply with the requirements of BSP and international audit standards for an external assessment of the internal audit function.

7. Reviewed all reports issued by Internal Audit including the root cause analysis of key findings and credit process review conducted on various corporate loan accounts, Parent Bank auditors, Compliance and regulators including the replies and action plans of the bank to address BSP's 2019 advance findings.

8. Closely monitored the status of Audit Committee directives to bank management and tracked status of outstanding internal audit, Parent Bank and BSP findings.

9. Directed bank management to immediately implement necessary action and improvement plans to effectively address the findings raised by the Parent Bank auditors in 2019 to improve the bank's 2020 rating and to avoid recurrence of the repeat findings.

10. Closely supervised the Bank's internal audit function including review of the annual audit plan, MBO and effectiveness of internal audit function, which contributed to Internal Audit's 2019 rating of "Satisfactory" (the 1st tier in the new 4-tier rating system) from the Parent Bank and satisfactory external quality assessment results of the Bank's internal audit function conducted by Mendoza, Querido & Co. (Moore Stephens) in 2019.

11. Closely supervised the Bank's compliance function including review of the annual compliance plan, MBO and effectiveness of compliance function resulting to changes and reorganization of the department's organizational structure including the reporting line of the ICT Compliance Team.

12. Key risk areas and issues noted by Internal Audit were elevated to the Board of Directors or endorsed to management for resolution of these issues.

13. Provide several recommendations to bank management to further improve the bank's internal control and risk management.

14. Regularly reviewed the updates on AML statistics on alerts, covered (CTR) and suspicious transactions (STR), latest AML rules and updates including Rules of Procedure in Administrative Cases (RPAC) under Republic Act No. 9160 or the Anti-Money Laundering Act of 2001, updates on OGB framework implementation and various AML related projects.

15. Reviewed and endorsed/approved the following updated charters, manuals and policies:

    - Audit Committee Charter
    - Internal Audit Charter
    - Internal Audit Policy Manual
    - AML Committee Charter
    - Compliance Charter
    - Compliance Manual
    - Money Laundering & Terrorist Financing Prevention Program
    - Compliance Testing & Risk Assessment Manual
    - SLA on Compliance Testing with Internal Audit
    - OGB Framework (V2)
    - Travel to Taiwan Guideline

16. Reviewed Internal Audit's risk assessment methodology and overview of its bankwide risk assessment evaluation which was included in the preparation of the 2019 audit plan.

17. Reviewed the Compliance and AML Training Plans and Independent Compliance Testing Plan for 2019 and 2020.

18. Non-executive members of the Committee regularly met separately with the Internal Audit Head and Compliance Officer during the year.

19. Below is the attendance record of the Committee members for 2019.

Committee Members	No. of Meetings Held	No. of Meetings Attended
Edwin Villanueva	6	6
Ng Meng Tam	3	3
Alexander A. Patricio	4	2
Stephen P. Sy	3	3

ANNEX 18: AMLA GOVERNANCE & CULTURE

CTBC Bank (Philippines) Corp. is committed to assist the government in the fight against Money Laundering (ML) and combat Terrorist Financing (TF) by operating an effective risk-based ML/TF prevention and detection framework. In doing so, the Bank's aim is to actively manage and mitigate compliance, business, reputational, legal and concentration risks arising from ML/TF activities within and across the entire institution.

As such, the Bank has adopted the Money Laundering and Terrorist Financing Prevention Program (MTPP). This manual provides for the regulatory reference, guidelines and practices as well as internal implementation to help ensure that risks associated with money-laundering such as counterparty, reputation, operational, and compliance risks are identified, assessed, monitored, mitigated and controlled. To further employ an effective implementation of the Anti-Money Laundering laws and regulations such that the Bank shall not be used as a vehicle to legitimize proceeds of unlawful activity or to facilitate or finance terrorism.

Objectives:

This MTPP sets forth the following:

- To provide relevant updated provisions and guidelines of the Anti-Money Laundering Act, it's implementing Rules and the Updated AML Rules and Regulations of the Bangko Sentral ng Pilipinas (BSP), Anti-Money Laundering Council (AMLC) and Global AML / CFT Policy of the parent bank.

- To align and/or establish specific policies and procedures with the requirements of AML in ensuring that the Bank complies with its responsibilities, that is the (1) Conduct of Know Your Client (KYC) and Customer Due Diligence (CDD) procedures, (2) Record retention and (3) Reporting of AML Reports (Covered Transaction Reports (CTR) and Suspicious Transaction Reports (STR)) to Anti-Money Laundering Council (AMLC).

- To give clear appreciation of the Bank's roles and the responsibilities of the Board of Directors, Senior Management, Bank officers and employees in ensuring compliance with the Anti-Money Laundering Act and Countering Terrorist Financing rules and regulations.

DECLARATION POLICY

The Bangko Sentral ng Pilipinas (BSP) adopts the policy of the State to:

(a) Protect the integrity and confidentiality of bank accounts;
(b) Ensure that the Philippines, in general, and CTBC Bank (Philippines) Corp., in particular, shall not be used, as a money laundering site and conduit for the proceeds of an unlawful activities as herein defined; (c) Protect life, liberty and property from acts of terrorism and to condemn terrorism and those who support and finance it and related offenses;
(d) Recognize terrorism and terrorist financing as inimical and dangerous to national security and the welfare of the people, against humanity and against the laws of nations; and
(e) Adhere to international commitments to combat financing of terrorism, specifically the International Convention for the Suppression of the Financing of Terrorism, as well as other binding terrorism-related resolutions of the United Nations Security Council (UNSC) pursuant to Chapter 7 of the United Nations Charter.

Key Basic Principles and Policies to Combat Money Laundering and Terrorist Financing

In line with the declaration of policy, the Bank adopts the following key principles:

1. The Bank, its stockholders, directors, officers and staff consider it their collective duty to deliver services to the Bank's customers in a manner that is socially acceptable and within the requirements of law. The Bank understands its role in preventing the proceeds of any illegal activity from being used in money laundering activities, and in detecting covered/ suspicious transactions, as defined under the AMLA.

2. The Bank has the right to refuse the opening of an account and offering of banking facilities to prospective customers who have been identified as being engaged in money laundering activities. This includes the right to close existing accounts that were being utilized for money laundering and terrorist financing activities.

3. All business and operating units shall cooperate and provide assistance to the appropriate supervising authority/ies in money laundering investigations and prosecution of cases, when filed in a competent court. Supervising authority/ies refers to the Bangko Sentral ng Pilipinas (BSP), the Securities and Exchange Commission ("SEC", "Commission"), and the Insurance Commission (IC).

4. Board of Directors and Senior Management shall ensure strong support of all programs to be established for the prevention and detection of money laundering activities. It shall conduct an annual information-training program about the latest developments in money laundering and its prevention/detection techniques. The Bank shall ensure inclusion of anti-money laundering training in the initial training programs offered to all new hires, including contractual and probationary employees. AML and CFT trainings should be specific to particular classes of employees and their job responsibilities. It is likewise the Bank's responsibility to monitor and ensure that personnel from outsourced services (particularly those in marketing and those having

dealings with clients requiring knowledge of KYC policies and procedures) have adequate, effective and updated AML training.

5. The prevention of money laundering practices from entering the organization shall be based on the following principles:

- **Ethical Conduct**
  The Bank shall ensure that business is conducted in conformity with high ethical standards in order to protect its safety and soundness as well as the integrity of the national banking and financial system.

- **Compliance with Laws**
  The Bank shall comply fully with the rules and regulations and existing laws aimed at combating money laundering and terrorist financing by making sure that officers and employees are aware of their respective responsibilities and carry them out in accordance with superior and principled culture of compliance. Prudence should be observed so that service is not provided where there is a good reason to believe that transactions are associated with money laundering activities and terrorist financing and acts.

- **Risk Management System**
  The Bank shall adopt and effectively implement a sound AML and terrorist financing risk management system that identifies, assesses, monitors and controls risks associated with money laundering and terrorist financing;

- **Know Your Customer (KYC)**
  The Bank shall endeavor to know sufficiently its customer at all times and obtain competent evidence of the customer's identity and have effective procedures for verifying the bona fide identity of new customers. The Bank shall ensure that the financially or socially disadvantaged are not denied access to financial services while at the same time prevent suspicious individuals or entities from opening or maintaining an account or transacting with the Bank by himself or otherwise;

- **Know Your Employee (KYE)**
  The Bank adopts an adequate Know Your Employee process in screening and recruitment as stated in the Bank's internal policy Recruitment and Screening Policy by Human Resources and Administrative Group (HRAG).

- **Cooperation with law enforcement agencies**
  The Bank shall fully cooperate with the Anti-Money Laundering Council (AMLC) for the effective implementation and enforcement of the AMLA, as amended, and its Revised Implementing Rules and Regulations (RIRR), and with law enforcement agencies within the legal constraints relating to customer confidentiality.

  This includes taking appropriate measures allowed by law if there are reasonable grounds for suspecting money laundering.

- **Policies, procedures and training**
  The Bank shall adopt policies consistent with the principles set out in appropriate guidelines and ensure that staff, wherever located, are informed of these policies and adequately trained in matters covered herein. To promote adherence to these principles, the Bank shall implement specific procedures for customer identification, record keeping and retention of transaction documents and reporting of covered and suspicious transactions.