



**PHILTRUST BANK**  
**PHILIPPINE TRUST COMPANY**

P.O. BOX 150  
PHILTRUST BANK BUILDING  
UNITED NATIONS AVE. CORNER SAN MARCELINO ST., MANILA

TEL.: (632) 524-90-61 TO 76  
(632) 498-01-90 TO 99  
FAX: (632) 521-73-09 / 498-02-00  
SWIFT: PHTBPHMM  
EMAIL: [ptc@philtrustbank.com](mailto:ptc@philtrustbank.com)

June 1, 2021

The Philippine Stock Exchange, Inc.  
Listings and Disclosure Group  
6<sup>th</sup> Floor, PSE Tower  
5<sup>th</sup> Avenue corner 28<sup>th</sup> Street  
Bonifacio Global City, Taguig City


Attention: Ms. Janet A. Encarnacion  
Head, Disclosure Department

Gentlemen:

We are pleased to submit herewith Philtrust Bank's Annual Report (SEC 17-A)  
for the fiscal year ended December 31, 2020.

Thank you.

Very truly yours,

  
AGNES B. URBANO  
Corporate Secretary

Encl.: As stated

# COVER SHEET

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S.E.C. Registration Number

P	H	I	L	T	R	U	S	T		B	A	N	K																
P	H	I	L	I	P	P	I	N	E		T	R	U	S	T		C	O	M	P	A	N	Y						

(Company's Full Name)

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S	A	N		M	A	R	C	E	L	I	N	O		S	T	R	E	E	T		M	A	N	I	L	A				

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

AGNES B. URBANO

Contact Person

8524-9061

Company Telephone Number

## ANNUAL REPORT

For the Fiscal Year Ended December 31, 2020

Ending December 31

Month Day

Fiscal Year

1	7	-	A	
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FORM TYPE

Last Tuesday of May

Month Day

Annual Meeting

Secondary License Type, If Applicable

C	G	F	D
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Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

STAMPS

**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, 2020
2. SEC Identification Number : PW-105
3. BIR Tax Identification Code : 034-000-541-102
4. Exact name of issuer as specified in its charter : Philippine Trust Company  
(also known as PHILTRUST BANK)
5. Province, Country of Incorporation : Manila, Philippines
6. Industry Classification Code : \_\_\_\_\_
7. Address of Principal Office : Philtrust Bank Building  
1000 United Nations Avenue  
corner San Marcelino Street,  
Manila
8. Telephone Number : (062) 8524-90-61
9. Former name, former address,  
former fiscal year : Not applicable
10. Securities registered pursuant to Sections 8 and 12 of the SRC:  

Common	1,000,000,000 shares
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11. Are any or all of registrant's securities listed on a Stock Exchange?

The Bank's 1,000,000,000 total outstanding common shares are listed in the Philippine Stock Exchange, Inc. (PSE).

12. Check whether the issuer:

- (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 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.

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

Yes.

13. State the aggregate value of the voting stock held by non-affiliates.

Not applicable.

## **I. BUSINESS**

### **(A) Description of Business**

#### **(1) Business Development**

The Philippine Trust Company, also known as PHILTRUST BANK, was established more than a hundred years ago on October 21, 1916. It is one of the oldest private commercial banks in the country that started as a trust institution. It was granted by the Bangko Sentral ng Pilipinas (BSP) the authority to operate as a universal bank on June 5, 2007.

Throughout its more than 100 years in banking, Philtrust Bank has acquired a reputation for conservatism and reliability and has enjoyed the trust and confidence of the business community and the general public. This guiding policy has enabled the Bank to grow and expand steadily.

Philtrust Bank has been favorably rated for its liquid position, consistently lending to the Bangko Sentral ng Pilipinas and to other financial institutions.

The principal office is located at Philtrust Bank Building, 1000 United Nations Avenue corner San Marcelino Street, Manila. Aside from the Head Office, the Bank has a network of sixty (60) branches, 39 in Metro Manila and 21 provincial.

The Bank looks forward to buying or leasing suitable locations in Metro Manila and in other key cities and provinces to further augment its branch network and to optimize its market presence and its service availability felt in major financial, commercial and population centers nationwide. Greater emphasis is being given to regional operations and financing of priority industries supportive of national economic growth.

The Bank does not anticipate any material reclassification, merger, consolidation or purchase/sale of a significant amount of its assets outside the course of its business.

Having officially listed on February 17, 1988, Philtrust Bank is one of the first few banks that traded their shares in the then Manila Stock Exchange and Makati Stock Exchange now Philippine Stock Exchange, Inc. (PSE).

#### **(2) Business of Issuer**

The Bank offers domestic, international and trust services. Domestic services include checking accounts, savings accounts, time deposits, money market placements, business loans, transfer of funds and collections, remittances, securities investments and safety deposit boxes. International transactions involve commercial letters of credit, collections and remittances, foreign exchange, traveler's checks and FCDU transactions. Trust operations include trust placement, investment management, estate administration/trustee of bond issues, savings and pension plan administration, insurance trust, and acting as escrow agent and stock registrar and transfer agent.

On June 5, 2007, the BSP granted Philtrust Bank authority to operate as a universal bank. The Securities and Exchange Commission (SEC) approved the registration of the Bank's Amended Articles of Incorporation, with powers among others, to engage in the business of expanded commercial banking as a universal bank, to carry on the business of a trust company, exercise the powers of investment houses as provided in pertinent laws and the power and authority to invest in the equity of allied and non-allied corporations, businesses or undertakings, and to perform such other acts and functions as may be permitted by law.

On October 14, 2014 and November 19, 2014, the BSP and SEC, respectively, approved the amendment of Article FOURTH of the Bank's Articles of Incorporation extending the Bank's corporate existence for another fifty (50) years from and after October 21, 2016.

When the Revised Corporation Code became effective on February 23, 2019, corporations with certificates of incorporation issued prior thereto and which continue to exist shall have perpetual existence.

The ratio of foreign exchange profits with respect to the net income of the Bank for the past 3 years are as follows:

Details	2020	2019	2018
Exchange Profits	P22,094,624.97	P27,660,409.84	P117,949,139.99
Net Income	1,156,583,226.37	902,818,233.85	1,709,482,550.06
Percentage	1.91	3.06	6.9

A significant percentage of the above transactions involved Asian and European markets.

Improvements in information technology are continuously being undertaken. For better market access, 49 on-site and 23 off-site ATMs were operational as of December 31, 2020.

The Bank's principal competitors are the other financial institutions offering similar services.

The Bank's guiding principle is anchored on conservatism, efficiency and personalized service to gain clients' trust, confidence and continued patronage. It has effectively generated more business making the Bank a worthy participant in the financial community.

The Bank's operations are not dependent on transactions with related parties, or upon a single customer/client or a few customers/clients. No single customer/client or group of clients accounts for twenty percent (20%) or more of the Bank's business operations.

Other than the licenses issued by the BSP and the SEC, the Bank's operations do not depend on any other patents, trademarks, copyrights, licenses, franchises, concessions or royalties.

The current Corona Virus Disease (COVID-19) pandemic, although global in scope and disastrous to human lives, economy and business, is being managed effectively by the Bank by strictly complying with the required health and safety protocols as well as the directives which from time to time were issued by the BSP, the SEC, the Inter-Agency Task Force on COVID, and the local and national governments. The Bank is not aware of any other existing or probable governmental regulations which will have a material effect on its business.

For the last three (3) fiscal years, the Bank has adequately invested on research and development and on information technology.

The directors and key officers have likewise actively participated in relevant trainings, conventions and seminars, the latest of which being the Corporate Governance Seminars conducted by the Institute of Corporate Directors held on October 17, 2020 in compliance with the Bank's Manual on Corporate Governance and the Code of Corporate Governance for Publicly Listed Companies (SEC Memo Circular No. 19, Series of 2016).

During the fourth quarter of the fiscal year ended December 31, 2020, there were no matters submitted to a vote of security holders through the solicitation of proxies or otherwise.

Manpower complement totaled 795 consisting of 390 officers and 405 rank-and-file employees as of December 31, 2020. The Bank continues to pursue manpower recruitment to effectively bring itself closer to clients by rendering efficient and prompt services. Within the ensuing twelve (12) months, based on the number of new branches that are projected to be opened in 2021 and the previous years' experience notwithstanding the Corona virus pandemic, the Bank anticipates manpower to increase by at least 20 personnel for a total of 815, consisting of 400 officers and 415 rank and file employees.

The Bank maintains a plan for the retirement, death, disability and separation of its regular employees. The plan is being funded by the contributions of the employees and the Bank.

Article VII of the Bank's Amended By-Laws provides for a percentual bonus or profit sharing equivalent to ten percent (10%) of the total yearly net profits of the Corporation before payment of income tax which is distributed to the employees, the officers and the directors as an incentive to them to help promote the business of the corporation.

Other employee benefits which are higher than the statutory requirements are provided for in the Collective Bargaining Agreement (CBA) between the Management and the Union executed on October 16, 2019 covering a five-year period from January 1, 2020 to December 31, 2024, including, among others, the payment and distribution of the aforesaid percentual bonus or profit sharing after declaration by the Board and confirmation/ratification by the stockholders in their annual meeting.

## **Outstanding Warrants or Options**

The Bank has no information on any outstanding warrant or option held by its directors or officers.

## **Major Risks**

The loan portfolio is sound and adequately secured. Available cash and assets are more than sufficient, notwithstanding the Corona virus pandemic, to meet client requirements and other possible needs.

Risks from market, liquidity and credit considerations are constantly monitored by management and the Board of Directors. These are kept to a minimum with the establishment of prudent approval limits and careful day-to-day management to ensure compliance with established controls and procedures and that target performance levels are achieved.

Approved policy and procedure are constantly monitored, reviewed and strengthened, involving legal, compliance, operations, operations/transactions processing, cash accountability or management, accounting and financial, settlement, systems and technology matters, with the aim of reducing to a minimum quantifiable and non-quantifiable risks.

Bank experience and the best practices of other institutions are routinely evaluated as basis for improving the Bank's risk management practices, including risk objectives, policies, controls and reports, and detailed procedures.

## **(B) Description of Property**

Please refer to the list of Bank-Owned Properties as Existing Bank Sites, Leased Bank Sites, and Bank-Owned Properties for Future Bank Sites, hereto attached as Annexes "D", "D-1" and "D-2", respectively. As shown therein, not a single Bank-owned lot or building is subject to mortgage, lien or limitations on ownership or usage. The branch sites, whether owned or leased, are all in good condition.

For the ensuing year 2021 or the next twelve (12) months, the Bank intends to acquire by purchase or lease properties as future branch sites, located as follows:

1. General Santos City
2. Laoag City



**(C) Legal Proceedings**

Neither the Bank nor any of its properties is involved in any material legal proceeding.

**II. OPERATIONAL AND FINANCIAL INFORMATION**

**(A) Market Price and Dividends on Registrant's Common Equity and Related Stockholder Matters**

**(1) Market Information**

The principal market of the Bank's equity is the Philippine Stock Exchange, where the Bank's 1,000,000,000 common shares are listed.

**(a) Quarterly Sales Prices**

2019	High	Low
March 29	P116.00	P110.10
June 28	115.00	115.00
September 30	129.00	129.00
December 27	130.00	118.50

2020	High	Low
March 31	P103.20	P103.20
June 30	107.50	107.00
September 30	107.00	107.00
December 29	120.00	101.00

2021	High	Low
March 31	P96.55	P96.55

**(b) The latest price information on the Bank's shares based on the market quotations published by the Philippine Stock Exchange are as follows:**

Date	Open	High	Low	Close	Prev. Close
April 30, 2021	P100.00	P100.00	P100.00	P100.00	P98.05

(2) Holders

The Bank has an authorized capital stock of Twenty Two Billion Pesos (P22,000,000,000.00) divided into Two Billion Two Hundred Million common shares with the par value of P10.00 per share. Paid-up capital stands at Ten Billion Pesos (P10,000,000,000.00). As of April 30, 2021, there were 82 holders of the Bank's 1,000,000,000 issued and outstanding shares.

The Top Twenty Stockholders as of April 30, 2021 were as follows:

	NAME OF STOCKHOLDER	TOTAL NUMBER OF SHARES SUBSCRIBED AND PAID	%
1	Philtrust Realty Corporation	269,000,014	26.9000
2	U.S. Automotive Co., Inc.	209,873,774	20.9874
3	Seabreeze Enterprises, Inc.	194,746,709	19.4747
4	Orient Insurance & Surety Corp.	184,783,230	18.4783
5	Pioneer Insurance Corporation	70,950,696	7.0951
6	Marketsource Corporation	20,077,690	2.0078
7	PCD Nominee Corporation	19,258,892	1.9259
8	Pioneer Life, Inc.	8,031,883	0.8032
9	Gaw, Rosalinda Y.*	6,400,510	0.6400
10	Tan, Teodora D.	4,321,814	0.4322
11	Pioneer Intercontinental Insurance Corporation	2,697,385	0.2697
12	Pioneer Insurance Co. Retirement Plan	1,411,116	0.1411
13	Yap, Basilio C.	1,389,030	0.1389
14	Go, Carlos S.	683,352	0.0683
15	Go, Enrique S.	683,352	0.0683
16	Go, Eusebio S.	683,352	0.0683
17	Go, Victoriano S.	683,352	0.0683
18	Goldclass Inc.	550,698	0.0550
19	Cu, Miriam C.	548,881	0.0549
20	Go, Arturo S.	536,920	0.0537

\*The Directors, Officers and Staff of the Philippine Trust Company, also known as PHILTRUST BANK, mourn with deepest sorrow the passing of their beloved Stockholder and Director, Dr. Rosalinda Y. Gaw, on March 30, 2021.

(3) Dividends

As provided for in the Bank's By-Laws, the Board of Directors may declare dividends only from the profit of the business of the Corporation, and then only after retaining unimpaired the entire subscribed and paid capital stock, the reserve fund required by law, and a sum sufficient to pay all the expenses then incurred by the Corporation, inclusive of taxes.

On April 25, 2017, the Board of Directors declared a cash dividend of P0.20 per share or Two Hundred Million Pesos (P200,000,000.00) to all stockholders of record as of July 11, 2017 and payable on July 12, 2017.

The said cash dividend was approved, confirmed and ratified by the stockholders at their annual meeting held on April 25, 2017 immediately after the Board Meeting.

There are no restrictions that would limit the ability of the Bank to pay dividends on its common shares or likely to do so in the future.

(4) Recent Sales of Securities

Based on the PDTC\* transmittal letter/upliftment report forwarded to the Bank on November 5, 2019, hereunder is the recent sale/transfer of the Bank's shares, to wit:

Transaction Date	Title	Amount	To Whom Sold	Terms
November 5, 2019	Common shares	P503,828.60**	Anthony Joseph Y. Gaw or Francis Y. Gaw	4,321 shares were uplifted from PCD Nominee Corp.- Filipino

\*Philippine Depository and Trust Corp.

\*\*The market price then prevailing was P116.60/share.

From November 5, 2019 to date, there were no transfers of shares involving change in beneficial ownership reported to the Bank.

### III. FINANCIAL INFORMATION

(A) **Management's Discussion and Analysis or Plan of Operation**

Please refer to the Management's Discussion and Analysis of Financial Condition and Results of Operations for the Calendar Years 2018, 2019 and 2020 hereto attached as Annexes "C-1", "C-2" and "C-3", respectively.

(B) **Financial Statements**

Please refer to the Statement of Management's Responsibility for Financial Statements and the 2020 Audited Financial Statements hereto attached as Annexes "B" and "B1", respectively.

**(C) Changes in and disagreement with accountants on accounting and financial disclosure**

The stockholders, in their annual meeting held on July 28, 2020, authorized and empowered the Board of Directors to appoint and/or change the Bank's external auditor for the year 2020 from among the auditing firms accredited by both the Bangko Sentral ng Pilipinas and the Securities and Exchange Commission.

Pursuant thereto, the Board, in its meeting on October 27, 2020, approved the re-appointment of Reyes Tacandong & Co. as the Bank's external auditor for the year 2020. It is accredited by both BSP and SEC.

In compliance with SRC Rule 68 requiring the five-year rotation of external auditors or engagement partners, Reyes Tacandong & Co. has assigned to the Bank an engagement partner who shall serve as such within the said term limit.

There had been no disagreement between the Bank and its external auditor concerning the years audited by it.

Representatives of Reyes Tacandong & Co. are expected to be present at the 2021 Annual Stockholders' Meeting and have the opportunity to make a statement, if they so desire, and respond to questions regarding the 2020 Audited Financial Statements.

**Information on Independent Accountant**

The address of the Bank's external auditor is as follows:

Reyes Tacandong & Co.  
Certified Public Accountants  
Citibank Tower  
8741 Paseo de Roxas  
Makati City

The aggregate fees billed for professional services rendered by the Bank's external auditors for the audit of the Bank's annual financial statements or services that are normally provided by them in connection with statutory and regulatory filings or engagements are as follows:

## SCHEDULE OF EXTERNAL AUDIT FEES AND SERVICES

	REYES TACANDONG & CO.	
	2019	2020
Audit and Audit-Related Fees (Retainer Fees and Audit Engagement Fees)	P3,920,000.00	P3,920,000.00
Tax Fees	-	-
All Other Fees (Reimbursements of various Audit-Related Expenses)	111,890.00	252,000.00
Total	P4,031,890.00	P4,172,000.00

The scope of services to be rendered by the external auditor as well as the fees to be charged therefor were previously considered and approved by the Board's Audit Committee whose members have relevant background, knowledge, skill and/or experience in the areas of accounting, auditing and finance.

### **Audit Committee's Approval Policies and Procedures on Dealings with External Auditors**

The Audit Committee shall assist the Board of Directors in fulfilling its oversight responsibilities for (1) the integrity of the company's financial statements, (2) the company's compliance with legal and regulatory requirements, (3) the independent auditor's qualifications and independence, and (4) the performance of the company's internal audit function and independent auditors.

It shall have the authority to conduct or authorize investigations into any matter within its scope of responsibility, to wit:

1. Appoint, compensate, and oversee the work of the public accounting firm employed by the organization to conduct the annual audit. This firm will report directly to the audit committee.

2. Resolve any disagreement between management and the auditor regarding financial reporting.
3. Pre-approve all auditing and permit non-audit services performed by the company's external audit firm.
4. Retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation.
5. Seek any information it requires from employees – all of whom are directed to cooperate with the committee's requests – or external parties.
6. Meet with company officers, external auditors, or outside counsel, as necessary.
7. The committee may delegate authority to subcommittees, including the authority to pre-approve all auditing and permit no-audit services, provided that such decisions are presented to the full committee at its next scheduled meeting.

#### IV. MANAGEMENT AND CERTAIN SECURITY HOLDERS

##### (A) Directors and Executive Officers

###### (1) Incumbent Directors:

<u>Name</u>	<u>Position</u>	<u>Age*</u>	<u>Citizenship</u>	<u>Length of Service</u>
1. Basilio C. Yap	Chairman	71	Filipino	More than 5 years
2. Senior Justice Josue N. Bellosillo (Ret.)	Vice Chairman	87	Filipino	More than 5 years
3. Dr. Emilio C. Yap III	Vice Chairman	49	Filipino	More than 5 years
4. Dr. Jaime C. Laya	Director	82	Filipino	More than 5 years
5. Jose M. Fernandez	Director	78	Filipino	More than 5 years
6. Miriam C. Cu	Director	62	Filipino	More than 5 years
7. Benjamin C. Yap	Director	75	Filipino	April 26, 2016-Present
8. Chief Justice Hilario G. Davide, Jr. (Ret.)	Independent Director	85	Filipino	8th year as Independent Director
9. Ernesto O. Chan	Independent Director	74	Filipino	9th year as Independent Director
10. Tomas V. Apacible	Independent Director	75	Filipino	9th year as Independent Director
11. (Vacant)				
12. (Vacant)				

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\*As of last birthday.

As provided for in the By-Laws, the corporate powers of the Corporation shall be exercised, its business conducted, and its property controlled by a Board of Directors, which shall consist of twelve (12) in number. Directors shall be chosen by the stockholders at the annual meeting, and shall hold office for one year and until their successors are elected and, shall have qualified.

Accordingly, twelve (12) Directors were re-elected during the ASM held on July 28, 2020 to hold office for one year and until their successors are elected and, shall have qualified. However, two (2) vacancies were subsequently created with the demise of Dr. Rosalinda Y. Gaw on March 30, 2021, and the resignation of Atty. Armando L. Suratos effective April 16, 2021 to pursue other endeavor.

All Directors of the Bank possess all the qualifications and none of the disqualifications of directors as mandated by the Bangko Sentral ng Pilipinas and the Securities and Exchange Commission. In particular, the Bank has consistently adopted and complied with the requirements on Nomination and Election of Independent Directors under SRC Rule 38 and that Independent Directors Chan, Apacible, Davide and Suratos are compliant therewith.

No one of the Directors currently holds government position, or is connected with the government.

Please refer to Annexes “A” hereto attached for their qualifications and business affiliations.

## **(2) Incumbent Corporate/Executive Officers:**

At its Organizational Meeting held on July 28, 2020, immediately after the adjournment of the annual stockholders’ meeting, the Board re-elected/re-appointed the following corporate/executive officers for the year 2020-2021, to wit:

Name	Position	Age*	Citizenship
1. Basilio C. Yap	Chairman of the Board	71	Filipino
2. Dr. Jaime C. Laya	President ( <i>Former Chairman, Monetary Board and Governor, Central Bank of the Philippines</i> )	82	Filipino
3. Senior Justice Josue N. Bellosillo (Ret.)	Vice Chairman of the Board and Corporate Counsel ( <i>Retired Senior Justice of the Supreme Court</i> )	87	Filipino
4. Dr. Emilio C. Yap III	Vice Chairman of the Board	49	Filipino
5. Atty. Agnes B. Urbano	Asst. Corporate Secretary	59	Filipino
6. Jose M. Fernandez	EVP/Chief Risk Officer	78	Filipino
7. Virginia S. Choa-Shi	Executive Vice President	66	Filipino
8. Carlos A. Pinpin, Jr.	Executive Vice President	64	Filipino
9. Benito D. Chua	VP/Treasurer	64	Filipino
10. Pompeyo A. Claveria	VP/Compliance Officer	67	Filipino

\*As of last birthday.

Except for Mr. Carlos A. Pinpin, Jr. who was appointed Executive Vice President on December 20, 2019 effective January 2, 2020, the aforesaid officers have been corporate/executive officers of the Bank for more than five (5) years.

No one has any substantial interest, direct or indirect, in any matter to be acted upon by the stockholders in their 2021 annual meeting.

No one currently holds government position, or is connected with the government.

Please refer to Annex “A” hereto attached for their qualifications and business affiliations.

The Directors, Officers and Staff were deeply saddened that their Senior Vice President/Corporate Secretary/Asst. Corporate Counsel, Atty. Martin B. Isidro, passed away on May 28, 2020. He had rendered years of invaluable service to the Bank and its affiliates. He had likewise served the public as Congressman, Vice-Mayor and Councilor of the City of Manila.

At the said Organizational Meeting, the Board re-organized the Board Committees namely: (1) Executive; (2) Trust and Investment; (3) Audit; (4) Risk Oversight; (5) Corporate Governance, Nomination and Remuneration; and (6) Related Party Transactions. Their respective Chairman and members were elected for a term of one (1) year effective August 3, 2020 consistent with the recommendations of the Code of Corporate Governance for Publicly-Listed Companies under SEC Memo Circular No. 19, Series of 2016.

The said Committees were duly represented in the last two (2) Annual Meetings of the Stockholders.

**(3) Nominees for Directors for the Ensuing Year 2021-2022:**

The Corporate Governance, Nomination and Remuneration Committee (Corp. Gov. Committee for brevity) shall screen, evaluate, approve and endorse the Final List of nominees for the positions of twelve (12) directors of the Bank for the ensuing year 2021-2022 to ensure that all nominees for Directorship possess all the qualifications and none of the disqualifications as mandated by the Bangko Sentral ng Pilipinas and the Securities and Exchange Commission. Further, the Corp. Gov. Committee shall take into consideration, adopt and comply with the said SRC Rule 38 and SEC Memorandum Circular No. 19 before approving and endorsing the nominees for independent director (ID).



When Final List of Nominees for Regular and Independent Directors shall have been determined, the same shall be disclosed in the Bank's Information Statements (SEC Form 20-IS) relative to the Annual Stockholders' Meeting to be held on July 20, 2021.

**(4) Corporate/Executive Officers for the Ensuing Year 2021-2022:**

The Bank's corporate and executive officers for the ensuing year 2021-2022 will be elected by the Board of Directors in its organizational meeting to be held immediately after the adjournment of the Annual Stockholders' Meeting. The incumbent officers are expected to be re-elected/re-appointed to their respective positions.

**Significant Employees**

The Bank values the importance of each employee, whether officer or staff, and recognizes their significant contributions to the Bank's business and growth.

**Family Relations**

Incumbent Chairman Basilio C. Yap, Vice-Chairman Dr. Emilio C. Yap III, and Director Benjamin C. Yap are relatives by consanguinity.

**Involvement in Certain Legal Proceedings**

During the past five (5) years up to the present, the Bank has no knowledge that any of its incumbent directors, nominees for directorship or incumbent executive officers is a party to, or any of their properties is subject of, any of the hereunder events that are material to an evaluation of their ability or integrity, as follows:

- (a) Any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior thereto;
- (b) Any conviction by final judgment in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offense;

(c) Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and

(d) Being found by a domestic or foreign court of competent jurisdiction (in civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self regulatory organization, to have violated a securities or commodities law or regulation and the judgment has not been reversed, suspended, or vacated.

## (B) Executive Compensation

### Summary of Compensation (In million pesos)

The aggregate compensation of the Bank's most highly compensated executive officers are presented below. The 2021 figures are estimates based on the immediately preceding year.

	<i>Year</i>	<i>Salary</i>	<i>Bonus</i>	<i>Others</i>
Dr. Jaime C. Laya <i>President/Director</i>	2021	P9.987	P3.360	P7.769
Jose M. Fernandez <i>EVP/Director</i>				
Miriam C. Cu <i>SVP/Director</i>	2020	P9.837	P3.295	P6.114
Virginia S. Choa-Shi <i>Executive Vice President</i>				
Carlos A. Pinpin, Jr.* <i>Executive Vice President</i>	2019	P7.646	P2.665	P10.843
Luisa A. Lucin <i>Senior Vice President</i>				

\*Appointed EVP on Dec. 20, 2019 effective Jan. 2, 2020.

	<i>Year</i>	<i>Salary</i>	<i>Bonus</i>	<i>Others</i>
All Directors and Officers As a group unnamed	2021	P347.244	P124.508	P102.267
	2020	P335.436	P119.399	P80.077
	2019	P324.224	P117.469	P113.969

The Directors receive per diem of P10,000.00 and an additional P5,000.00 for every Board and Executive Committee meetings attended, respectively.

There is no standard arrangement that would directly or indirectly compensate the Directors, other than their per diem and the allocated profit-sharing as provided for in the By-Laws.

**(C) Security Ownership of Certain Record and Beneficial Owners of More Than 5% as of April 30, 2021:**

Title of Class	Name, Address of Record Owner and Relationship to Issuer	Name of Beneficial Owner and Relationship to Record Owner	Citizenship	No. of Shares Held	Percent
Common Shares	Philtrust Realty Corp. P.O. Box 1848, Manila Major Stockholder	U.S. Automotive Co., Inc. <i>Major Stockholder</i>  Dr. Emilio C. Yap III <i>Authorized Representative</i>	Filipino	269,000,014	26.9000%
Common Shares	U.S. Automotive Co., Inc. P.O. Box 3399, Manila Major Stockholder	Yap Family <i>Major Stockholders</i>  Basilio C. Yap <i>Authorized Representative</i>	Filipino	209,873,774	20.9874%
Common Shares	Seabreeze Enterprises, Inc. P.O. Box 4279, Manila Major Stockholder	Basilio C. Yap <i>Major Stockholder</i>  Basilio C. Yap <i>Authorized Representative</i>	Filipino	194,746,709	19.4747%
Common Shares	Orient Enterprises, Inc. P.O. Box 3435, Manila Major Stockholder	Gaw Family <i>Major Stockholders</i>  Anthony Joseph Y. Gaw <i>Authorized Representative</i>	Filipino	184,783,230	18.4783%
Common Shares	Pioneer Insurance & Surety Corporation P.O. Box 1437 MCC, Makati Major Stockholder	Pioneer Inc. <i>Major Stockholder</i>  Ernesto O. Chan <i>Authorized Representative</i>	Filipino	70,950,696	7.0951%

(2) **Security Ownership of Management as of April 30, 2021:**

**DIRECTORS**

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership		Citizenship	Percent of Class
Common Shares	1. Basilio C. Yap (Chairman)	P 13,890,300.00	Direct	Filipino	0.1389
Common Shares	2. Dr. Jaime C. Laya (President)	P 333,250.00	Direct	Filipino	0.0033
Common Shares	3. Sr. Justice Josue N. Bellosillo (Ret.) (Vice Chairman and Corporate Counsel)	P 15,120.00	Direct	Filipino	0.0002
Common Shares	4. Dr. Emilio C. Yap III (Vice Chairman)	P 1,832,630.00	Direct	Filipino	0.0183
Common Shares	5. Jose M. Fernandez (Executive Vice President)	P 4,400.00	Direct	Filipino	0.0000
Common Shares	6. Miriam C. Cu (Senior Vice President)	P 5,488,810.00	Direct	Filipino	0.0549
Common Shares	7. Benjamin C. Yap	P 193,100.00	Direct	Filipino	0.0019
Common Shares	8. Chief Justice Hilario G. Davide, Jr. (Ret.)	P 10,000.00	Direct	Filipino	0.0001
Common Shares	9. Ernesto O. Chan	P 175,660.00	Direct	Filipino	0.0018
Common Shares	10. Tomas V. Apacible	P 15,120.00	Direct	Filipino	0.0002
	11. (Vacant)				
	12. (Vacant)				

**OFFICERS**

Title of Class	Name of Beneficial Owner	Amount of Beneficial Ownership		Citizenship	Percent of Class
Common Shares	Virginia S. Choa-Shi (Executive Vice President)	P5,050.00	Direct	Filipino	0.0001%
Common Shares	Luisa A. Lucin (SVP/Principal Accounting Officer)	P52,600.00	Direct	Filipino	0.0005%
Common Shares	Atty. Agnes B. Urbano (FVP/Asst. Corporate Secretary)	P66,710.00	Direct	Filipino	0.0007%
Common Shares	Benito D. Chua (VP/Treasurer)	P15,120.00	Direct	Filipino	0.0002%

**DIRECTORS AND OFFICERS AS A GROUP**

Common Shares	P22,097,970.00	0.2210%
	=====	=====

### **Voting Trust Holders of 5% or more**

The Bank has no voting trust holders.

### **Change in control since the beginning of the last fiscal year**

No change in control has occurred since January 1, 2020.

## **(D) Certain Relationships and Related Transactions**

The Bank does not have a parent company and does not have any transaction with promoters.

The Bank had not undertaken any transaction during the last two (2) years involving directly the material interest of any director, executive officer or stockholder owning ten percent (10%) or more of total issued and outstanding shares, and members of their immediate family. However, in the ordinary course of business, the Bank has transactions with related parties.

Based on SEC Memorandum Circular No. 19, Series of 2016 and BSP Circular No. 969, Series of 2017, related parties shall cover any party that the Bank exerts direct or indirect control over or that exerts direct or indirect control over the Bank, the Bank's directors, officers, shareholders and their related interests (DOSRI), their close family members, as well as corresponding persons in affiliated companies, and such other person or judicial entity whose interest may pose a potential conflict with the interest of the Bank.

Related party transactions (RPTs) refer to dealings with the Bank's related parties, regardless of whether a price is charged. RPTs likewise include outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party.

For the years 2019 and 2020, RPTs consisted mainly of lease, bank deposits, advertising services and the grant/renewal of credit facilities.

These transactions were done on an arm's length basis and on substantially the same terms, such as rate of interest, collateral, surety, maturity, purpose and service charge, among others, as those prevailing at the time for comparable transactions with non-related parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable condition. They were thoroughly evaluated and reviewed by the RPT Committee prior to their endorsement to the Board of Directors. The Board, on the other hand, has oversight responsibility in ensuring that material RPTs were handled with integrity, in a sound and prudent manner, and compliant with applicable laws and regulations so as to protect the interest of the Bank's stakeholders.

A more detailed discussion of RPTs is presented in the Notes to the Bank's 2020 Audited Financial Statements.

**(E) Corporate Governance**

The Directors and Management of the Bank are fully aware of, and sensitive to, the needs for good corporate governance. The Bank Management with its traditional and usual practice strictly observes the tenets of good governance in its dealing with depositors, stockholders, employees and other stakeholders.

- a) Based on the Performance Evaluation System approved by the Board of Directors, a self-assessment is conducted annually by the Members of the Board, the Management, and the Staff to determine and measure the level of their respective compliance with the Bank's Manual on Corporate Governance.

Evaluation results have shown that the Board, the Directors, the Officers and Staff have complied with their respective duties and responsibilities under the Bank's Manual on Corporate Governance as well as with relevant laws, regulations, and code of best business practice.

- b) The Board of Directors approved on May 30, 2017 the amendment of the Bank's Manual on Corporate Governance in accordance with the Code of Corporate Governance for Publicly Listed Companies (SEC Memorandum Circular No. 19, Series of 2016), and the leading practices on good corporate governance.

As mandated by the said Code, the Directors and key Officers annually attend corporate governance seminars, the latest of which was on October 17, 2020 conducted by the Institute of Corporate Directors. The annual continuing training program makes certain that directors and key officers are informed of the developments in the business and regulatory environments. It includes corporate governance matters such as audit, internal controls, risk management, sustainability and strategy relevant to banking.

- c) Based on the Bank's Compliance Reports, there was no material deviation from the Bank's Manual on Corporate Governance.
- d) The Bank actively participates in corporate governance seminars and undertaking of regulatory agencies which aim to provide empirical data on the current state of corporate governance and to help publicly-listed companies strengthen their corporate governance structures and mechanisms.

**(F) Current Reports**

Please refer to as Annex "E" hereto attached for a list of Current Reports (SEC Form 17-C) which were submitted in 2020 to date.

**(G) Sustainability Report**

Please refer to as Annex "F" hereto attached.

## SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code, this report is signed in behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Manila this JUN 01 2021.

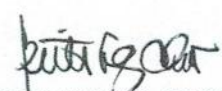


JAIME C. LAYA


*Principal Executive and Operating Officer*



LUISA A. LUCIN  
*Principal Accounting Officer  
Comptroller*



BENITO D. CHUA  
*Principal Financial Officer*



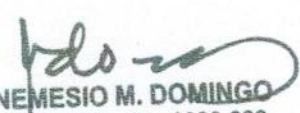
AGNES B. URBANO  
*Asst. Corporate Secretary*

REPUBLIC OF THE PHILIPPINES)  
CITY OF MANILA ) s.s.

Subscribed and sworn to before me this JUN 01 2021, affiants exhibiting to me their respective Tax Identification Numbers, as follows:

<u>Name</u>	<u>TIN</u>
Dr. Jaime C. Laya	
Ms. Luisa A. Lucin	
Mr. Benito D. Chua	
Atty. Agnes B. Urbano	

Witness my hand and seal on the date and at the place above written.



NEMESIO M. DOMINGO  
Commission No. 2020-026  
Notary Public for the City of Manila  
Until December 31, 2021

Doc. No. 291  
Page No. 46  
Book No. III  
Series of 2021.

## ANNEX A

### BUSINESS EXPERIENCE OF THE INCUMBENT DIRECTORS AND OFFICERS

(As of April 30, 2021)

<i>Name/Citizenship/Age</i>	<i>Title</i>	<i>Corporate Affiliation</i>	<i>Profession/Occupation</i>
1. Basilio C. Yap Filipino 71 years old	Chairman Chairman Chairman Chairman Chairman/President Chairman/President Chairman /President Chairman/President Chairman/President Chairman/President Vice Chairman Director Director	Philtrust Bank Manila Bulletin Publishing Corp. Manila Hotel Corporation Centro Escolar University U.S. Automotive Co., Inc. Usautoco, Inc. Philtrust Realty Corporation Manila Prince Hotel Corp. Cocusphil Development Corporation U.N. Properties Development Corporation Seabreeze Enterprises, Inc. Euro-Med Laboratories Phil., Inc. MH F&B Ideas Inc. TMH Transport Limousine Services Inc.	CPA Master in Business Management
2. Dr. Jaime C. Laya Filipino 82 years old	President Former Governor Former Chairman Independent Director Independent Director Independent Director Independent Director Independent Director Trustee Trustee Trustee Trustee Chairman Chairman Trustee Columnist Director	Philtrust Bank Central Bank of the Philippines, 1981- 1984 Monetary Board, Central Bank of the Philippines, 1981-1984 Philippine AXA Life Insurance Co., Inc. GMA Network, Inc. and GMA Holdings, Inc. Ayala Land, Inc., Manila Water Company, Inc., Charter Ping An Insurance Corporation Cultural Center of the Philippines Metropolitan Museum of Manila Yuchengco Museum St. Paul's University-Quezon City Escuela Taller Foundation of the Philippines, Inc., Don Norberto Ty Foundation, Inc. Ayala Foundation, Inc., Manila Bulletin Publishing Corp. BancNet	Ph.D. – Financial Management CPA



<i>Name/Citizenship/Age</i>	<i>Title</i>	<i>Corporate Affiliation</i>	<i>Profession/Occupation</i>
3. Senior Justice Josue N. Bellosillo (Ret.) Filipino 87 years old	Vice Chairman Corporate Counsel Dean	Philtrust Bank Philtrust Bank Centro Escolar University-School of Law and Jurisprudence	Lawyer Retired Senior Justice of the Supreme Court of the Philippines
4. Dr. Emilio C. Yap III Filipino 49 years old	Vice Chairman Vice Chairman/President Chairman Vice Chairman Director Director/Vice President Director/Asst. Treasurer/ Asst. Corp. Sec. Director/Vice President Director Director Director Director Director Director/VP/Treasurer	Philtrust Bank Manila Bulletin Publishing Corporation Manila Prime Land Holdings, Inc. Manila Hotel Corporation Centro Escolar University U.S. Automotive Co., Inc. Usautoco, Inc.  Philtrust Realty Corporation Cocusphil Development Corporation Manila Prince Hotel Corporation U.N. Properties Development Corporation MH F&B Ideas Inc. TMH Transport Limousine Services Inc. Orient Enterprises, Inc. Seabreeze Enterprises, Inc.	Business Executive Doctor of Philosophy in Journalism Honoris Causa Doctor of Philosophy in Business Administration Honoris Causa
5. Miriam C. Cu Filipino 62 years old	Director Senior Vice President Director/Treasurer Vice President Director/Corporate Sec. Director	Philtrust Bank Philtrust Bank Orient Enterprises, Inc. Brightworld Int'l Trading, Inc. Seabreeze Enterprises, Inc. G.A. Cu Unjieng Realty, Inc.	CPA

<i>Name/Citizenship/Age</i>	<i>Title</i>	<i>Corporate Affiliation</i>	<i>Profession/Occupation</i>
6. Benjamin C. Yap Filipino 75 years old	Director President/Chairman of the Board Chairman of the Board Director Director Director Director Director Director Director Director Director Director Director	Philtrust Bank Benjamin Favored Son, Inc.  House of Refuge Foundation U.S. Automotive Co., Inc. Usautoco, Inc. Manila Hotel Corporation Centro Escolar University Seabreeze Enterprises, Inc. Philtrust Realty Corp. Euro-Med Laboratories Phil., Inc. Manila Prince Hotel Corp. Cocusphil Development Corp. U.N. Properties Development Corp. Manila Bulletin Publishing Corporation	Business Executive
7. Jose M. Fernandez Filipino 78 years old	Director Chief Risk Officer Executive Vice President	Philtrust Bank Philtrust Bank Philtrust Bank	CPA Master in Business Administration
8. Chief Justice Hilario G. Davide, Jr. (Ret.) Filipino 85 years old	Independent Director Independent Director/ Vice Chairman  Director Trustee Chairman Trustee  Trustee Chairman Member Independent Director President	Philtrust Bank (April 30, 2013 to date) Manila Bulletin Publishing Corporation (2011 to date)  Kompass Credit and Financing Corporation University of San Carlos, Cebu City Claudio Teehankee Foundation, Inc. Knights of Columbus Fr. George J. Willmann, SJ Charities, Inc. Knights of Columbus of the Philippines Foundation, Inc. Heart of Francis Foundation, Inc. Knights of Rizal-Council of Elders Megawide Construction Corp. Association of Retired Justices of the Supreme Court of the Philippines	Lawyer Retired Chief Justice of the Supreme Court of the Philippines

<i>Name/Citizenship/Age</i>	<i>Title</i>	<i>Corporate Affiliation</i>	<i>Profession/Occupation</i>
9. Ernesto O. Chan* Filipino 74 years old	Independent Director Chairman/Treasurer/SVP Chairman Director Director/Treasurer Director/Treasurer	Philtrust Bank Pioneer Insurance and Surety Corp. Pioneer Intercontinental Insurance Corp. Pioneer Life, Inc. Bancasia Finance and Investment Corp. Bancasia Capital Corp.	Business Executive
10. Tomas V. Apacible* Filipino 75 years old	Independent Director Adviser Fellow Former Congressman	Philtrust Bank Philippine Cancer Society Institute of Corporate Directors Batangas, First District (June 2010 – June 2013)	Master in Business Management
11. (Vacant)			
12. (Vacant)			

\*First elected ID in April 2012.

<i>Name/Citizenship/Age</i>	<i>Title</i>	<i>Corporate Affiliation</i>	<i>Profession/Occupation</i>
Carlos A. Pinpin, Jr. Filipino 64 years old	Executive Vice President	Philtrust Bank	Master in Business Management Bank Executive
Virginia S. Choa-Shi Filipino 66 years old	Executive Vice President	Philtrust Bank	Bank Executive
Luisa A. Lucin Filipino 64 years	Senior Vice President Principal Accounting Officer	Philtrust Bank Philtrust Bank	CPA Bank Executive
Atty. Agnes B. Urbano Filipino 59 years old	Asst. Corporate Secretary First Vice President	Philtrust Bank Philtrust Bank	Lawyer
Benito D. Chua Filipino 64 years old	Treasurer Vice President	Philtrust Bank Philtrust Bank	Bank Executive
Pompeyo A. Claveria Filipino 67 years old	Compliance Officer Vice President	Philtrust Bank Philtrust Bank	CPA Bank Executive

**CERTIFICATION OF INDEPENDENT DIRECTOR**


I, **ERNESTO O. CHAN**, Filipino, of legal age and with office address at Pioneer Insurance and Surety Corp., 108 Paseo de Roxas, Makati City, after having been duly sworn in accordance with law, do hereby declare that:

1. I am a nominee for independent director of the Philippine Trust Company, also known as PHILTRUST BANK, and have been its independent director since 2012 \*.
2. I am affiliated with the following companies or organizations:

COMPANY/ORGANIZATION	POSITION/ RELATIONSHIP	PERIOD OF SERVICE
Pioneer Insurance and Surety Corp.	Chairman /Treasurer/SVP	1988/1973-Present
Pioneer Intercontinental Insurance Corp.	Chairman	1988-Present
Pioneer Life, Inc.	Director	2003-Present
Bancasia Finance and Investment Corp.	Director/Treasurer	1979/1980-Present
Bancasia Capital Corp.	Director/Treasurer	1988-Present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Philtrust Bank, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
4. I am not related to any director/officer/substantial shareholder of Philtrust Bank and its subsidiaries and affiliates.
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
6. I am not in government service/affiliated with a government agency or GOCC.
7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
8. I shall inform the Corporate Secretary of Philtrust Bank of any change in the abovementioned information within five days from its occurrence.


Done this JUN 16 2020 at the City of Manila.

  
ERNESTO O. CHAN  
Affiant

Republic of the Philippines)  
City of Manila ) s.s.

SUBSCRIBED AND SWORN to before me this JUN 16 2020 at the City of Manila  
affiant exhibiting to me his Tax Identification Number 100-581-717.

Doc. No. 101;  
Page No. 26;  
Book No. I;  
Series of 2020.

  
**ATTY. AGNES B. URBANO**  
Notary Public for the City of Manila  
Commission No. 2019-150 Until 12-31-2020  
Roll of Attorneys-43309; IBP-624469  
MCLE VI-0002910; PTR-MLA 9181421 1-17-2020  
1000 U.N. Avenue, Manila

\* Reckoning year per SEC Memorandum Circular No. 4, Series of 2017.



**CERTIFICATION OF INDEPENDENT DIRECTOR**

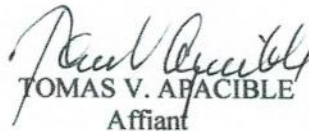
I, TOMAS V. APACIBLE, Filipino, of legal age and with office address at Philtrust Bank, 1000 United Nations Avenue corner San Marcelino Street, Manila, after having been duly sworn in accordance with law, do hereby declare that:

1. I am a nominee for independent director of the Philippine Trust Company, also known as PHILTRUST BANK, and have been its independent director since 2012 \*.
2. I am affiliated with the following companies or organizations:

COMPANY/ORGANIZATION	POSITION/RELATIONSHIP	PERIOD OF SERVICE
House of Representatives	Congressman-Batangas-First District	June 2010-June 2013
Institute of Corporate Directors	Fellow	July 2013-Present
Philippine Cancer Society	Adviser	July 2013-Present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Philtrust Bank, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
4. I am not related to any director/officer/substantial shareholder of Philtrust Bank and its subsidiaries and affiliates.
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
6. I am not in government service/affiliated with a government agency or GOCC.
7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
8. I shall inform the Corporate Secretary of Philtrust Bank of any change in the abovementioned information within five days from its occurrence.


Done this JUN 16 2020 at the City of Manila.

  
TOMAS V. APACIBLE  
Affiant

Republic of the Philippines)  
City of Manila ) s.s.

SUBSCRIBED AND SWORN to before me this JUN 16 2020 at the City of Manila  
affiant exhibiting to me his Tax Identification Number 124-134-842

Doc. No. 122;  
Page No. 26;  
Book No. I;  
Series of 2020.

  
ATTY. AGNES B. URBANO  
Notary Public for the City of Manila  
Commission No. 2019-150 Until 12-31-2020  
Roll of Attorneys-43309; IBP-624469  
MCLE VI-0002910; PTR-MLA 9181421 1-17-2020  
1000 U.N. Avenue, Manila

\* Reckoning year per SEC Memorandum Circular No. 4, Series of 2017.

### CERTIFICATION OF INDEPENDENT DIRECTOR

I, HILARIO G. DAVIDE, JR., Filipino, of legal age and with office address at Philtrust Bank, 1000 United Nations Avenue corner San Marcelino Street, Manila, after having been duly sworn in accordance with law, do hereby declare that:

1. I am a nominee for independent director of the Philippine Trust Company, also known as PHILTRUST BANK, and have been its independent director since 2013.
2. I am also affiliated with the following companies or organizations:

COMPANY/ORGANIZATION	POSITION/RELATIONSHIP	PERIOD OF SERVICE
Manila Bulletin Publishing Corporation	Independent Director/ Vice Chairman	2011 to date
Kompass Credit and Financing Corporation	Director	2016 to date
University of San Carlos, Cebu City	Trustee	Sept. 2014 to date
Claudio Teehankee Foundation, Inc.	Chairman	2013 to date
Knights of Columbus Fr. George J. Willmann, SJ Charities, Inc.	Trustee	2015 to date
Knights of Columbus of the Philippines Foundation, Inc.	Trustee	2015 to date
Heart of Francis Foundation, Inc.	Chairman	2015 to date
Knights of Rizal – Council of Elders	Member	2008 to date
Megawide Construction Corp.	Independent Director	Sept. 2016 to date
Association of Retired Justices of the Supreme Court of the Philippines	President	2010 to 12 June 2020

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Philtrust Bank, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
4. I am not related to any director/officer/substantial shareholder of Philtrust Bank and its subsidiaries and affiliates.
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
6. I am not in government service/affiliated with a government agency or GOCC.



7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
8. I shall inform the Corporate Secretary of Philtrust Bank of any change in the abovementioned information within five days from its occurrence.


Done this JUN 17 2020 at the City of Manila.

  
HILARIO G. DAVIDE, JR.  
Affiant

Republic of the Philippines)  
City of Manila ) s.s.

SUBSCRIBED AND SWORN to before me this JUN 17 2020 at the City of Manila affiant exhibiting to me his Tax Identification Number 135-900-348.

Doc. No. 123 ;  
Page No. 26 ;  
Book No. I ;  
Series of 2020.

  
**ATTY. AGNES B. URBANO**  
Notary Public for the City of Manila  
Commission No. 2019-150 Until 12-31-2020  
Roll of Attorneys-43309, LBP-624469  
MCLE VI-0002610; PTR-MLA 9181421 1-17-2020  
1000 U.N. Avenue, Manila





# PHILTRUST BANK PHILIPPINE TRUST COMPANY

PHILTRUST BANK BUILDING  
UNITED NATIONS AVE. CORNER SAN MARCELINO ST.,  
MANILA, PHILIPPINES

Annex "B"

TEL.: 8524-90-61 TO 76  
3498-01-90 TO 99  
FAX: 8521-73-09 / 3498-02-00  
SWIFT: PHTBPHMM  
EMAIL: ptc@philtrustbank.com

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **PHILTRUST BANK (Philippine Trust Company)** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2020 and 2019, 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 and 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.

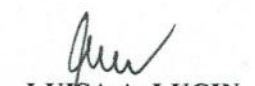
The Board of Directors is responsible in overseeing the Bank's financial reporting process.

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

**REYES TACANDONG & 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 or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

  
**BASILIO C. YAP**  
Chairman of the Board

  
**JAIME C. LAYA**  
President

  
**LUISA A. LUCIN**  
Chief Finance Officer

REPUBLIC OF THE PHILIPPINES)  
CITY OF MANILA )s.s.


Subscribed and sworn to before me this APR 27 2021, affiants exhibiting to me their respective Tax Identification Numbers, as follows:

Basilio C. Yap  
Jaime C. Laya  
Luisa A. Lucin

TIN 132-309-833  
TIN 103-175-586  
TIN 109-213-381

Doc. No. 459  
Page No. 93  
Book No. II  
Series of 2021

April 27, 2021

  
**NEMESIO M. DOMINGO**  
Commission No. 2020-026  
Notary Public for the City of Manila  
Until December 31, 2021  
1000 U.N. Ave. Cor. San Marcelino St., Manila  
MCLE Compliance No. VI-0002900, 04/14/22  
Roll No. 43903 / 05-07-99  
PTR No. 9824651, 01/04/21 Manila  
IBP No. 03932 / Isabela  
TIN 109-213-922

# COVER SHEET

**for**

**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

P W - 1 0 5

**COMPANY NAME**

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

Form Type

A	A	F	S
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Department requiring the report

C	R	M	D
---	---	---	---

Secondary License Type, If Applicable

N	/	A
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## COMPANY INFORMATION

Company's Email Address

**ptc@philtrustbank.com**

Company's Telephone Number/s

**(02) 8524-9061**

Mobile Number

—

No. of Stockholders

82

Annual Meeting (Month / Day)

July 28

Calendar Year (Month / Day)

December 31

**CONTACT PERSON INFORMATION**

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

Name of Contact Person

**Ms. Luisa A. Lucin**

Email Address

[ptcacctg@philtrustbank.com](mailto:ptcacctg@philtrustbank.com)

Telephone Number/s

**(02) 8524-7309**

Mobile Number

0917-830-1738

**CONTACT PERSON'S ADDRESS**

**Philtrust Bank Building, 1000 United Nations Avenue corner San Marcelino Street, Manila**

**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 shall not excuse the corporation from liability for its deficiencies.**



## INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors  
Philippine Trust Company (Philtrust Bank)  
Philtrust Bank Building, 1000 United Nations Avenue corner  
San Marcelino Street, Manila

### *Opinion*

We have audited the accompanying financial statements of Philippine Trust Company (Philtrust Bank) (the Bank), which comprise the statements of financial position as at December 31, 2020 and 2019, the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2020, 2019 and 2018, and notes to financial statements, including a summary of significant accounting policies.

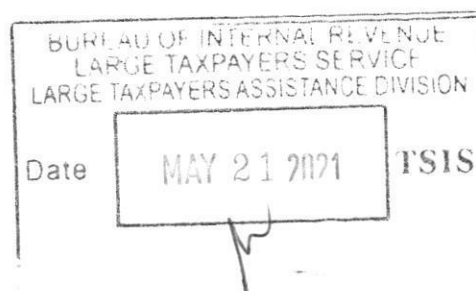
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years ended December 31, 2020, 2019 and 2018 in accordance with Philippine Financial Reporting Standards (PFRS).

### *Basis for Opinion*

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *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 the 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.

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements as at and for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.







Completeness and Accuracy of Loans and Receivables and Interest Income

The Bank has continued to utilize its traditional procedures and processes in maintaining loan records. Worksheets were prepared to summarize the terms and relevant information of the outstanding loans. Outstanding loans and receivables as at December 31, 2020 amounting to ₱22,941.4 million, net of allowance for credit and impairment losses, represent 13.62% of the Bank's total assets. Moreover, the related interest income on loans and receivables amounting to ₱1,276.8 million represents 23.77% of the total revenue.

Due to the significant volume of transactions and various payment terms and conditions of the loan accounts, additional procedures were taken to ensure the completeness and validity of the loans and receivables, accuracy of the interest income, recognition of accrued interest, and timely and proper monitoring of loan account status.

Our audit procedures included, among others, (a) obtaining an understanding of the recording and loan administration processes; (b) verifying the excel summary of significant loan accounts prepared by the Bank by comparing the same with relevant loan documents and ensuring completeness of loan records; (c) re-computing the interest income of significant loan accounts in accordance with the terms and conditions reflected in loan summaries; (d) re-computing accrued interest; and (e) validating the status of the significant loan accounts on a sample basis.

The potential effect of item (e) in the allowance for credit and impairment losses is addressed in the discussion of key audit matter relating to the "Adequacy of Allowance for Credit and Impairment Losses on Loans and Receivables."

The relevant disclosures affecting loans and receivables and interest income are presented in Note 9 to financial statements.

Adequacy of Allowance for Credit and Impairment Losses on Loans and Receivables

The Bank recognized allowance for credit and impairment losses on loans and receivables using the Expected Credit Loss (ECL) model as at December 31, 2020 amounting to ₱4,201.5 million.

The Bank's allowance for credit and impairment losses on loans and receivables is significant to our audit because it involves the exercise of significant management judgment which include, among others, (a) determining the appropriate groupings of the Bank's credit risk exposures to establish the portfolio of counterparties with similar credit risk characteristics; (b) defining what constitutes a default; (c) determining the appropriate method to estimate the ECL; (d) identifying the exposures with significant increase in credit risk; (e) determining the relevant assumptions and variables to be used in the ECL model; and (f) incorporating the appropriate forward-looking information in the ECL calculation.

Our audit procedures include understanding the methodologies and ECL model used by the Bank and assessing the compliance with the key requirements of PFRS 9. We have performed an independent assessment of the significant management judgment incorporated in and used in the preparation of ECL model.

LARGE TAXPAYERS SERVICE LARGE TAXPAYERS ASSISTANCE DIVISION	
Date	MAY 21 2021 TSIS



We have also assessed the reliability of the data used in the ECL model through inspection of the source data. On a sample basis, we have also performed recalculation of the allowance and provision for credit and impairment losses.

We also checked the adequacy of disclosures made by the Bank in relation to the requirements of PFRS 9 and the discussion of the methodologies used and the related financial impact as disclosed in Notes 4, 9 and 13 to the financial statements.

#### *Other Information*

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2020, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2020 are expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified in the foregoing when these become available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

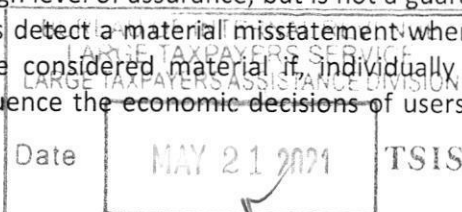
Management is responsible for the preparation and fair presentation of these financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud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

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

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

#### *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 PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, these could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.



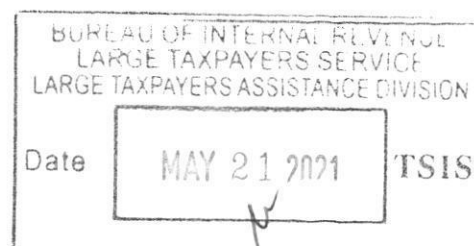


As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.





From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore considered key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Haydee M. Reyes.

**REYES TACANDONG & Co.**

HAYDEE M. REYES

Partner

CPA Certificate No. 83522

Tax Identification No. 102-095-265-000

BOA Accreditation No. 4782; Valid until August 15, 2021

SEC Accreditation No. 83522-SEC Group A

Issued March 10, 2020

Valid for Financial Periods 2019 to 2023

BIR Accreditation No. 08-005144-006-2019

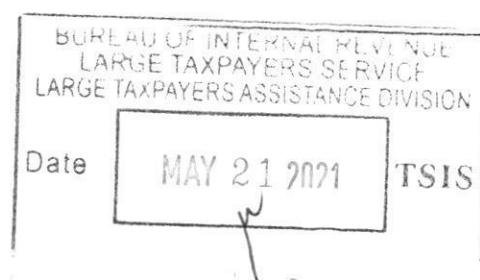
Valid until October 20, 2022

PTR No. 8534276

Issued January 5, 2021, Makati City

April 27, 2021

Makati City, Metro Manila



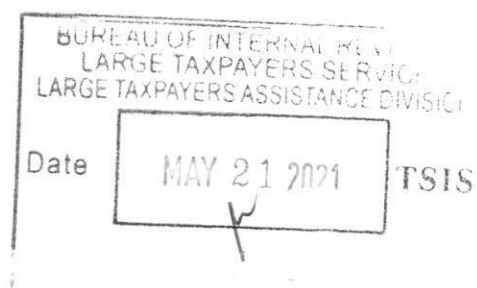
**PHILIPPINE TRUST COMPANY (PHILTRUST BANK)**

**STATEMENTS OF FINANCIAL POSITION**

*Amounts in Thousands*

		<b>December 31</b>	
	Note	2020	2019
<b>ASSETS</b>			
Cash and Other Cash Items	6	<b>₱1,053,253</b>	₱904,496
Due from Bangko Sentral ng Pilipinas	6	<b>53,609,068</b>	30,355,961
Due from Other Banks	6	<b>2,056,689</b>	2,631,549
Securities Purchased under Resale Agreement	7	<b>12,759,152</b>	20,336,561
Investment Securities	8	<b>70,589,080</b>	78,374,908
Loans and Receivables	9	<b>22,941,384</b>	22,581,170
Property and Equipment	10	<b>2,900,675</b>	2,886,665
Investment Properties	11	<b>1,659,589</b>	1,518,949
Deferred Tax Assets	26	<b>697,983</b>	961,126
Other Assets	12	<b>202,961</b>	240,038
		<b>₱168,469,834</b>	₱160,791,423
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Deposit Liabilities	14	<b>₱140,827,581</b>	₱134,346,168
Accrued Taxes, Interest and Other Expenses	15	<b>229,235</b>	223,336
Manager's Checks		<b>94,165</b>	155,936
Lease Liabilities	24	<b>183,170</b>	144,866
Other Liabilities	16	<b>226,573</b>	225,227
Total Liabilities		<b>141,560,724</b>	135,095,533
<b>Equity</b>			
Capital Stock	18	<b>10,000,000</b>	10,000,000
Reserves	18	<b>72,320</b>	72,320
Retained Earnings		<b>13,848,728</b>	12,900,190
Other Equity Reserves		<b>2,988,062</b>	2,723,380
Total Equity		<b>26,909,110</b>	25,695,890
		<b>₱168,469,834</b>	₱160,791,423

See accompanying Notes to Financial Statements.





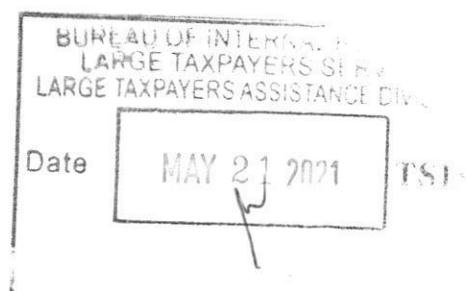
**PHILIPPINE TRUST COMPANY (PHILTRUST BANK)**

**STATEMENTS OF INCOME**

*Amounts in Thousands, Except Basic and Diluted Earnings Per Share*

		<b>Years Ended December 31</b>		
	Note	2020	2019	2018
<b>INTEREST INCOME ON:</b>				
Investment securities	8	<b>₱3,107,686</b>	₱3,473,869	₱3,114,408
Loans and receivables	9	<b>1,276,845</b>	2,053,141	1,443,370
Deposits from Bangko Sentral ng Pilipinas and other banks	6	<b>870,278</b>	797,014	855,855
Securities purchased under resale agreement	7	<b>116,198</b>	324,811	245,134
		<b>5,371,007</b>	6,648,835	5,658,767
<b>INTEREST EXPENSE ON DEPOSIT LIABILITIES</b>	14	<b>3,295,586</b>	4,080,899	3,220,591
<b>NET INTEREST INCOME</b>		<b>2,075,421</b>	2,567,936	2,438,176
<b>PROVISION FOR CREDIT AND IMPAIRMENT LOSSES</b>				
	13	<b>152,700</b>	37,349	453,027
<b>OTHER INCOME</b>				
Gain on sale of investment securities	8	<b>1,944,966</b>	676,879	1,082,984
Gain on foreclosure of investment properties	11	<b>173,628</b>	42,074	—
Service fees and commissions		<b>46,255</b>	76,552	85,735
Net foreign exchange gains		<b>17,610</b>	24,805	117,949
Others - net	20	<b>49,501</b>	244,156	144,988
		<b>2,231,960</b>	1,064,466	1,431,656
<b>OPERATING EXPENSES</b>				
Compensation and employee benefits	21	<b>922,236</b>	852,805	871,534
Occupancy and equipment-related expenses	22	<b>169,746</b>	150,679	145,726
Others	23	<b>1,113,843</b>	1,101,755	1,114,101
		<b>2,205,825</b>	2,105,239	2,131,361
<b>INCOME BEFORE INCOME TAX</b>		<b>1,948,856</b>	1,489,814	1,285,444
<b>INCOME TAX EXPENSE</b>	26	<b>1,000,318</b>	709,384	461,682
<b>NET INCOME</b>		<b>₱948,538</b>	₱780,430	₱823,762
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	19	<b>₱0.95</b>	₱0.78	₱0.82

*See accompanying Notes to Financial Statements.*



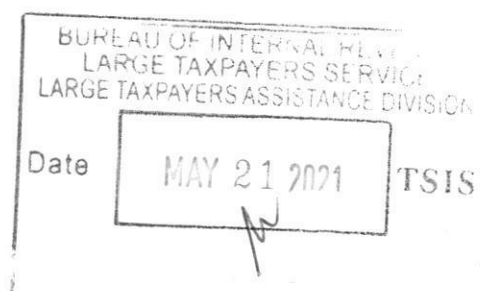
**PHILIPPINE TRUST COMPANY (PHILTRUST BANK)**

**STATEMENTS OF COMPREHENSIVE INCOME**

*Amounts in Thousands*

		<b>Years Ended December 31</b>		
	Note	2020	2019	2018
<b>NET INCOME</b>		<b>₱948,538</b>	<b>₱780,430</b>	<b>₱823,762</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<i>Items to be reclassified to profit or loss:</i>				
Translation adjustment		<b>(93,832)</b>	(20,776)	(80,286)
Net unrealized gains (losses) on fair value changes of debt securities	8	<b>12,237</b>	3,799,735	(3,353,601)
<i>Items not to be reclassified to profit or loss:</i>				
Net unrealized gains (losses) on fair value changes of equity securities	8	<b>345,952</b>	(13,950)	(262,936)
Remeasurement gain (loss) on retirement liability, net of deferred tax	21	<b>325</b>	(126)	328
		<b>264,682</b>	3,764,883	(3,696,495)
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>		<b>₱1,213,220</b>	<b>₱4,545,313</b>	<b>(₱2,872,733)</b>

*See accompanying Notes to Financial Statements.*



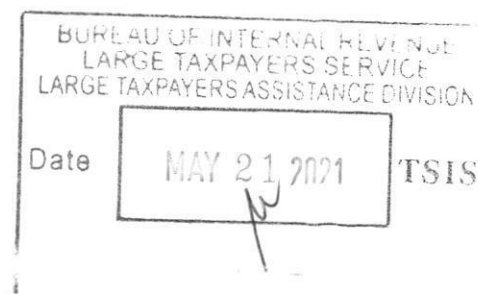
**PHILIPPINE TRUST COMPANY (PHILTRUST BANK)**

**STATEMENTS OF CHANGES IN EQUITY**

*Amounts in Thousands*

		Years Ended December 31		
	Note	2020	2019	2018
<b>CAPITAL STOCK</b>	18	<b>₱10,000,000</b>	₱10,000,000	₱10,000,000
<b>RESERVES</b>	18	<b>72,320</b>	72,320	72,320
<b>RETAINED EARNINGS</b>				
Balance at beginning of year		<b>12,900,190</b>	12,119,760	11,295,998
Net income		<b>948,538</b>	780,430	823,762
Balance at end of year		<b>13,848,728</b>	12,900,190	12,119,760
<b>OTHER EQUITY RESERVES</b>				
<b>Cumulative Unrealized Gains (Losses) on Fair Value Changes of Investment Securities</b>	8			
Balance at beginning of year		<b>2,481,386</b>	(1,304,399)	2,312,138
Net unrealized gains (losses)		<b>358,189</b>	3,785,785	(3,616,537)
Balance at end of year		<b>2,839,575</b>	2,481,386	(1,304,399)
<b>Cumulative Translation Adjustment</b>				
Balance at beginning of year		<b>234,124</b>	254,900	335,186
Translation adjustment		<b>(93,832)</b>	(20,776)	(80,286)
Balance at end of year		<b>140,292</b>	234,124	254,900
<b>Cumulative Remeasurement Gains on Retirement Liability</b>	21			
Balance at beginning of year		<b>7,870</b>	7,996	7,668
Net remeasurement gain (loss)		<b>325</b>	(126)	328
Balance at end of year		<b>8,195</b>	7,870	7,996
		<b>2,988,062</b>	2,723,380	(1,041,503)
		<b>₱26,909,110</b>	₱25,695,890	₱21,150,577

*See accompanying Notes to Financial Statements.*



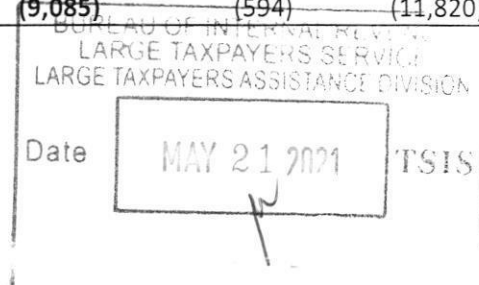
**PHILIPPINE TRUST COMPANY (PHILTRUST BANK)**

**STATEMENTS OF CASH FLOWS**

*Amounts in Thousands*

		Years Ended December 31		
	Note	2020	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income before income tax		₱1,948,856	₱1,489,814	₱1,285,444
Adjustments for:				
Gain on sale of:				
Investment securities	8	(1,944,966)	(676,879)	(1,082,984)
Investment properties	11	(10,295)	(99,728)	(45,672)
Property and equipment	10	(8,131)	(11,771)	(143)
Computer software	12	—	(1,526)	—
Amortization of investment securities	8	854,369	1,505,405	(1,007,981)
Net provision (reversal of allowance) for credit and impairment losses:	13			
Loans and receivables		199,084	21,627	435,698
Investment securities		(41,205)	9,744	3,872
Commitments and other contingent asset		(5,178)	5,978	13,457
Gain on foreclosure of investment properties	11	(173,628)	(42,074)	—
Depreciation and amortization	10	163,226	124,140	74,792
Retirement benefits	21	52,675	43,514	48,760
Dividend income	20	(27,845)	(29,073)	(23,506)
Interest expense on lease liabilities	24	10,211	10,470	—
Gain on pre-termination of lease contract	10, 24	(493)	—	—
Operating income (loss) before working capital changes		1,016,680	2,349,641	(298,263)
Decrease (increase) in:				
Loans and receivables		(648,932)	3,182,851	(2,017,466)
Other assets		41,553	(36,868)	11,915
Increase (decrease) in:				
Deposit liabilities		6,481,413	3,169,080	1,512,758
Manager's checks		(61,771)	43,968	(15,492)
Accrued taxes, interest and other expenses		5,899	(65,922)	22,537
Other liabilities		6,901	(46,748)	61,621
Net cash generated from (used for) operations		6,841,743	8,596,002	(722,390)
Income tax paid		(737,314)	(606,018)	(517,064)
Contributions to the retirement fund	21	(52,588)	(49,245)	(48,645)
Net cash provided by (used in) operating activities		6,051,841	7,940,739	(1,288,099)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Additions to:				
Investment securities	8	(28,926,613)	(8,651,025)	(10,250,825)
Property and equipment	10	(51,583)	(76,251)	(142,393)
Computer software	12	(9,085)	(594)	(11,820)

(Forward)



Years Ended December 31				
	Note	2020	2019	2018
Proceeds from:				
Maturities/disposal of financial assets at:				
Fair value through other comprehensive income	8	₱21,193,749	₱6,231,907	₱8,023,293
Amortized cost	8	17,008,683	—	20,243
Sale of investment properties	11	110,182	111,854	220,850
Sale of property and equipment	10	8,372	11,819	15,857
Sale of computer software	12	—	1,586	—
Dividend received		27,845	29,073	23,506
Net cash provided by (used in) investing activities		9,361,550	(2,341,631)	(2,101,289)
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>				
Payment of lease liabilities	24	(69,964)	(46,131)	—
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		(93,832)	(20,777)	(80,286)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		15,249,595	5,532,200	(3,469,674)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>				
Cash and other cash items		₱904,496	₱1,134,062	₱828,754
Due from Bangko Sentral ng Pilipinas		30,355,961	18,390,980	25,498,556
Due from other banks		2,631,549	3,491,325	4,129,546
Securities purchased under resale agreement		20,336,561	25,680,000	21,709,185
		₱54,228,567	₱48,696,367	₱52,166,041
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>				
Cash and other cash items	6	₱1,053,253	₱904,496	₱1,134,062
Due from Bangko Sentral ng Pilipinas	6	53,609,068	30,355,961	18,390,980
Due from other banks	6	2,056,689	2,631,549	3,491,325
Securities purchased under resale agreement	7	12,759,152	20,336,561	25,680,000
		₱69,478,162	₱54,228,567	₱48,696,367
<b>OPERATING CASH FLOWS FROM INTEREST</b>				
Interest received		₱5,613,534	₱6,673,855	₱5,669,635
Interest paid		3,336,536	4,087,531	3,200,293
<b>NONCASH INFORMATION</b>				
Foreclosure of investment properties	11	₱263,262	₱140,335	₱153,796
Recognition of:				
Right-of-use assets	10	102,976	170,421	—
Lease liabilities	24	102,976	180,527	—

See accompanying Notes to Financial Statements.

BUREAU OF REVENUE  
LARGE TAXPAYERS SERVICE  
LARGE TAXPAYERS ASSISTANCE DIVISION  
Date MAY 21 2021 TSIS

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## PHILIPPINE TRUST COMPANY (PHILTRUST BANK)

### NOTES TO FINANCIAL STATEMENTS

*(Amounts in Thousands)*

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#### 1. General Information

Philippine Trust Company (Philtrust Bank) (the Bank) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) and Bangko Sentral ng Pilipinas (BSP). The Bank is primarily engaged in commercial and investment banking. The Bank offers a wide range of products and services such as deposit products, loans, international, treasury and trust functions. The Bank also provides investment management, estate administration, escrow services, insurance and pension plans, stock registry and transfer services.

The Bank is one of the oldest private commercial banks in the Philippines and originally issued with a Certificate of Incorporation by the SEC on October 21, 1916.

The Bank has its primary listing on the Philippine Stock Exchange, Inc. (PSE) on February 17, 1988.

The Bank was conferred full universal bank status on June 5, 2007.

As at December 31, 2020 and 2019, the Bank operates a total of 61 branches. The Bank has 72 automated teller machines (ATM): 49 on-site distributed at its head office and branches and 23 off-site in 2020 and 67 ATMs: 46 on-site and 21 off-site ATMs in 2019.

The Bank has a wholly-owned subsidiary, Muralla Grande, Inc. (MGI), which is primarily engaged in real estate business. On July 31, 2018, the Board of Directors (BOD) approved the closure of business and dissolution of MGI. On September 5, 2019, the Bank already obtained the tax clearance for the dissolution from the Bureau of Internal Revenue (BIR). On February 17, 2020, the SEC approved the amended Articles of Incorporation of MGI, shortening the term of its existence thereby dissolving the corporation.

The principal office of the Bank is at Philtrust Bank Building, 1000 United Nations Avenue corner San Marcelino Street, Manila.

#### **Approval of the Financial Statements**

The financial statements of the Bank as at December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018 were approved and authorized for issuance by the BOD on April 27, 2021.

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#### 2. Summary of Significant Accounting Policies

##### **Basis of Preparation and Statement of Compliance**

The financial statements have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS) issued by the Financial Reporting Standards Council and adopted by the SEC.

This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS), Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), and the SEC provisions.

### **Measurement Bases**

The financial statements have been prepared on a historical cost basis, except for:

- financial assets measured at fair value through other comprehensive income (FVOCI);
- retirement liability that is carried at the present value of defined benefit obligation less fair value of plan assets.

Historical cost is generally based on the fair value of the consideration given in exchange for an asset and fair value of the consideration received in exchange for incurring a liability. 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 transaction date.

The Bank uses observable market data as far as possible when measuring the fair value of an asset or a liability. Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Bank recognizes transfers between levels of the fair value hierarchy at the end of the reporting year during which the change has occurred.

Information about the assumptions made in measuring fair values is included in Note 4, *Financial Risk Management*.

### **Functional and Presentation Currency**

The financial statements are presented in Philippine Peso. The financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). Items in the financial statements of each banking unit are measured using the currency of the primary economic environment in which the banking unit operates (the functional currency).

The functional currency of the RBU and FCDU is the Philippine Peso and United States Dollar (USD), respectively. For financial reporting purposes, the FCDU accounts are translated into their equivalent amounts in Philippine Peso. The financial statements of RBU and FCDU are combined after eliminating inter-unit accounts. All values are rounded to the nearest thousands, except when otherwise indicated.

### **Presentation of Financial Statements**

The Bank presents its statement of financial position broadly in the order of liquidity. An analysis of recoveries or settlements within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 17, *Maturity Analysis of Assets and Liabilities*.

### **Adoption of Amendments to PFRS**

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amendments to PFRS which the Bank adopted effective January 1, 2020.

- Amendments to References to the Conceptual Framework in PFRS – The amendments include a new chapter on measurement, guidance on reporting financial performance, improved definitions and guidance-in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurements uncertainty in financial reporting. The amendments should be applied retrospectively unless retrospective application would be impracticable or involve undue cost or effort.
- Amendments to PFRS 3 - *Definition of a Business* – This amendment provides an improved definition of a “business” which emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. To be considered a business, ‘an integrated set of activities and assets’ must include, at a minimum, ‘an input and a substantive process that together significantly contribute to the ability to create an output’. The clarification is important because an acquirer may recognize goodwill (or a bargain purchase) when acquiring a business but not a group of assets. An optional simplified assessment (the concentration test) has been introduced to help companies determine whether an acquisition is of a business or a group of assets.
- Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material* – The amendments clarify the definition of “material” and how it should be applied by companies in making materiality judgments. The amendments ensure that the new definition is consistent across all PFRS. Based on the new definition, an 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.

Effective for annual periods beginning on or after June 1, 2020 -

- Amendments to PFRS 16, *Leases – Covid-19 Related Rent Concessions* – The amendments provide practical expedient to lessees from applying the requirements on lease modifications under PFRS 16 for eligible rent concessions that is a direct consequence of COVID-19 pandemic. A lessee may elect not to assess whether eligible rent concessions from a lessor is a lease modification. A lessee that makes this election account for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment. The amendments do not affect lessors. Earlier application of the amendments is permitted.



Under prevailing circumstances, the adoption of the foregoing amendments to PFRS did not have any material effect on the financial statements of the Bank. Additional disclosures were included in the financial statements, as applicable.

#### **Amendments to PFRS Issued but Not yet Effective**

Relevant amended PFRS, which are not yet effective as at December 31, 2020 and have not been applied in preparing the financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2022:

- Amendments to PFRS 3, *Reference to Conceptual Framework* – The amendments replace the reference of PFRS 3 from the 1989 Framework to the current 2018 Conceptual Framework. The amendment included an exception that specifies that, for some types of liabilities and contingent liabilities, an entity applying PFRS 3 should refer to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, or IFRIC 21, *Levies*, instead of the Conceptual Framework. The requirement would ensure that the liabilities recognized in a business combination would remain the same as those recognized applying the current requirements in PFRS 3. The amendment also added an explicit statement that contingent assets acquired in a business combination should not be recognized by an acquirer. The amendments should be applied prospectively.
- Amendments to PAS 16, *Property, Plant and Equipment - Proceeds before Intended Use* – The amendments prohibit deducting from the cost of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for its intended use. Instead, the proceeds and related costs from such items shall be recognized in profit or loss. The amendments must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when an entity first applies the amendment.
- Amendments to PAS 37, *Onerous Contracts - Cost of Fulfilling a Contract* – The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling a contract comprises both the incremental costs of fulfilling that contract and an allocation of costs directly related to contract activities. The amendments apply to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other components of equity. Accordingly, the comparatives are not restated. Earlier application is permitted.
- Annual Improvements to PFRS 2018 to 2020 Cycle -
  - Amendments to PFRS 9, *Financial Instruments - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities* – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether to derecognize a financial liability (i.e. whether the terms of a new or modified financial liability is substantially different from the terms of the original financial liability). These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf. The amendments apply to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendments. Earlier application is permitted.

- Amendments to PFRS 16, *Leases - Lease Incentives* – The amendment removes from the Illustrative Example 13 the illustration of the reimbursement of leasehold improvements by the lessor. The objective of the amendment is to avoid any potential confusion regarding the treatment of lease incentives because of how the requirements for lease incentives are illustrated.

Effective for annual periods beginning on or after January 1, 2023 -

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current* – The amendments clarify the requirements for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments also specify and clarify the following: (i) an entity's right to defer settlement must exist at the end of the reporting period, (ii) the classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement, (iii) how lending conditions affect classification, and (iv) requirements for classifying liabilities where an entity will or may settle by issuing its own equity instruments. The amendments must be applied retrospectively. Earlier application is permitted.

Under prevailing circumstances, the adoption of the foregoing amendments to PFRS is not expected to have any material effect on the financial statements of the Bank. Additional disclosures will be included in the financial statements, as applicable.

### **Financial Instruments**

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

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

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

### **Financial Assets**

*Classification.* The Bank classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at FVOCI and (c) financial assets at amortized cost.

The classification of a financial asset largely depends on the Bank's business model and its contractual cash flow characteristics.

*Financial Assets at FVPL.* Financial assets that do not meet the criteria for being measured at amortized cost or FVOCI are classified under this category. Specifically, financial assets at FVPL include financial assets that are (a) held for trading, (b) designated upon initial recognition at FVPL, or (c) mandatorily required to be measured at fair value.

Financial assets are classified as held for trading if these are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless these are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt securities to be classified at amortized cost or at FVOCI, debt securities may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are measured at fair value at each reporting date, with any fair value gains or losses recognized in profit or loss to the extent these are not part of a designated hedging relationship. Interest income (calculated using the effective interest rate method) is recognized directly in profit or loss.

The Bank does not have financial assets at FVPL as at December 31, 2020 and 2019.

*Financial Assets at FVOCI- Debt Securities.* For debt securities that are not designated at FVPL under the fair value option, the financial assets are measured at FVOCI if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and sell the financial assets; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These debt securities are initially measured at fair value plus transaction costs. After initial recognition, interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairment losses of debt securities measured at FVOCI are recognized directly in profit or loss. Fair value changes are recognized in other comprehensive income and presented in the equity section of the statement of financial position. When the financial asset is derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment.

Certain investments in government securities and corporate bonds are included in this category.

*Financial Assets at FVOCI- Equity Instruments.* On initial recognition, equity instruments that are not held for trading may be irrevocably designated as a financial asset measured at FVOCI.

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

Quoted and unquoted equity securities are classified under this category.

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

- it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less any allowance for credit and impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate.

Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process. Financial assets at amortized cost are included under current assets if realizability or collectability is within 12 months after the reporting year. Otherwise, these are classified as noncurrent assets.

Cash and other cash items, due from BSP and other banks, securities purchased under resale agreement, loans and receivables, certain government securities and corporate bonds (presented under "Investment securities" account), refundable deposits, other investments and returned checks and other cash items (RCOCI) (included under "Other assets" account) are classified under this category.

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

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

For a financial asset reclassified out of the financial assets at FVOCI category to financial assets at amortized cost, the financial asset is reclassified at its fair value at the reclassification date, and the cumulative gain or loss previously recognized in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date.

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

*Impairment.* The Bank recognizes an allowance for expected credit losses (ECL) for all debt instruments not measured at FVPL and for exposures arising from loan commitments and financial guarantee contracts. ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Bank expects to receive. The difference is then discounted at an approximation to the asset's original effective interest rate and adjusted for forward-looking estimates, as appropriate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The measurement of ECL reflects: (a) an unbiased probability-weighted amount that is determined by evaluating a range of possible outcomes; (b) the time value of money; and (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

ECL is a function of the probability of default, loss given default and exposure of default, with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

The probability of default represents the likelihood that the borrower will default either over the next 12 months or over the remaining life of the asset. Loss given default represents the Bank's expectation of the extent of loss on a default exposure. Exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

The Bank measures loss allowances at an amount equal to the 12-month ECL for the following:

- Debt securities that are determined to have low credit risk at the reporting date; and
- Loans to customers and other financial instruments on which credit risk has not increased significantly since initial recognition.

The Bank considers its investment in debt securities to have a low credit risk when its credit risk rating is equivalent to "investment grade."

The 12-month ECL is the portion of ECL that results from default events on financial assets that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognized are referred to as "Stage 1 financial assets".

However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. Lifetime ECL is the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized but which are not credit-impaired are referred to as "Stage 2 financial assets".

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial asset as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. The Bank also considers downgrade of credit risk rating or changes in the computed probabilities of default to determine whether significant increase in credit risk has occurred subsequent to initial recognition date. As a backstop indicator, the Bank considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. In subsequent reporting years, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, then the Bank reverts them to Stage 1.

At each reporting date, the Bank assesses whether financial assets carried at amortized cost are credit-impaired (referred to as “Stage 3 financial assets”). A financial asset is “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. ECL for credit-impaired financial assets is based on the difference between the gross carrying amount and present value of estimated future cash flows. The Bank transfers credit exposures from Stage 3 (non-performing) to Stage 1 (performing) when there is sufficient evidence to support their full collection. Such exposures should exhibit both the quantitative and qualitative indicators of probable collection prior to the transfer. The quantitative indicator is characterized by payments made within an observation period. The qualitative indicator pertains to the results of assessment of the borrower’s financial capacity. As a general rule, full collection is probable when payments of interest and/or principal are received for at least six months.

Financial assets at amortized cost are written off when there is no reasonable expectation of recovering the financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

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

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

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

### **Financial Liabilities**

*Classification.* The Bank classifies its financial liabilities at initial recognition under the following categories: (a) financial liabilities at amortized cost and (b) financial liabilities at FVPL.

As at reporting date, the Bank does not have financial liabilities at FVPL.

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

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

This category includes deposit liabilities, accrued taxes, interest and other expenses, manager's check, lease liabilities and other liabilities (excluding statutory liabilities and retirement liability).

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

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

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

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

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

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

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

### **Offsetting of Financial Assets and Liabilities**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

### **Repurchase and Reverse Repurchase Agreements**

Securities sold subject to repurchase agreements are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities purchased under agreements to resell are recorded as loans and receivables to BSP, other banks or customers and are included in the statements of financial position. Securities lent to counterparties are also retained in the financial statements.

### **Property and Equipment**

Land is stated at cost less any impairment in value. Depreciable properties are stated at cost less accumulated depreciation, amortization and any impairment in value.

Historical cost includes expenditure that is directly attributable to the acquisition of the items which comprises its purchase price, import duties and any directly attributable costs of bringing the assets to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or are recognized as separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the asset can be measured reliably. All other repairs and maintenance are charged to profit or loss during the year in which these are incurred.

Depreciation and amortization are calculated using the straight-line method to allocate cost or residual values over the estimated useful lives as follows:

	Number of Years
Buildings and improvements	25
Furniture, fixtures and equipment	5
Transportation equipment	5
Right-of-use (ROU) assets	3 to 10 or the related lease term, whichever is shorter

The assets' estimated useful lives and depreciation and amortization methods are reviewed and adjusted if appropriate, at each reporting date. Assets are reviewed for impairment whenever assets or changes in circumstances indicate that the carrying amount may not be recoverable.

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



Fully depreciated assets are retained in the accounts until these are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

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

### **Investment Properties**

Investment properties consist of foreclosed properties and properties held for capital appreciation that are not occupied by the Bank.

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 such an asset cannot be measured, in which case the investment property acquired is measured at carrying amount of the asset given up. Foreclosed properties are recognized as "Investment properties" upon: (a) entry of judgment in case of judicial foreclosure; (b) execution of Certificate of Sale in case of extra-judicial foreclosure; or (c) notarization of the "Deed of Dacion" in case dation in payment (dacion en pago). Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation, and any impairment in value. Land is carried at cost less any impairment losses.

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

Depreciation is calculated on a straight-line basis using the remaining useful life from the time of acquisition of the investment properties but not to exceed 10 years for both buildings and condominium units, except if significant renovation is made thereon and the useful life of the building is extended.

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

Investment properties are derecognized when these have either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from their disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in profit or loss in the year of retirement or disposal. Gains and losses on retirement or disposal are determined by comparing proceeds with carrying amount.

### **Computer Software**

Computer software is measured initially at cost. Subsequently, computer software is measured at cost less accumulated amortization and any impairment losses. Internally-generated computer software, excluding capitalized development costs, is not capitalized and expenditures are recognized in profit or loss in the year in which the related expenditures are incurred.

Computer software is amortized using straight-line method over the useful life of five years and assessed for impairment whenever there is an indication that the computer software may be impaired. The amortization period and method used for computer software are reviewed annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization on computer software is recognized in profit or loss.

Gains or losses arising from the disposal of computer software are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

#### **Impairment of Nonfinancial Assets**

At each reporting date, the Bank assesses whether there is any indication of impairment on nonfinancial assets. 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 an asset's (or cash-generating units) fair value less costs to sell and its value in use and is determined for an individual 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 an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) 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 assessment of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value less cost to sell, recent market transactions are taken into account, if available. If no such transaction can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. 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 profit or loss. After such reversal, the depreciation and amortization are adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### **Equity**

*Capital Stock.* Capital stock is measured at par value for all shares issued. When the shares are sold at premium, the difference between the proceeds and the par value is credited to the additional paid-in capital in equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

*Reserves.* Reserves pertain to a portion of the Bank's income from trust operations set up on a yearly basis in compliance with the BSP regulations. Reserves also include of reserve for contingencies and self-insurance.

*Retained Earnings.* Retained earnings includes cumulative balance of net income or loss, effects of the changes in accounting policy and other capital adjustments.

*Dividends.* Dividends are recognized as a liability and deducted from equity when approved by the BOD of the Bank. Dividends for the year that are approved after year end are dealt with as an event after the reporting date.

#### **Other Comprehensive Income (Loss)**

Other comprehensive income (loss) comprises items of income and expenses (including items previously presented under equity) that are not recognized in profit or loss for the year in accordance with PFRS. Other comprehensive income (loss), which is presented as "Other equity reserves", pertains to cumulative unrealized gains (losses) on fair value changes of investment securities, cumulative translation adjustment, and cumulative remeasurement gains (losses) on retirement liability.

#### **Revenue Recognition**

Revenue from contracts with customers is recognized when the customer obtains control of the services at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be measured reliably.

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

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

*Interest Income.* For all financial instruments measured at amortized cost, interest income is recorded using the effective interest rate. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective rate, transaction costs and all other premiums or discounts.

When a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3, the Bank calculates interest income by applying the effective interest rate to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

*Gain on Sale of Investment Securities.* Gain on sale of investment securities is recognized during the year the investment securities are sold.

*Service Fees and Commissions.* Service charges and penalties, which are presented under "Service charges and commissions" in profit or loss, are recognized only upon collection or accrued when there is a reasonable degree of certainty as to its collectability. Commissions arising from providing transaction services are recognized upon completion of the transaction.

*Net Foreign Exchange Gains.* Foreign exchange gains and losses arising from the settlement of such transactions or from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

*Gains or Losses from Sale of Investment Properties.* Gain or loss from sale of investment properties is recognized upon completion of the earnings process and the collectability of the sales price is reasonably assured. Gain or loss on foreclosure of properties is determined as the difference between the fair value upon foreclosure and the carrying amount of the loan. Gain or loss on foreclosure of properties is recognized when the risks and rewards of the property have been transferred to the Bank.

*Rent Income.* Rent income arising on leased properties is accounted for on a straight-line basis over the lease terms of ongoing leases and is recognized in profit or loss under "Other Income."

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

*Other Income.* Revenue is recognized when earned.

#### **Costs and Expense Recognition**

Costs and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Costs and expenses are recognized upon receipt of goods, utilization of services or when the costs and expenses are incurred.

*Interest Expense.* Interest expense is recognized in profit or loss using the effective interest rate of the financial liabilities to which these relate.

*Operating Expenses.* Operating expenses constitute costs which arise in the normal business operations and are recognized when incurred.

#### **Leases**

##### *Policy Applicable Starting January 1, 2019*

The Bank considers whether a contract is, or contains a lease at the inception of a contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

*The Bank as a Lessee.* At commencement date of the lease, the Bank recognizes ROU assets and corresponding lease liabilities, except for short-term leases (defined as leases with a lease term of 12 months or less). For these leases, the Bank recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease liabilities are initially measured at the present value of the unpaid lease payments, discounted using the interest rate implicit in the lease (if readily available) or the Bank's incremental borrowing rate. Incremental borrowing rate is the rate of interest that the Bank would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the ROU assets in a similar economic environment.

ROU assets are initially measured at cost, which consist of the initial measurement of the lease liabilities, any initial direct costs incurred, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date.

Subsequent to initial measurement, the Bank amortizes ROU assets on a straight-line basis using the expected useful life of three to 10 years or the lease term, whichever is shorter. The Bank also assesses the ROU assets for impairment when such indicators exist.

ROU assets are presented as part of property and equipment.

Lease payments included in the measurement of the lease liabilities consists of fixed payments and, if any, variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, lease liabilities will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in the fixed payments. When the lease liabilities are remeasured, the corresponding adjustment is reflected in the ROU assets, or profit and loss if the ROU assets are already reduced to zero.

*The Bank as a Lessor.* Leases where the Bank retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which these are earned.

*Policy Applicable Prior to January 1, 2019*

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

- (a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) There is a change in the determination of whether fulfillment is dependent on a specified asset;  
or
- (d) There is substantial change to the asset.

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

Leases where the lessor or lessee retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense or income in profit or loss on a straight-line basis over the lease term.

### **Employee Benefits**

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

A provision is recognized for the amount expected to be paid under short-term cash bonus, short-term compensated absences or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be measured reliably.

*Retirement Benefits.* The Bank operates a funded, defined contribution (DC) plan covering its regular employees wherein the Bank pays a fixed contribution into a separate entity known as the trustee, which administers, manages and invests the funds. The Bank is covered under Republic Act (RA) No. 7641, *Retirement Law*, which provides for its qualified employees a defined benefit (DB) minimum guarantee. The DB minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA No. 7641.

The Bank accounts for its retirement obligation as the higher of the DB obligation relating to the minimum guarantee and the DC plan. For the DB minimum guarantee plan, the liability is determined based on the present value of the excess of the projected DB obligation over the projected DC obligation at the end of the reporting year. The DB obligation is calculated annually by a qualified independent actuary using the projected unit credit method. The Bank determines the net interest expense (income) on the net DB liability (asset) for the year by applying the discount rate used to measure the DB obligation at the beginning of the year to the then net DB liability (asset), taking into account any changes in the net DB liability (asset) during the year as a result of contributions and benefit payments. Net interest expense and other expenses related to the DB plan are recognized in profit or loss.

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

Remeasurements of the net DB liability, which comprise actuarial gains and losses, the return on unallocated plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive 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 profit or loss. The Bank recognizes gains or losses on the settlement of a DB plan when the settlement occurs.

### **Income Taxes**

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

*Current Tax.* Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

Deferred tax liabilities are recognized for all taxable temporary differences with certain exceptions. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from the excess of the minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at the end of each reporting year and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are re-assessed at the end of each reporting year and are recognized to the extent that it has become probable that sufficient future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates applicable to the year when the asset is realized or the liability is settled, based on tax rates (tax base) and regulations that have been enacted or substantively enacted at the reporting date.

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

### **Foreign Currency Transactions**

*RBUs.* Transactions in currencies other than Philippine Peso are recorded at the rate of exchange prevailing on the date of the transaction. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing on the reporting date. Foreign exchange gains or losses are recognized in profit or loss in the year in which these are incurred.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

*FCDU*. As at the reporting date, the assets and liabilities of the FCDU are translated into the Bank's functional and presentation currency at the Banking Association of the Philippines (BAP) closing rate, and its income and expenses are translated at the BAP weighted average rate for the year. Exchange differences arising from translation to foreign currency are recognized as other comprehensive income under "Cumulative translation adjustment". Upon disposal of the FCDU or actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized as "Cumulative translation adjustment" in other comprehensive income is recognized in profit or loss.

#### **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 subject 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.

#### **Earnings per Share (EPS)**

The Bank presents basic and diluted EPS data for its common shares. Basic EPS is computed by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential common shares, if any.

#### **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.

#### **Segment Reporting**

Operating segments are components of the Bank: (a) that engage in business activities from which they may earn revenue and incur expenses (including revenues and expenses relating to transactions with other components of the Bank); (b) whose operating results are regularly reviewed by the Bank's senior management, its chief operating decision maker, to make decisions about resources to be allocated to the segment and assess its performance; and (c) for which discrete financial information is available.

For purposes of management reporting, the Bank's operating businesses are organized and managed separately based on the nature of the business segment, with each business representing a strategic business segment.

#### **Provisions**

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Bank expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statements of income net of any reimbursement. 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 a borrowing cost.

#### **Contingencies**

Contingent assets are not recognized in the financial statements but disclosed in the notes to financial statements when an inflow of economic benefits is probable. Contingent liabilities are not recognized in the financial statements. These are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

#### **Events after the Reporting Year**

The Bank identifies events after the end of the reporting year as those events, both favorable and unfavorable, that occur between the end of the reporting year and the date when the financial statements are authorized for issue. The financial statements of the Bank are adjusted to reflect those events that provide evidence of conditions that existed at the end of the reporting year. Non-adjusting events after the end of the reporting year are disclosed in the notes to financial statements, when material.

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### **3. Significant Judgment, Accounting Estimates and Assumptions**

The preparation of the financial statements requires management to exercise judgment, make estimates, and use assumptions that affect amounts of assets, liabilities, income and expenses reported in the financial statements and related disclosures. The judgments, estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the financial statements. While management believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such estimates.

#### **Judgments**

In the process of applying the Bank's accounting policies, management has made the following judgment, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements.

*Determining the Classification of Financial Assets.* Classification of financial assets depends on the results of the business model test and sole payment of principal and interest (SPPI) test performed by the Bank.

The Bank exercises judgment in determining the business model to be used in managing its financial instruments to achieve their business objectives. Below are the factors considered by the Bank in its business model assessment;

- Specific business objectives in holding the financial assets;
- Whether income that can be generated from the financial assets can cover the cost of deposits;
- Policies in managing the risks of the financial assets;
- Expected frequency, value and timing of sales; and
- Key performance indicators of the financial assets.

The Bank also determines whether the contractual terms of debt securities classified and measured as financial assets at amortized cost give rise to specified dates to cash flows that are SPPI, with interest representing time value of money and credit risk associated with the outstanding principal amount. Any other contractual term that changes the timing or amount of cash flows does not meet the SPPI test.

*Assessing Existence of Significant Influence over an Investee.* An investor is generally considered to have significant influence over an investee, when the investor holds, directly or indirectly, 20% or more of the voting power of the investee. Conversely, if the entity holds less than 20% of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

As at December 31, 2020, the Bank only holds 9.68% ownership over the outstanding shares of Philippine Bank of Communications (PBCOM). Further, although the Bank has the capability to elect a seat in the BOD of PBCOM, it has not exercised such right since the acquisition of the shares. Should the Bank exercise its right, it would only be represented in one of 15 seats of BOD of PBCOM.

Accordingly, existence of significant influence cannot be demonstrated. Investment in PBCOM shares amounting to ₱1,067.6 million is classified as financial asset at FVOCI (see Note 8).

*Determining the Classification of Lease Arrangements and Appropriate Lease Term and Discount Rates.* The Bank has existing lease agreements for its branches. Until December 31, 2018, the Bank accounts for these lease agreements as operating leases. Rent expense amounted to ₱70.9 million in 2018 (see Note 24).

The Bank recognizes ROU assets and lease liabilities measured at the present value of lease payments to be made over the lease term using the Bank's incremental borrowing rate of 2.44% to 7.08%, except for its short-term leases.

The Bank has exercised significant judgment in determining the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or in any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Significant management judgment was likewise exercised by the Bank in determining the discount rate, whether implicit rate, if readily available, or incremental rate, to be used in calculating the present value of ROU assets and lease liabilities. The discount rate ranges from 2.44% to 7.08% are incremental borrowing rates based on the Bloomberg Valuation Service (BVAL) rates.

Reassessments are made on a continuing basis whether changes should be reflected in the amount of lease liabilities due to circumstances affecting lease payments and discount rates.

As at December 31, 2020 and 2019, the Bank's ROU assets amounted to ₱165.2 million and ₱129.8 million, respectively, and lease liabilities amounted to ₱183.2 million and ₱144.9 million, respectively (see Notes 10 and 24).

*Determining the Functional Currency.* The Bank uses its judgment to determine the 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 price for financial instruments and services or 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.

Based on the foregoing and the economic substance of the underlying circumstances relevant to the Bank, the functional currency of the Bank has been determined to be the Philippine Peso, which is the currency of the primary economic environment in which the Bank operates.

*Determining the Operating Segments.* Determination of operating segments is based on the information about components of the Bank that management uses to make decisions about the operating matters. Operating segments use internal reports that are regularly reviewed by the Bank's chief operating decision maker in order to allocate resources to the segment and assess its performance.

The Bank determined that its operating segments are organized and managed separately based on the nature of the business segment, with each business representing a strategic business segment (Note 29).

*Evaluating Contingencies.* The Bank is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Bank's defense in these matters and is based upon an analysis of potential results. Management does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

#### **Estimates and Assumptions**

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future years affected.

*Determining the Fair Values of Financial Instruments.* Certain financial assets and liabilities which are carried at fair value and whose fair values are disclosed, requires extensive use of accounting estimates. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Bank utilized different valuation methodologies. Any changes in fair value of these financial assets would affect profit and loss and equity.

When the fair values of financial assets and liabilities recognized or disclosed in the financial statements cannot be derived from the active market, the fair values are determined using internal valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable market where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The fair values of the Bank's financial instruments are disclosed in Note 4.

*Estimating the Credit and Impairment Losses on Financial Assets.* Credit and impairment losses on financial assets are based on ECL. In assessing the ECL, the Bank uses historical credit loss experience adjusted for forward-looking factors, as appropriate.

The Bank measures impairment loss based on the 12-month ECL for the following:

- Debt securities that are determined to have credit risk rating equivalent to "investment grade, and thus, a low credit risk at the reporting date; and
- Receivables from customers and other financial instruments on which credit risk has not increased significantly since initial recognition.

The Bank measures impairment loss based on the lifetime ECL for receivables from customers for which credit risk has increased significantly since initial recognition, or when:

- The account has missed payment for more than 30 days.
- The probability of default increased by at least 25%.

In estimating ECL, the Bank estimates the amounts and timing of future cash flows and collateral values and assesses whether there is a significant increase in credit risk. Below are the components considered in the calculation of ECL.

- Statistical models which are primarily based on regression analysis;
- Internal Credit Risk Rating (ICRR) and certain qualitative factors in determining whether there has been a significant increase in credit risk to determine when to measure lifetime credit losses;
- Latest fair values of collaterals and historical recovery rates of foreclosed assets for loss given default calculations; and
- Segmentation of financial assets for collective assessment of ECL.

Evidence that a financial asset is credit-impaired include observable data about the following events:

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract, such as a default or past due event;
- The lenders of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower concessions that the lenders would not otherwise consider;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization;

- The disappearance of an active market for that financial asset because of financial difficulties; and
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event - instead, the combined effect of several events may have caused financial assets to become credit-impaired.

#### Financial Assets at FVOCI- Debt Securities

As at December 31, 2020, 2019 and 2018, the Bank recognized provision (reversal of) for allowance on impairment on debt securities classified as financial assets at fair value through other comprehensive income (FVOCI) amounting to (P17.5 million), P7.6 million and (P4.5 million), respectively (see Note 13).

Details of debt securities at FVOCI as at December 31 are as follows:

	Note	2020	2019
Gross amount		<b>P24,223,200</b>	P35,226,942
Allowance for impairment losses	13	<b>(26,616)</b>	(44,095)
Carrying amount	8	<b>P24,196,584</b>	P35,182,847

#### Financial Assets at Amortized Cost

As at December 31, 2020, 2019 and 2018, the Bank recognized provision (reversal of) for allowance on impairment losses on government securities and corporate bonds classified under financial assets at amortized cost amounting to (P23.7 million), P2.2 million and P8.3 million, respectively (see Note 13).

Details of financial assets at amortized cost as at December 31 are as follows:

	Note	2020	2019
Gross amount		<b>P44,270,291</b>	P41,439,535
Allowance for impairment losses	13	<b>(19,108)</b>	(42,834)
Carrying amount	8	<b>P44,251,183</b>	P41,396,701

#### Loans and Receivables

Accordingly, the provision impairment losses on loans and receivables amounted to P199.1 million, P21.6 million and P435.7 million as at December 31, 2020, 2019 and 2018, respectively (see Note 13).

Details of loans and receivables as at December 31 are as follows:

	Note	2020	2019
Gross amount	9	<b>P27,142,899</b>	P26,583,602
Allowance for credit and impairment losses	13	<b>(4,201,515)</b>	(4,002,432)
Carrying amount	9	<b>P22,941,384</b>	P22,581,170

#### Other Financial Assets at Amortized Cost

For other financial assets at amortized cost such as cash and other cash items, due from BSP and other banks, securities purchased under resale agreement, refundable deposits, other investments, and RCOI (included under "Other assets" account), no allowance for credit and impairment losses was recognized because these are placements with reputable counterparties that possess good ratings. The carrying amount of these financial assets aggregated to ₱69,522.3 million and ₱54,278.8 million as at December 31, 2020 and 2019, respectively (see Notes 6, 7 and 12).

#### Commitments and Other Contingent Assets

As at December 31, 2020, 2019 and 2018, the Bank recognized provision (reversal of) for allowance on impairment losses on commitments and other contingent assets amounting to (₱5.2 million), ₱6.0 million and nil, respectively (see Note 13). These pertain to various commitments and contingent assets which are not reflected in the accompanying financial statements.

*Determining between Investment Properties and Owner-occupied Properties.* The Bank determines whether a property qualifies as investment property. In making its judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the ordinary course of business.

Some properties consist of a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the ordinary course of business or for administrative purposes. If these portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the ordinary course of business or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Bank considers each property separately in making judgment.

The Bank classifies all properties which have a portion that is earning rentals and another portion which are used in the ordinary course of business or used in administrative purposes as owner-occupied properties based on the criterion above. In this case, such properties were included under the "Property and equipment" account.

*Estimating the Useful Lives of Property and Equipment, Investment Properties, and Computer Software.* The Bank estimates the useful lives of property and equipment, investment properties, and computer software, and for purposes of computing depreciation and amortization based on the year over which the assets are expected to be available for use.

The estimated useful lives are reviewed annually and changed if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. However, it is possible that future results of operations could be materially affected by changes in factors mentioned in the foregoing. The amounts and timing of recorded expenses for any year would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property and equipment, investment properties, and computer software would increase the recorded expenses and decrease assets.

There was no change in the estimated useful lives of the property and equipment, investment properties, and computer software. The carrying amounts of depreciable assets are as follows:

	Note	2020	2019
Property and equipment*	10	<b>₱891,026</b>	₱877,016
Investment properties*	11	<b>206,406</b>	157,673
Computer software	12	<b>15,292</b>	10,816
		<b>₱1,112,724</b>	<b>₱1,045,505</b>

\*Excluding land

*Assessing the Impairment on Nonfinancial Assets.* The Bank assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The carrying amounts of the nonfinancial assets are:

	Note	2020	2019
Property and equipment	10	<b>₱2,900,675</b>	₱2,886,665
Investment properties	11	<b>1,659,589</b>	1,518,949
Computer software	12	<b>15,292</b>	10,816
		<b>₱4,575,556</b>	<b>₱4,416,430</b>

*Determining the Retirement Liability.* The present value of the excess of the projected DB minimum guarantee over the projected DC obligation at the end of the reporting period depends on a number of factors that are determined on an actuarial basis. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of retirement obligations.

The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Bank considers the interest rates of government securities that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related retirement obligation.

Other key assumptions for retirement obligations are based in part on current market conditions. Additional information is disclosed in Note 21.

As at December 31, 2020 and 2019, retirement liability amounted to ₱946,822 and ₱1.3 million, respectively (see Note 21).

*Assessing the Realizability of Deferred Tax Assets.* The Bank reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Any deferred tax asset will be re-measured if it might result in derecognition when the expected tax law to be enacted has a possible risk on the realization. Management believes that sufficient taxable profit will be generated to allow all or part of the deferred income tax assets to be utilized.

As at December 31, 2020 and 2019, deferred tax assets amounted to ₱767.7 million and ₱1,002.2 million, respectively (see Note 26).

As at December 31, 2020 and 2019, deferred tax assets amounting ₱2,186.3 million and ₱1,470.3 million, respectively, were not recognized (see Note 26). Management assessed that it is not probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

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#### 4. **Financial Risk Management**

The Bank has exposure to the following major risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

##### **Risk Management Framework**

The BOD of the Bank is responsible for establishing and maintaining a sound risk management system. It is the primary responsibility of the BOD to establish the risk culture and the risk management organization and incorporate the risk process as an essential part of the corporate strategic planning.

The Bank classifies the major risks that the Bank manages between quantifiable risks such as credit, liquidity and markets risks, and non-quantifiable risks such as operations risk, among others.

Through the direction of the BOD, the following comprise the risk management structure of the Bank:

*Executive Committee.* The Executive Committee plays the crucial role of analyzing, evaluating, and approving product attributes such as: market, liquidity and credit risk; operations risk; control and compliance; audit, legal and regulatory; and system and technology issues for new activities/products.

*Risk Management Committee (RMC).* The RMC is responsible for the creation and oversight of the Bank's corporate risk policy. It is tasked to identify and analyze the risks faced by the Bank, to set and recommend to the BOD the system of risk limits and controls, and to ensure that each business unit continuously monitors the adequacy and soundness of policies, assumptions and practices.



*Budget, Asset and Liability Committee (BALCO).* The BALCO ensures that at all times the Bank maintains adequate liquidity, sufficient capital and appropriate funding to meet all business requirements and complies with all regulatory requirements.

*Credit and Loan Review Committee (CLRC).* The CLRC is primarily responsible for credit risk management of the Bank. It establishes the standards for credit analysis, define credit risk measurements, establish internal risk ratings and review the credit risk infrastructure's ability to support the Bank's risk policies.

*Risk Management Group (RMG).* The RMG is an independent business function to identify, analyze, and measure risks from the Bank's trading, position-taking, lending, borrowing, and other transactional activities.

*Audit Committee (AC).* The AC is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management system in place in relation to the risks faced by the Bank. The Bank's AC is assisted in its oversight role by Internal Audit. Internal Audit (IA) undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the AC.

### **Credit Risk**

Credit risk is the risk when a customer or a counterparty is unable or unwilling to pay obligations on time or in full as expected or previously contracted, subjecting the Bank to a financial loss. The goal of the Bank's credit risk management is to maximize the risk-adjusted rate of return by maintaining credit risk exposure within the approved parameters.

The Bank's credit risk covers mostly loan portfolio analysis, where the Bank employs risk management techniques to quantify and qualify cyclical versus specific risks for a given portfolio under potentially adverse economic conditions. Diversification against loan concentration, such as lending in a single geographic area or business sector, enables the Bank to manage risks associated with its largest exposures in the market.

### **Credit Risk Management**

*Measurement of Credit Risk.* In measuring credit risk at a counterparty level, the Bank mainly relies on its sound lending philosophy and considers three components: (i) the probability of default by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development; and (iii) the likely recovery ratio on the defaulted obligations.

The Bank uses two statistical-based credit risk methodology in measuring credit risk namely: default-probability models, which predict future losses and thus anticipate provisioning and capital needs, and risk-adjusted return on capital (RAROC) techniques, which incorporate credit risk into the initial loan pricing and eventually evaluate the true economic capital needs of the Bank.

The Bank holds collateral on most of its loans and receivables in the form of mortgage interest over real property and deposits of the borrowers with the Bank. Estimates of fair value of the property are based on the value of collateral assessed at the time of borrowing, and are updated periodically or when a loan is individually assessed as impaired.

Credit risk exposure to financial assets is managed through detailed risk assessment of every credit exposure associated with a specific counterparty. The Bank also sets and frequently reviews compliance to transaction and counterparty limits, as well as lending authorities delegated to credit officers, to ensure that the Bank's portfolio or individual account credit risk is kept to acceptable levels.

*Due from BSP and Other Banks and Securities Purchased Under Resale Agreement.* The credit risk for due from BSP and other banks and securities purchased under resale agreement with BSP is not considered significant because the counterparties are the BSP, which is considered risk free, and reputable banks with high quality external credit ratings.

As at December 31, 2020 and 2019, due from BSP and other banks and securities purchased under resale agreement are classified as "high grade" under Stage 1 financial assets.

*Investments in Debt Securities.* Investments in debt securities pertain to a portfolio of government securities and corporate bonds. ECL for these investments is determined using the probability of default provided in Bloomberg. Investments in debt securities are classified as "high grade" under Stage 1 financial assets.

*Loans and Receivables.* In respect of loans to borrowers, the Bank is not exposed to any significant credit risk to any single counterparty. Credit risk is determined by the Bank after considering historical, forward-looking information and credit enhancements on collaterals. The credit risk for loans and receivables are considered minimal since loans are fully covered by collaterals.

The amount and type of collateral required depend on the assessment of the credit risk of the borrower or counterparty. Guidelines are established and implemented regarding the acceptability of types of collateral valuation and parameters.

The Bank's policy is to dispose of foreclosed properties in the most expeditious manner possible. Sale is facilitated by offering incentives to the Bank's accredited brokers and through evaluating and offering credit terms, which includes reduced rates for down payment as compared to prevailing market rates.

*Credit-Related Commitments.* The primary purpose of these instruments is to ensure that funds are available to a customer as required. Standby letters of credit carry the same risk as loans. Documentary and commercial letters of credit - which are written undertaking by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions - are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

#### **Maximum Exposure to Credit Risk before Collaterals Held or Other Credit Enhancements**

Credit risk exposures relating to significant on-balance sheet financial assets are as follows:

	Note	2020	2019
Due from BSP	6	<b>₱53,609,068</b>	₱30,355,961
Due from other banks	6	<b>2,056,689</b>	2,631,549
Securities purchased under resale agreement	7	<b>12,759,152</b>	20,336,561
Investment securities*	8	<b>68,447,767</b>	76,579,548
Loans and receivables	9	<b>22,941,384</b>	22,581,170
		<b>₱159,814,060</b>	₱152,484,789

\*Excluding equity securities

The above table represents the maximum credit exposure of the Group without taking into account any collateral held or other credit enhancements. The exposures set out above are based on net carrying amounts as reported in the statements of financial position.

Credit risk exposures relating to off-balance sheet items are as follows:

	2020	2019
Trust department accounts	<b>₱1,138,264</b>	₱998,832
Unused commercial letters of credit	<b>209,594</b>	327,524
Outward bills for collection	<b>12,966</b>	24,532
Inward bills for collection	<b>8,706</b>	8,303
Items held as collateral	<b>34</b>	17
Late deposits/payments received	<b>–</b>	10,968
	<b>₱1,369,564</b>	₱1,370,176

For loans receivable from customers, the credit quality is generally monitored using the Bank's internal rating system. It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates management to focus on major potential risk and the comparison of credit exposures across all lines of business, demographics and products. The rating system has two parts, namely: the borrower's risk rating and the facility risk rating. It is supported by a variety of financial analytics, combined with an assessment of management and market information to provide the main inputs for the measurement of credit risk.

The Bank uses ICRR to classify the credit quality of its receivables portfolio. This is being upgraded, as necessary, to enhance credit evaluation parameters across different market segments and achieve a more sound and robust credit risk assessment.

Descriptions of the loan grades used by the Bank for receivables from customers are as follows:

<b>Risk Rating</b>	<b>Classification</b>	<b>Credit Quality</b>
1	Excellent	High Grade
2	Strong	High Grade
3	Good	High Grade
4	Satisfactory	Standard Grade
5	Acceptable	Standard Grade
6	Watchlist	Standard Grade
7	Special Mention	Impaired
8	Substandard	Impaired
9	Doubtful	Impaired
10	Loss	Impaired

*Risk Rating 1 – Excellent.* The borrower has no history of delinquency and is paying as agreed.

A borrower in this category is highly liquid, can be sustained and has a strong repayment capacity. The financial condition of the borrower is good, with above industry average financial indicators.

The borrower has no existing disruptions and/or future disruptions are unlikely. The borrower is a market leader with above average profit, not dependent on a few customers and suppliers, and stable with good probability for growth.

Under this category, the borrower's management ability demonstrated competence under the current business model, with well thought-out corporate strategy and sensible and efficient management structure.

*Risk Rating 2 – Strong.* The borrower has no history of delinquency and is paying as agreed.

A borrower in this category has strong operating trends and liquidity is adequate. The borrower has no existing disruptions and/or future disruptions are unlikely. The borrower's management ability demonstrated competence under the current business model.

Borrower has a strong market and financial position with a history of successful performance. The overall debt service capacity as measured by cash flow to total debt service is very strong; the critical balance sheet ratios are within the industry average.

*Risk Rating 3 – Good.* The borrower is paying as agreed and no history of default in the last 12 months.

The borrower's borrowing base supports the line of credit. The borrower has no existing disruptions and/or future disruptions are unlikely. The borrower's management ability demonstrated competence under the current business model.

A borrower in this category usually exhibits characteristics of some degree of stability and substance and the probability of default is still quite low.

*Risk Rating 4 – Satisfactory.* The borrower under this category is paying as agreed and has adequate to marginal repayment capacity. There are disruptions identified from external factors but the borrower has or will likely overcome.

*Risk Rating 5 – Acceptable.* Borrower's account status is current. However, it has marginal liquidity. There is a declining trend in operations of the borrower.

This category represents borrowers who may still be able to withstand normal business cycles. However, any prolonged unfavorable economic and/or market condition would create an immediate deterioration beyond acceptable level.

*Risk Rating 6 – Watchlist.* Borrower's account status is current. However, the borrower is incurring delays of up to 30 to 60 days, but with probability that it will be brought back to current. Adverse business, financial, or economic conditions will likely impair the borrower's capacity or willingness to meet its financial requirements.

Operating performance and financial strength may be marginal and it is uncertain whether the borrower can attract alternative sources of financing. Typically, the borrower will find it very hard to cope with any significant economic downturn and a default in such a case is more than a possibility.

*Risk Rating 7 – Special Mention.* There is an evidence of weakness in financial condition or credit-worthiness for borrowers under this category.

A borrower in this category is characterized by some probability of default, manifested by some or all of the following:

- Evidence of weakness in the borrower's financial condition or creditworthiness;
- Unacceptable risk generated by potential or emerging weaknesses as far as asset protection and/or cash flow is concerned. Concerns center on the potential for a continuation of unfavorable economic, market, or borrower specific conditions or trends, which may affect future debt service capacity;
- Indications that the borrower's ability or willingness to service debt are in doubt;
- Necessity or strong likelihood for rescheduling of the loan; and
- Decline in values of, or adverse developments on, collaterals securing the loan.

*Risk Rating 8 – Substandard.* Probability of default is assessed at up to 50%. Substandard loans are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the Bank because of unfavorable or unsatisfactory characteristics. The debt burden for borrowers under this category is too heavy, with weak or negative cash flows.

*Risk Rating 9 – Doubtful.* Borrower is in a state of default, where any of the following factors are present:

- Account is already in "non-performing loan" (NPL) status;
- Any portion of any principal and/or interest repayment is in arrears for more than 90 days; and
- The borrower is unable or unwilling to service debt over an extended period of time and near future prospects of orderly debt service is doubtful.

*Risk Rating 10 – Loss.* Borrower is in a state of default and the prospect for re-establishment of creditworthiness and debt service is remote.

This category also applies where the Bank will take or has taken title to the assets of the borrower and is preparing a foreclosure and/or liquidation of the Bank.

*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 expert credit assessment and including forward-looking information. A significant increase in credit risk can be measured by comparing the probability of default of the counterparty as at reporting date from probability of default on the date of initial recognition.

Other indications may include, among others, potential credit weaknesses based on current and/or forward looking information that warrant management's close attention and adverse or foreseen adverse economic or market conditions that may affect the counterparty's ability to meet the scheduled repayments in the future.

**Definition of Default.** The Bank considers default to have occurred when: (a) the obligor is past due for more than 90 days on any material credit obligation to the Bank; or (b) the obligor is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing collateral, as applicable. The Bank no longer considers an instrument to be in default when it no longer meets any of the default criteria and has exhibited satisfactory and acceptable track record for six consecutive payment periods, subject to applicable rules and regulations of the BSP.

### Credit Quality per Class of Financial Assets

The Bank has developed and continually reviews and calibrates its internal risk rating system for large exposures aimed at uniformly assessing its credit portfolio in terms of risk profile. The following table provides the analysis of credit quality of the of the Bank's financial assets (gross of allowance for credit and impairment losses) classified as Stage 1, 2 or 3 financial assets as at December 31.

	2020			
	Stage 1	Stage 2	Stage 3	Total
<b>Financial assets at amortized cost</b>				
Due from BSP				
High grade	₱53,609,068	₱—	₱—	₱53,609,068
Due from other banks				
High grade	2,056,689	—	—	2,056,689
Securities purchased under resale agreement				
High grade	12,759,152	—	—	12,759,152
Government securities				
High grade	44,105,886	—	—	44,105,886
Corporate bonds				
High grade	145,297	—	—	145,297
Loans receivable from customers				
Corporate:				
High grade	17,764,185	—	—	17,764,185
Standard grade	—	80,133	—	80,133
Past due	—	—	3,085,212	3,085,212
Individual:				
High grade	4,219,222	—	—	4,219,222
Standard grade	—	144,719	—	144,719
Past due	—	—	955,266	955,266
Accrued interest income				
High grade	821,720	—	30,685	852,405
Sales contracts receivables				
High grade	21,837	—	—	21,837
Other receivables				
High grade	19,920	—	—	19,920
<b>Other assets*</b>				
High grade	44,180	—	—	44,180
<b>Financial assets at FVOCI</b>				
Government securities				
High grade	23,474,603	—	—	23,474,603
Corporate bonds				
High grade	721,981	—	—	721,981
	₱159,763,740	₱224,852	₱4,071,163	₱164,059,755

\*Includes refundable deposits, other investments and RCOI under "Other Assets".

	2019			
	Stage 1	Stage 2	Stage 3	Total
<b>Financial assets at amortized cost</b>				
Due from BSP				
High grade	₱30,355,961	₱—	₱—	₱30,355,961
Due from other banks				
High grade	2,631,549	—	—	2,631,549
Securities purchased under resale agreement				
High grade	20,336,561	—	—	20,336,561
Government securities				
High grade	40,709,984	—	—	40,709,984
Corporate bonds				
High grade	686,717	—	—	686,717
Loans receivable from customers				
Corporate:				
High grade	14,127,244	—	—	14,127,244
Standard grade	—	461,247	—	461,247
Past due	—	—	5,244,853	5,244,853
Individual:				
High grade	2,870,107	—	—	2,870,107
Standard grade	—	792,398	—	792,398
Past due	—	—	1,931,936	1,931,936
Accrued interest income				
High grade	1,094,932	—	—	1,094,932
Sales contracts receivables				
High grade	39,930	—	—	39,930
Other receivables				
High grade	20,955	—	—	20,955
<b>Other assets*</b>				
High grade	50,265	—	—	50,265
<b>Financial assets at FVOCI</b>				
Government securities				
High grade	34,404,840	—	—	34,404,840
Corporate bonds				
High grade	778,007	—	—	778,007
	₱148,107,052	₱1,253,645	₱7,176,789	₱156,537,486

\*Includes refundable deposits, other investments and RCOCI under "Other Assets".

Present information on the concentration of credit risk exposure on financial assets as to industry as at December 31, 2020 and 2019:

	2020			
	Loans Receivables from Customers	Investment Securities <sup>1</sup>	Others <sup>2</sup>	Total
Financial intermediaries	₱831,096	₱—	₱68,469,089	₱69,300,185
Philippine government	—	67,580,489	—	67,580,489
Wholesale and retail trade	6,105,368	886,386	—	6,991,754
Real estate, renting and business activities	6,062,227	—	—	6,062,227
Manufacturing	2,935,362	—	—	2,935,362
Accommodation and food service activities	2,227,552	—	—	2,227,552
Agriculture	1,967,559	—	—	1,967,559
Construction	1,198,651	—	—	1,198,651
Information and communication	1,055,038	—	—	1,055,038
Education	725,128	—	—	725,128
Transportation, storage and communication	406,700	—	—	406,700
Health and social work	334,975	—	—	334,975
Arts, entertainment and recreation	268,326	—	—	268,326
Administrative and support service activities	127,840	—	—	127,840
Professional, scientific and technical activities	49,149	—	—	49,149

(Forward)

	2020			
	Loans Receivables from Customers	Investment Securities <sup>1</sup>	Others <sup>2</sup>	Total
Private households with employed persons	₱ 12,965	₱—	₱—	₱12,965
Mining and quarrying	4,336	—	—	4,336
Water Supply, Sewerage, Waste Management	2,566	—	—	2,566
Others	1,933,900	—	23,423	1,957,323
	26,248,738	68,466,875	68,492,512	163,208,125
<b>Allowance for credit and impairment losses</b>	<b>(4,123,313)</b>	<b>(45,724)</b>	<b>—</b>	<b>(4,169,037)</b>
	<b>₱22,125,425</b>	<b>₱68,421,151</b>	<b>₱68,492,512</b>	<b>₱159,039,088</b>

<sup>1</sup>Comprised of financial assets at FVOCI and amortized cost (excluding equity securities).

<sup>2</sup>Comprised of due from BSP, due from other banks, securities purchased under resale agreement, refundable deposits, other investments, and RCOI.

	2019			
	Loans Receivables from Customers	Investment Securities <sup>1</sup>	Others <sup>2</sup>	Total
Philippine government	₱—	₱75,194,183	₱—	₱75,194,183
Financial intermediaries	1,239,769	—	53,374,336	54,614,105
Real estate, renting and business activities	5,318,139	1,472,294	—	6,790,433
Wholesale and retail trade	6,412,791	—	—	6,412,791
Manufacturing	2,949,807	—	—	2,949,807
Agriculture	1,978,946	—	—	1,978,946
Construction	1,161,549	—	—	1,161,549
Accommodation and food service activities	1,630,799	—	—	1,630,799
Information and communication	1,055,070	—	—	1,055,070
Transportation, storage and communication	376,519	—	—	376,519
Education	716,749	—	—	716,749
Health and social work	353,969	—	—	353,969
Arts, entertainment and recreation	312,536	—	—	312,536
Professional, scientific and technical activities	59,731	—	—	59,731
Administrative and support service activities	102,927	—	—	102,927
Private households with employed persons	12,155	—	—	12,155
Mining and quarrying	3,036	—	—	3,036
Other service activities	1,743,293	—	29,508	1,772,801
	25,427,785	76,666,477	53,403,844	155,498,106
<b>Allowance for credit and impairment losses</b>	<b>(3,911,215)</b>	<b>(86,929)</b>	<b>—</b>	<b>(3,998,144)</b>
	<b>₱21,516,570</b>	<b>₱76,579,548</b>	<b>₱53,403,844</b>	<b>₱151,499,962</b>

<sup>1</sup>Comprised of financial assets at FVOCI and amortized cost (excluding equity securities).

<sup>2</sup>Comprised of due from BSP, due from other banks, securities purchased under resale agreement, refundable deposits, other investments, and RCOI.

### **Liquidity Risk**

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations in all currencies when they become due without incurring unacceptable losses or costs. The Bank's liquidity management is characterized by the following elements: a) good management information system, b) effective analysis of funding requirements under alternative scenarios, c) diversification of funding sources, and d) contingency planning.

### **Liquidity Risk Management**

The Bank's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Bank's business operations or unanticipated events created by customer behavior or capital market conditions. The Bank seeks to ensure liquidity through a combination of active management of liabilities, a liquid asset portfolio composed substantially of deposits in primary and secondary reserves, and the securing of money market lines and the maintenance of repurchase facilities to address any unexpected liquidity situations.



The Bank's net funding requirements are determined by analyzing its future cash flows based on assumptions of the future behavior of assets, liabilities and off-balance sheet items, and then calculating the cumulative net excess or shortfall over the time frame for the liquidity assessment. Such analysis of net funding requirements involves construction of a Maturity Ladder and calculation of cumulative net excess or deficit. Furthermore, an internal liquidity ratio has been set to determine sufficiency of liquid assets over deposit liabilities. Scenario stress tests are conducted periodically wherein liquidity managers analyze the behavior of cash flows under different conditions, i.e. from "normal" conditions to "extreme" situations. Finally, the BOD sets the Maximum Cumulative Outflow (MCO) Limit in order to control liquidity gap for each currency.

The table below shows the maturity profile of the Bank's financial assets and liabilities, based on contractual undiscounted cash flows (amounts in millions):

	2020				Total
	On Demand	Less than One Year	One to Five Years	Over Five Years	
<b>Financial Assets</b>					
Cash and other cash items	₱1,053	₱—	₱—	₱—	₱1,053
Due from BSP	53,609	—	—	—	53,609
Due from other banks	2,057	—	—	—	2,057
Securities purchased under resale agreement	12,759	—	—	—	12,759
Loans and receivables	8,688	11,655	6,676	1,798	28,817
Investment securities:					
Financial assets at FVOCI	2,141	1,678	5,145	22,567	31,531
Financial assets at amortized cost	—	10,431	14,013	32,674	57,118
Other assets	—	—	44	—	44
	<b>80,307</b>	<b>23,764</b>	<b>25,878</b>	<b>57,039</b>	<b>186,988</b>
<b>Financial Liabilities</b>					
Deposit liabilities	—	129,273	1,978	9,577	140,828
Manager's checks	—	94	—	—	94
Accrued interest, taxes and others expenses	—	229	—	—	229
Lease liabilities	—	48	140	21	209
Other liabilities	—	184	—	—	184
	—	129,828	2,118	9,598	141,544
	<b>₱80,307</b>	<b>(₱106,064)</b>	<b>₱23,760</b>	<b>₱47,441</b>	<b>₱45,444</b>

	2019				Total
	On Demand	Less than One Year	One to Five Years	Over Five Years	
<b>Financial Assets</b>					
Cash and other cash items	₱904	₱—	₱—	₱—	₱904
Due from BSP	30,356	—	—	—	30,356
Due from other banks	2,632	—	—	—	2,632
Securities purchased under resale agreement	20,350	—	—	—	20,350
Loans and receivables	2,533	16,830	8,761	485	28,609
Investment securities:					
Financial assets at FVOCI	1,795	2,990	14,589	30,585	49,959
Financial assets at amortized cost	—	7,271	14,166	39,118	60,555
Other assets	—	—	50	—	50
	<b>58,570</b>	<b>27,091</b>	<b>37,566</b>	<b>70,188</b>	<b>193,415</b>

(Forward)

	2019				Total
	On Demand	Less than One Year	One to Five Years	Over Five Years	
<b>Financial Liabilities</b>					
Deposit liabilities	P–	P122,902	P5,893	P5,551	P134,346
Manager's checks	–	156	–	–	156
Accrued interest, taxes and others expenses	–	223	–	–	223
Lease liabilities	–	42	102	30	174
Other liabilities	–	182	–	–	182
	–	123,505	5,995	5,581	135,081
	P58,570	(P96,414)	P31,571	P64,607	P58,334

### Liquidity Positions and Leverage of the Bank

To promote short-term resilience of bank's liquidity risk profile, the BSP requires banks and other regulated entities to maintain:

- over a 30-day calendar day horizon, an adequate level of unencumbered high-quality liquid assets (HQLA) that consists of cash or assets that can be converted into cash to offset the net cash outflows they could encounter under a liquidity stress scenario; and
- a stable funding profile in relation to the composition of their assets and off-balance sheet activities.

To monitor the liquidity levels, the Bank computes for its Liquidity Coverage Ratio (LCR), which is the ratio of HQLA to the total net cash outflows. As at December 31, 2020 and 2019, LCR reported to the BSP is 777.49% and 707.93%, respectively.

The Bank also computes for its Net Stable Funding Ratio (NSFR), which is the ratio of the available stable funding to the required stable funding. Both LCR and NSFR should be maintained no lower than 100% on a daily basis under normal situations. As at December 31, 2020, NSFR reported to the BSP is as follows (amount in millions):

	2020	2019
Available stable funding	<b>P142,711</b>	P135,358
Required stable funding	<b>37,106</b>	37,172
NSFR	<b>3.85</b>	3.64

### Market Risk

Market risk is the risk of loss, immediate or overtime due to adverse fluctuations in the price or market value of instruments, products, and transactions in the Bank's overall portfolio. The value of these financial instruments may change as a result of changes in interest rate, foreign exchange rate, and other market changes. The Bank's market risk originates from its inventory of foreign exchange and debt securities. The objective of market risk management is to manage and control the market risk exposures within acceptable parameters, while optimizing the return on investments.

### Interest Rate Risk

Interest rate risk involves the movements of rates across yield curves of one or more instruments. The principal risk to which financial instruments are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. The Bank manages its resources and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Interest rate risk is managed principally through

monitoring interest rate gaps and by having pre-approved limits for interest rate repricing. The Bank's management monitors compliance with these limits.

The details of the Bank's exposure to interest rate risk at the reporting date are shown below in reference to their contractual repricing or maturity dates (amounts in millions):

	2020				
	Repricing			Non-Repricing	Total
	Less than One Year	One to Five Years	Over Five Years		
<b>Financial Assets</b>					
Due from BSP	P–	P–	P–	P53,609	P53,609
Due from other banks	–	–	–	2,057	2,057
Securities purchased under resale agreement	–	–	–	12,759	12,759
Loans and receivables	17,419	4,581	941	–	22,941
Investment securities:					
Debt securities at FVOCI	1,022	2,945	20,230	–	24,197
Financial assets at amortized cost	9,148	10,264	24,839	–	44,251
	27,589	17,790	46,010	68,425	159,814
<b>Financial Liabilities</b>					
Deposit liabilities	129,273	1,978	9,577	–	140,828
Lease liabilities	43	121	19	–	183
	129,316	2,099	9,596	–	141,011
<b>Total Interest Gap</b>	<b>(P101,727)</b>	<b>P15,691</b>	<b>P36,414</b>	<b>P68,425</b>	<b>P18,803</b>
	2019				
	Repricing			Non-Repricing	Total
	Less than One Year	One to Five Years	Over Five Years		
<b>Financial Assets</b>					
Due from BSP	P–	P–	P–	P30,356	P30,356
Due from other banks	–	–	–	2,632	2,632
Securities purchased under resale agreement	–	–	–	20,337	20,337
Loans and receivables	16,140	5,606	835	–	22,581
Investment securities:					
Debt securities at FVOCI	1,598	10,024	23,560	–	35,182
Financial assets at amortized cost	5,683	8,861	26,853	–	41,397
	23,421	24,491	51,248	53,325	152,485
<b>Financial Liabilities</b>					
Deposit liabilities	33,596	5,893	5,551	89,306	134,346
Lease liabilities	43	81	27	–	174
	33,639	5,974	5,578	89,306	134,520
<b>Total Interest Gap</b>	<b>(P10,218)</b>	<b>P18,517</b>	<b>P45,670</b>	<b>P35,981</b>	<b>P17,965</b>

The Bank computes stress test on interest sensitive assets and liabilities, except for financial assets at FVOCI through gapping. The details of the reported stress testing on interest gaps at the reporting date are shown below:

	2020			
	Less than One Month	One to Three Months	Over Three Months	Total
Peso-denominated Interest Sensitive Assets and Liabilities				
Assets	₱76,456	₱6,087	₱10,910	₱93,453
Liabilities	16,947	792	912	18,651
Gap	59,509	5,295	9,998	74,802
Cumulative Asset - Liability Gap	₱59,509	₱64,804	₱74,802	
Foreign-denominated Interest Sensitive Assets and Liabilities				
Assets	₱39	₱—	₱—	₱39
Liabilities	22	421	163	606
Gap	17	(421)	(163)	(567)
Cumulative Asset - Liability Gap	₱17	(₱404)	(₱567)	
2019				
	Less than One Month	One to Three Months	Over Three Months	Total
Peso-denominated Interest Sensitive Assets and Liabilities				
Assets	₱55,648	₱4,128	₱11,792	₱71,568
Liabilities	89,490	803	791	91,084
Gap	(33,842)	3,325	11,001	(19,516)
Cumulative Asset - Liability Gap	(₱33,842)	(₱30,517)	(₱19,516)	
Foreign-denominated Interest Sensitive Assets and Liabilities				
Assets	₱46	₱—	₱11	₱57
Liabilities	52	396	179	627
Gap	(6)	(396)	(168)	(570)
Cumulative Asset - Liability Gap	(₱6)	(₱402)	(₱570)	

The details of the reported impact of negative gaps on net interest income at the reporting date are shown below (amounts in millions):

	2020		2019	
	Amount	Percentage to Net Income	Amount	Percentage to Net Income
<b>Peso-denominated</b>				
50 bps increase in Php interest rates	(₱374.00)	(32.34%)	(₱97.58)	(12.50%)
100 bps increase in Php interest rates	(748.01)	(64.67%)	(195.15)	(25.01%)
<b>Foreign-denominated</b>				
50 bps increase in USD interest rates (in USD)	(2.84)	(0.25%)	(2.85)	(0.37%)
100 bps increase in USD interest rates (in USD)	(5.67)	(0.49%)	(5.71)	(0.73%)

(Forward)

	2020		2019	
	Amount	Percentage to Net Income	Amount	Percentage to Net Income
50 bps increase in USD interest rates (in Php)	(P136.17)	(11.77%)	(P144.53)	(18.52%)
100 bps increase in USD interest rates (in Php)	(272.35)	(23.55%)	(289.06)	(37.04%)
<b>Peso-denominated</b>				
50 bps decrease in Php interest rates	374.00	32.34%	97.58	12.50%
100 bps decrease in Php interest rates	748.01	64.67%	195.15	25.01%
<b>Foreign-denominated</b>				
50 bps decrease in USD interest rates (in USD)	2.84	0.25%	2.85	(0.37%)
100 bps decrease in USD interest rates (in USD)	5.67	0.49%	5.71	(0.73%)
50 bps decrease in USD interest rates (in Php)	136.17	11.77%	144.53	18.52%
100 bps decrease in USD interest rates (in Php)	272.35	23.55%	289.06	37.04%

The Bank also calculates price volatility on debt securities at FVOCI (through modified duration) in case of changes in interest rates. The following details are shown below:

	2020				
	Market value	- 50 bps	- 100 bps	+ 50 bps	+ 100 bps
<b>Peso-denominated:</b>					
Less than one year	P1,005,035	P1,091	P2,181	(P1,091)	(P2,181)
One to three years	887,354	101,084	202,169	(101,084)	(202,169)
Three to five years	56,848	1,088	2,176	(1,088)	(2,176)
Five to 15 years	19,464	973	1,946	(973)	(1,946)
Over 15 years	—	—	—	—	—
	1,968,701	104,236	208,472	(104,236)	(208,472)
<b>Foreign-denominated:</b>					
Less than one year	338	—	—	—	—
One to three years	32,905	478	957	(478)	(957)
Three to five years	8,753	159	318	(159)	(318)
Five to 15 years	229,749	9,476	18,952	(9,476)	(18,952)
Over 15 years	191,114	13,651	27,302	(13,651)	(27,302)
Total in USD	462,859	23,764	47,529	(23,764)	(47,529)
Total in Philippine Peso	22,227,883	1,141,238	2,282,477	(1,141,238)	(2,282,477)
Total (Philippine Peso and FX)	P24,196,584	P1,245,474	P2,490,949	(P1,245,474)	(P2,490,949)
As percentage of financial assets at FVOCI		5.15%	10.29%	-5.15%	-10.29%

	2019				
	Market value	- 50 bps	- 100 bps	+ 50 bps	+ 100 bps
<b>Peso-denominated:</b>					
Less than one year	P1,598,439	P2,867	P5,735	(P2,867)	(P5,735)
One to three years	2,265,884	19,614	39,227	(19,614)	(39,227)
Three to five years	4,751,732	85,483	170,965	(85,483)	(170,965)
Five to 15 years	4,042,744	160,484	320,969	(160,484)	(320,969)
Over 15 years	1,834,133	103,839	207,679	(103,839)	(207,679)
	14,492,932	372,287	744,575	(372,287)	(744,575)

(Forward)

	2019				
	Market value	- 50 bps	- 100 bps	+ 50 bps	+ 100 bps
Foreign-denominated:					
Less than one year	P=	P=	P=	P=	P=
One to three years	—	—	—	—	—
Three to five years	59,369	1,199	2,397	(1,199)	(2,397)
Five to 15 years	150,157	6,460	12,920	(6,460)	(12,920)
Over 15 years	199,014	14,333	28,666	(14,333)	(28,666)
Total in USD	408,540	21,992	43,983	(21,992)	(43,983)
Total in Philippine Peso	20,689,915	1,113,550	2,227,099	(1,113,550)	(2,227,099)
Total (Philippine Peso and FX)	P35,182,847	P1,485,837	P2,971,674	(P1,485,837)	(P2,971,674)
As percentage of financial assets at FVOCI		4.02%	8.04%	(4.02%)	(8.04%)

### Foreign Exchange Risk

Foreign exchange risk arises on financial instruments that are denominated in a foreign currency other than the functional currency in which they are measured. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

Information on the Bank's foreign currency-denominated monetary assets and liabilities in their Philippine Peso equivalents follows:

	2020	
	USD	In Peso
Financial Assets:		
Cash and other cash items	\$4,574	P219,666
Due from other banks	34,894	1,675,692
Accrued interest receivables	7,717	370,582
Investment securities		
Financial assets at FVOCI	454,234	21,813,687
Financial assets at amortized cost	366,698	17,609,937
	868,117	41,689,564
Financial Liabilities:		
Deposit liabilities		
Savings	721,577	34,652,267
Time	63,044	3,027,582
Other liabilities	930	44,657
	785,551	37,724,506
Net foreign currency-denominated assets	\$82,566	P3,965,058

	2019	
	USD	In Peso
Financial Assets:		
Cash and other cash items	\$5,697	P288,463
Due from other banks	46,308	2,344,798
Accrued interest receivables	8,629	436,923
Investment securities		
Financial assets at FVOCI	403,521	20,432,293
Financial assets at amortized cost	398,507	20,178,401
	862,662	43,680,878

	2019	
	USD	In Peso
Financial Liabilities:		
Deposit liabilities		
Savings	\$738,203	₱37,378,923
Time	52,135	2,639,845
Other liabilities	1,435	72,631
	791,773	40,091,399
Net foreign currency-denominated assets	\$70,889	₱3,589,479

Foreign currency liabilities generally consist of foreign currency deposits in the Bank's FCDU, which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party.

Foreign currency deposits are generally used to fund the Bank's foreign currency denominated loans and FCDU investment portfolio. Banks are required by the BSP to match foreign currency assets with the foreign currency liabilities held through FCDU. In addition, the BSP requires a 30% liquidity reserve on all foreign currency liabilities held through FCDU.

The Bank's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Bank believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for a financial institution engaged in the type of business in which the Bank is engaged.

### **Operational Risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market, and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from Bank operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is effective.

### Fair Value Estimation

As at December 31, 2020 and 2019, the fair value hierarchy of the Bank's financial assets and liabilities measured at fair values is presented below (amounts in thousands):

	Carrying Amount	2020 Fair Value			Total
		Level 1	Level 2	Level 3	
<b>Assets</b>					
Cash and other cash items	₱1,053,253	₱1,053,253	₱—	₱—	₱1,053,253
Due from BSP	53,609,068	53,609,068	—	—	53,609,068
Due from other banks	2,056,689	2,056,689	—	—	2,056,689
Securities purchased under resale agreement	12,759,152	12,759,152	—	—	12,759,152
Loans and receivables	22,941,384	—	—	22,941,384	22,941,384
Financial assets at FVOCI:					
Debt securities:					
Government securities	23,474,603	23,474,603	—	—	23,474,603
Corporate bonds	721,981	721,981	—	—	721,981
Equity securities:					
Quoted equity securities	2,141,145	2,141,145	—	—	2,141,145
Unquoted equity securities	168	—	—	168	168
Financial assets at amortized cost:					
Government securities	44,105,886	43,586,354	—	—	43,586,354
Corporate bonds	145,297	811,444	—	—	811,444
Other assets*	44,180	163	—	44,017	44,180
	₱163,052,806	₱140,213,852	₱—	₱22,985,569	₱163,199,421
<b>Liabilities</b>					
Deposit liabilities	₱140,827,581	₱—	₱140,827,581	₱—	₱140,827,581
Manager's check	94,165	94,165	—	—	94,165
Lease liabilities	183,170	—	183,170	—	183,170
Other liabilities	183,775	—	—	175,327	175,327
	₱141,288,691	₱94,165	₱141,010,751	₱175,327	₱141,280,243

\*Includes refundable deposits, other investments and RCOI under "Other Assets".

	Carrying Amount	2019 Fair Value			Total
		Level 1	Level 2	Level 3	
<b>Assets</b>					
Cash and other cash items	₱904,496	₱904,496	₱—	₱—	₱904,496
Due from BSP	30,355,961	30,355,961	—	—	30,355,961
Due from other banks	2,631,549	2,631,549	—	—	2,631,549
Securities purchased under resale agreement	20,336,561	20,336,561	—	—	20,336,561
Loans and receivables	22,581,170	—	—	20,748,644	20,748,644
Financial assets at FVOCI:					
Debt securities:					
Government securities	34,404,840	34,404,840	—	—	34,404,840
Corporate bonds	778,007	778,007	—	—	778,007
Equity securities:					
Quoted equity securities	1,795,192	1,795,192	—	—	1,795,192
Unquoted equity securities	168	—	—	168	168
Financial assets at amortized cost:					
Government securities	40,709,984	43,522,704	—	—	43,522,704
Corporate bonds	686,717	690,297	—	—	690,297
Other assets*	50,265	10,867	—	39,398	50,265
	₱155,234,910	₱135,430,474	₱—	₱20,788,210	₱156,218,684



	Carrying Amount	2019 Fair Value			Total
		Level 1	Level 2	Level 3	
<b>Liabilities</b>					
Deposit liabilities	₱134,346,168	₱—	₱134,346,168	₱—	₱134,346,168
Manager's check	155,936	155,936	—	—	155,936
Lease liabilities	144,866	—	144,866	—	144,866
Other liabilities	182,485	—	—	182,485	182,485
	₱134,829,455	₱155,936	₱134,491,034	₱182,485	₱134,829,455

\*Includes refundable deposits, other investments and RCOCI under "Other Assets".

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

*Cash and Other Cash Items, Due from BSP and Other Banks, Securities Purchased Under Resale Agreement, Refundable Deposits, Other Investments, and RCOCI.* The carrying amounts approximate their fair values in view of the relatively short-term maturities of these instruments.

*Debt Securities.* This includes government securities and corporate bonds. Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

*Equity Securities.* This includes quoted and unquoted equity securities. For publicly traded equity securities, fair values are based on quoted prices published in the Philippine equity markets. For unquoted equity securities for which no reliable basis for fair value measurement is available, these are carried at cost net of impairment, if any.

*Loans and Receivables.* Fair values of loans and receivables are estimated using the discounted cash flow methodology, using the Bank's current incremental lending rates for similar types of loans and receivables.

Generally, significant increases (decreases) in rate would result in a significantly higher (lower) fair value measurement. Significant increases (decreases) in effective interest rate would result in a significantly lower (higher) fair value measurement.

*Deposit Liabilities.* Carrying amounts of deposit liabilities approximate fair values considering that these are currently due and demandable.

*Manager's Checks.* Carrying amounts approximate fair values due to the short-term nature of the accounts.

*Lease Liabilities.* Carrying amounts of lease liability approximates its fair value as these are measured at the present value of lease payments to be made over the lease term using the Bank's incremental borrowing rates based on the Bloomberg Valuation Service (BVAL) rates.

*Other Liabilities.* Quoted market prices are not readily available for these liabilities. These are reported at cost and are not significant in relation to the Bank's total portfolio.

There were no transfers between levels 1, 2 and 3 during the year.

## 5. Capital Risk Management

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

The Bank manages its capital structure and makes adjustments to it where there are 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 as at December 31, 2020 and 2019.

### Capital Management

Under the existing BSP regulations, the determination of compliance with regulatory requirements and ratios is based on the amount of the "qualifying capital" (regulatory net worth) as reported to the BSP, which is determined on the basis of Regulatory Accounting Principles (RAP) that differ from PFRS in some respects. In addition, the risk-based capital ratio of a bank or Capital Adequacy Ratio (CAR) expressed as a percentage of qualifying capital to risk-weighted assets should not be less than 10% at all times.

Qualifying capital and risk-weighted assets are computed based on RAP. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board of the BSP.

The CAR of the Bank as at December 31, as reported to the BSP follows (amounts in millions):

	2020	2019
Tier 1 capital	<b>₱27,211</b>	₱21,115
Tier 2 capital	<b>50</b>	242
Gross qualifying capital	<b>27,261</b>	21,357
Less: regulatory adjustments/ required deductions	<b>2,805</b>	-
Total qualifying capital	<b>24,456</b>	21,357
Risk weighted assets	<b>48,199</b>	46,883
CAR (%)	<b>50.74%</b>	45.55%
Common Equity Tier 1 (%)	<b>50.64%</b>	45.04%

The Bank has fully complied with the CAR requirement of the BSP as at and for the years ended December 31, 2020 and 2019.

The Bank, as a universal bank with 61 branches as at December 31, 2020 and 2019, including Head Office, is required to maintain a minimum capital of ₱15.0 billion. As at December 31, 2020 and 2019, the Bank has complied with the required capitalization.

As part of the reforms of the PSE to expand capital market and improve transparency among listed firms, PSE requires listed entities to maintain a minimum of 10% of their issued and outstanding shares, exclusive of any treasury shares, held by the public. The Bank has fully complied with this requirement.

The BSP also requires the Basel III Leverage Ratio (BLR), which is designed to act as a supplementary measure to the risk-based capital requirements. BLR intends to restrict the build-up of leverage in the banking sector to avoid destabilizing deleveraging processes, which can damage the broader financial system and the economy. It also reinforces the risk-based requirements with a simple, non-risk based “backstop” measure. BLR is computed as the capital measure (Tier 1 capital) divided by the total exposure measure and should not be less than 5.00%.

As at December 31, 2020 and 2019, BLR reported to the BSP is as follows (amounts in millions):

	2020	2019
Tier 1 capital	<b>₱24,406</b>	₱21,115
Total exposure measure	<b>166,039</b>	157,743
BLR	<b>14.70%</b>	13.39%

BLR is computed based on RAP.

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## 6. Cash and Cash Equivalents

This account consists of:

	2020	2019
Cash and other cash items	<b>₱1,053,253</b>	₱904,496
Due from BSP	<b>53,609,068</b>	30,355,961
Due from other banks	<b>2,056,689</b>	2,631,549
	<b>₱56,719,010</b>	₱33,892,006

Due from other banks represents balances of funds on deposit with other domestic and foreign banks.

Effective interest earned on BSP deposits ranges from 1.50% to 4.48% in 2020, 3.50% to 5.25% in 2019 and 2.80% to 5.25% in 2018. Effective interest earned on deposits with other banks is 0.25% to 1.25% in 2020, 0.25% to 1.50% in 2019 and 0.25% to 1.00% in 2018.

Interest income amounted to ₱870.3 million, ₱797.0 million and ₱855.9 million in 2020, 2019 and 2018, respectively.

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## 7. Securities Purchased under Resale Agreement

These pertain to the overnight placements with the BSP as at December 31, 2020 and 2019, where the underlying securities cannot be sold or repledged to parties other than the BSP. Effective interest earned from these placements ranges from 2.00% to 4.00% in 2020, 4.00% to 4.80% in 2019 and 7.50% in 2018.

Interest income amounted to ₱116.2 million, ₱324.8 million and ₱245.1 million in 2020, 2019 and 2018, respectively.

## 8. Investment Securities

Details and movements of this account are as follows:

2020			
Note	Financial Assets at		Total
	Amortized Cost	FVOCI	
Balances at beginning of year	₱41,439,535	₱37,022,302	₱78,461,837
Disposals/maturities	(16,778,454)	(19,479,012)	(36,257,466)
Additions	19,899,741	9,026,872	28,926,613
Net fair value gain	—	358,189	358,189
Net amortization of discount	(290,531)	(563,838)	(854,369)
	44,270,291	26,364,513	70,634,804
Allowance for impairment losses	13 (19,108)	(26,616)	(45,724)
Balances at end of year	₱44,251,183	₱26,337,897	₱70,589,080

2019			
Note	Financial Assets at		Total
	Amortized Cost	FVOCI	
Balances at beginning of year	₱39,119,251	₱33,966,209	₱73,085,460
Additions	3,008,519	5,642,506	8,651,025
Disposals/maturities	—	(5,555,028)	(5,555,028)
Net fair value loss	—	3,785,785	3,785,785
Net amortization of discount	(688,235)	(817,170)	(1,505,405)
	41,439,535	37,022,302	78,461,837
Allowance for impairment losses	13 (42,834)	(44,095)	(86,929)
Balances at end of year	₱41,396,701	₱36,978,207	₱78,374,908

### Financial Assets at Amortized Cost

This account consists of:

	2020	2019
Government securities	₱44,105,886	₱40,709,984
Corporate bonds	145,297	686,717
	₱44,251,183	₱41,396,701

The range of average interest rates of financial assets at amortized cost follows:

	2020	2019	2018
Peso-denominated	1.69% to 6.88%	3.25% to 7.75%	3.25% to 7.75%
Foreign-denominated	2.46% to 4.38%	3.70% to 4.38%	3.70% to 4.38%

Details on sale of financial assets at amortized cost in 2020 are as follows:

Proceeds	₱17,008,683
Carrying amount	16,778,454
Gain on sale	₱230,229

### **Financial Assets at FVOCI**

This account consists of:

	2020	2019
Debt securities:		
Government securities	<b>₱23,474,603</b>	₱34,404,840
Corporate bonds	<b>721,981</b>	778,007
	<b>24,196,584</b>	35,182,847
Equity securities:		
Quoted	<b>2,141,145</b>	1,795,192
Unquoted	<b>168</b>	168
	<b>2,141,313</b>	1,795,360
	<b>₱26,337,897</b>	₱36,978,207

*Quoted Equity Securities.* Investment in quoted equity securities pertain to various shares of companies listed in the PSE. Fair values of quoted equity securities are based on quoted market prices as at reporting date.

*Unquoted Equity Securities.* This account comprise of shares of stock of private corporations that are carried at cost since fair value cannot be reliably estimated due to lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value. There is currently no market for these investments and the Bank intends to hold them for long-term.

Movements in cumulative unrealized gains (losses) on fair value changes of financial assets at FVOCI are as follows:

	2020	2019
Balance at beginning of year	<b>₱2,481,386</b>	(₱1,304,399)
Net unrealized gains	<b>358,189</b>	3,785,785
Balance at end of year	<b>₱2,839,575</b>	₱2,481,386

The range of average interest rates of debt securities at FVOCI is as follows:

	2020	2019	2018
Peso-denominated	<b>3.50% to 5.75%</b>	3.38% to 6.50%	3.38% to 6.50%
Foreign-denominated	<b>1.65% to 7.39%</b>	2.75% to 7.39%	2.75% to 7.39%

Details on sale of financial assets at FVOCI are as follows:

	2020	2019	2018
Proceeds	<b>₱21,193,749</b>	₱6,231,907	₱8,023,293
Carrying amount	<b>19,479,012</b>	5,555,028	6,940,309
Gain on sale	<b>₱1,714,737</b>	₱676,879	₱1,082,984

Interest income on investment securities consists of:

	2020	2019	2018
Financial assets at FVOCI	<b>₱1,131,035</b>	₱1,660,337	₱2,180,777
Financial assets at amortized cost	<b>1,976,651</b>	1,813,532	933,631
	<b>₱3,107,686</b>	₱3,473,869	₱3,114,408

## 9. Loans and Receivables

This account consists of:

	Note	2020	2019
Loans receivable from customers:			
Corporate		<b>₱20,929,530</b>	₱19,833,344
Individual		<b>5,319,207</b>	5,594,441
Accrued interest		<b>852,405</b>	1,094,932
Sales contract receivables		<b>21,837</b>	39,930
Others		<b>19,920</b>	20,955
		<b>27,142,899</b>	26,583,602
Allowance for credit and impairment losses	13	<b>(4,201,515)</b>	(4,002,432)
		<b>₱22,941,384</b>	₱22,581,170

Loans receivable from customers consists of:

	2020	2019
Bills discounted loans	<b>₱14,525,661</b>	₱13,166,083
Term loans	<b>8,470,227</b>	8,796,685
Agrarian reform	<b>2,269,606</b>	1,798,007
Trust receipts	<b>983,243</b>	1,667,010
	<b>₱26,248,737</b>	₱25,427,785

The range of average interest rates of loans receivables from customers of the Bank for the years ended December 31 follows:

	2020	2019	2018
Corporate loans	<b>1.75% to 13.25%</b>	1.25% to 13.25%	2.00% to 10.00%
Individual loans	<b>1.25% to 16.85%</b>	1.75% to 12.00%	2.50% to 16.00%

Interest income on loans and receivables consists of:

	2020	2019	2018
Loans receivable from customers	<b>₱1,274,638</b>	₱2,051,465	₱1,441,838
Sales contract receivables	<b>2,207</b>	1,676	1,532
	<b>₱1,276,845</b>	₱2,053,141	₱1,443,370

## 10. Property and Equipment

Details and movements of this account are as follows:

	2020					
	Land	Buildings and Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	ROU Assets	Total
<b>Cost</b>						
Balance at beginning of year	<b>₱2,009,649</b>	<b>₱1,184,481</b>	<b>₱541,784</b>	<b>₱62,682</b>	<b>₱170,421</b>	<b>₱3,969,017</b>
Additions	—	26,016	22,423	3,144	102,976	154,559
Disposals	—	(8,206)	(34,716)	(692)	—	(43,614)
Pre-termination	—	—	—	—	(10,328)	(10,328)
Balance at end of year	<b>2,009,649</b>	<b>1,202,291</b>	<b>529,491</b>	<b>65,134</b>	<b>263,069</b>	<b>4,069,634</b>
(Forward)						

2020						
	Land	Buildings and Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	ROU Assets	Total
<b>Accumulated Depreciation and Amortization</b>						
Balance at beginning of year	₱—	₱521,189	₱494,321	₱26,262	₱40,580	₱1,082,352
Depreciation and amortization	—	16,900	25,926	29,895	63,161	135,882
Disposals	—	(8,108)	(34,573)	(692)	—	(43,373)
Pre-termination	—	—	—	—	(5,902)	(5,902)
Balance at end of year	—	529,981	485,674	55,465	97,839	1,168,959
<b>Carrying Amount</b>	<b>₱2,009,649</b>	<b>₱672,310</b>	<b>₱43,817</b>	<b>₱9,669</b>	<b>₱165,230</b>	<b>₱2,900,675</b>

2019						
	Land	Buildings and Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	ROU Assets	Total
<b>Cost</b>						
Balance at beginning of year	₱2,009,649	₱1,152,418	₱534,318	₱51,237	₱170,421	₱3,918,043
Additions	—	48,354	16,452	11,445	—	76,251
Disposals	—	(16,291)	(8,986)	—	—	(25,277)
Balance at end of year	2,009,649	1,184,481	541,784	62,682	170,421	3,969,017
<b>Accumulated Depreciation and Amortization</b>						
Balance at beginning of year	—	500,323	474,641	21,013	—	995,977
Depreciation and amortization	—	37,156	28,619	5,249	40,580	111,604
Disposals	—	(16,290)	(8,939)	—	—	(25,229)
Balance at end of year	—	521,189	494,321	26,262	40,580	1,082,352
<b>Carrying Amount</b>	<b>₱2,009,649</b>	<b>₱663,292</b>	<b>₱47,463</b>	<b>₱36,420</b>	<b>₱129,841</b>	<b>₱2,886,665</b>

Details of depreciation and amortization are as follows:

	Note	2020	2019	2018
Property and equipment		<b>₱135,882</b>	₱111,604	₱67,917
Investment properties	11	<b>22,735</b>	7,776	2,866
Computer software	12	<b>4,609</b>	4,760	4,009
	22	<b>₱163,226</b>	₱124,140	₱74,792

Cost of fully depreciated property and equipment still being used in the operations amounted to ₱484.2 million and ₱374.2 million as at December 31, 2020 and 2019, respectively.

Details on sale of property and equipment are as follows:

	Note	2020	2019	2018
Proceeds		<b>₱8,372</b>	₱11,819	₱15,857
Carrying amount		<b>241</b>	48	15,714
Gain on sale	20	<b>₱8,131</b>	₱11,771	₱143

## 11. Investment Properties

Details and movements of this account are as follows:

		2020		
	Note	Land	Buildings and Improvements	Total
<b>Cost</b>				
Balance at beginning of year		₱1,392,457	₱258,777	₱1,651,234
Foreclosures		191,647	71,615	263,262
Disposals		(14,975)	(201)	(15,176)
Derecognition		(84,765)	–	(84,765)
Balance at end of year		1,484,364	330,191	1,814,555
<b>Accumulated Depreciation and Amortization</b>				
Balance at beginning of year		–	100,073	100,073
Depreciation and amortization	10	–	22,735	22,735
Disposals		–	(54)	(54)
Balance at end of year		–	122,754	122,754
<b>Accumulated Impairment Losses</b>				
Balance at beginning and end of year		31,181	1,031	32,212
<b>Carrying Amount</b>		<b>₱1,453,183</b>	<b>₱206,406</b>	<b>₱1,659,589</b>

		2019		
	Note	Land	Buildings and Improvements	Total
<b>Cost</b>				
Balance at beginning of year		₱1,384,162	₱150,409	₱1,534,571
Foreclosures		24,757	115,578	140,335
Disposals		(16,462)	(7,210)	(23,672)
Balance at end of year		1,392,457	258,777	1,651,234
<b>Accumulated Depreciation and Amortization</b>				
Balance at beginning of year		–	100,157	100,157
Depreciation and amortization	10	–	7,776	7,776
Disposals		–	(7,860)	(7,860)
Balance at end of year		–	100,073	100,073
<b>Accumulated Impairment Losses</b>				
Balance at beginning of year		34,867	1,031	35,898
Disposals		(3,686)	–	(3,686)
Balance at end of year		31,181	1,031	32,212
<b>Carrying Amount</b>		<b>₱1,361,276</b>	<b>₱157,673</b>	<b>₱1,518,949</b>

Details on the sale of investment properties are as follows:

	Note	2020	2019	2018
Proceeds		₱25,417	₱111,854	₱220,850
Carrying amount		15,122	12,126	175,178
Gain on sale	20	₱10,295	₱99,728	₱45,672



In 2020, the Bank derecognized investment properties amounting to ₱84.8 million. Loss on derecognition of investment properties is included as part of “Other income (charges)” account in the statements of income.

The carrying value of properties for rental purposes amounted to ₱111.1 million as at December 31, 2020, 2019 and 2018. Rent income amounted to ₱46.4 million, ₱76.8 million, and ₱52.1 million in 2020, 2019, and 2018, respectively (see Note 20). Direct operating expenses from investment properties not generating rent income amounted to ₱16.7 million, ₱4.3 million and ₱2.9 million in 2020, 2019 and 2018, respectively.

In 2020 and 2019, loans with an aggregate carrying amount of ₱95.4 million and ₱107.0 million, respectively, were derecognized in exchange for foreclosed properties. Gain on foreclosure amounted to ₱173.6 million and ₱42.1 million, respectively.

The aggregate fair value of the investment properties amounted to ₱3,800.5 million and ₱3,062.7 million as at December 31, 2020 and 2019, respectively. Fair value was determined based on valuations made by independent or in-house appraisers. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made. The fair value measurement is categorized as Level 2 (significant observable inputs).

## 12. Other Assets

This account consists of:

	2020	2019
Prepaid expenses	₱75,612	₱82,663
Creditable withholding tax	38,828	31,230
Refundable deposits	23,260	18,641
Other investments	20,757	20,757
Documentary stamp tax	17,040	27,479
Computer software	15,292	10,816
RCOCI	163	10,867
Investment in a subsidiary	—	18,000
Others	12,009	19,585
	<b>₱202,961</b>	<b>₱240,038</b>

Prepaid expenses comprise of business taxes and licenses, and insurance premium paid in advance.

Other investments represent the required minimum amount of investment in various banking facilities to avail of their services and support the viability and sustainability of the banking network system.

Movements in computer software are as follows:

	Note	2020	2019
<b>Cost</b>			
Balance at beginning of year		<b>₱55,725</b>	₱56,925
Additions		<b>9,085</b>	594
Disposal		—	(1,794)
Balance at end of year		<b>64,810</b>	55,725
<b>Amortization</b>			
Balance at beginning of year		<b>44,909</b>	41,883
Amortization	10	<b>4,609</b>	4,760
Disposal		—	(1,734)
Balance at end of year		<b>49,518</b>	44,909
<b>Amount</b>		<b>₱15,292</b>	₱10,816

Disposal of computer software in 2019, with a consideration of ₱1.6 million, has resulted to gain amounting to ₱1.5 million, which is included as part of “Other income (charges)” account in the statements of income (see Note 20).

Investment in a subsidiary pertains to the Bank’s ownership in MGI. MGI was incorporated and registered with the SEC on November 27, 2017. MGI is primarily engaged in the real estate acquisitions and development. MGI has not started its commercial operations. As discussed in Note 1, the BOD approved the closure of business and dissolution of MGI on July 31, 2018. On September 5, 2019, the Bank already obtained tax clearance for dissolution from the Bureau of Internal Revenue (BIR). On February 17, 2020, the SEC approved the amended Articles of Incorporation of MGI, shortening the term of its existence thereby dissolving the corporation.

### 13. Allowance for Credit and Impairment Losses

Movements in the allowance for credit and impairment losses on financial assets as at December 31, 2020 and 2019 are as follows:

2020					
	Financial Assets at Amortized Cost (see Note 8)	Debt Securities at FVOCI (see Note 8)	Loans and Receivables (see Note 9)	Commitments and Other Contingent Assets (see Note 16)	Total
Balances at beginning of year	<b>₱42,834</b>	<b>₱44,095</b>	<b>₱4,002,432</b>	<b>₱19,435</b>	<b>₱4,108,796</b>
Provision	—	—	419,098	—	419,098
Reversal	(23,726)	(17,479)	(220,015)	(5,178)	(266,398)
Balances at end of year	<b>₱19,108</b>	<b>₱26,616</b>	<b>₱4,201,515</b>	<b>₱14,257</b>	<b>₱4,261,496</b>

2019					
	Financial Assets at Amortized Cost (see Note 8)	Debt Securities at FVOCI (see Note 8)	Loans and Receivables (see Note 9)	Commitments and Other Contingent Assets (see Note 16)	Total
Balances at beginning of year	₱40,678	₱36,507	₱3,980,805	₱13,457	₱4,071,447
Provision	2,156	7,588	1,172,414	5,978	1,188,136
Reversal	—	—	(1,150,787)	—	(1,150,787)
Balances at end of year	<b>₱42,834</b>	<b>₱44,095</b>	<b>₱4,002,432</b>	<b>₱19,435</b>	<b>₱4,108,796</b>

With the foregoing level of allowance for credit and impairment losses, management believes that the Bank has sufficient allowance to cover for any losses that the Bank may incur from the non-collection or non-realization of its financial assets.

Allowance for credit and impairment losses on loans and receivables relate to the following:

	2020	2019
Loans receivables from customers	<b>₱4,123,312</b>	₱3,911,215
Accrued interest	<b>74,490</b>	87,504
Others	<b>3,713</b>	3,713
	<b>₱4,201,515</b>	₱4,002,432

Below is the analysis of movements of corporate accounts:

	2020			
	Stage 1	Stage 2	Stage 3	Total
<b>Gross Carrying Amount</b>				
Balances at beginning of year	<b>₱14,127,244</b>	<b>₱461,247</b>	<b>₱5,244,853</b>	<b>₱19,833,344</b>
Loan releases	<b>2,472,325</b>	–	<b>46,370</b>	<b>2,518,695</b>
Payments	<b>(811,884)</b>	<b>(39,819)</b>	<b>(528,406)</b>	<b>(1,380,109)</b>
Foreclosures	–	–	<b>(42,400)</b>	<b>(42,400)</b>
Transfers to stage 1	<b>1,976,500</b>	<b>(421,428)</b>	<b>(1,555,072)</b>	–
Transfers to stage 2	–	<b>80,133</b>	<b>(80,133)</b>	–
Balances at end of year	<b>17,764,185</b>	<b>80,133</b>	<b>3,085,212</b>	<b>20,929,530</b>
<b>Allowance for Impairment and Credit Losses</b>				
Balances at beginning of year	<b>50,000</b>	<b>26,347</b>	<b>2,955,162</b>	<b>3,031,509</b>
Provisions	<b>215,881</b>	–	<b>146,024</b>	<b>361,905</b>
Reversals	–	<b>(26,347)</b>	<b>(30,475)</b>	<b>(56,822)</b>
Transfers to stage 1	<b>358,520</b>	–	<b>(358,520)</b>	–
Balances at end of year	<b>624,401</b>	–	<b>2,712,191</b>	<b>3,336,592</b>
<b>Carrying Amount</b>	<b>₱17,139,784</b>	<b>₱80,133</b>	<b>₱373,021</b>	<b>₱17,592,938</b>

	2019			
	Stage 1	Stage 2	Stage 3	Total
<b>Gross Carrying Amount</b>				
Balances at beginning of year	<b>₱11,891,026</b>	<b>₱3,408,546</b>	<b>₱7,995,447</b>	<b>₱23,295,019</b>
Loan releases	<b>2,546,738</b>	–	–	<b>2,546,738</b>
Payments	<b>(2,076,665)</b>	<b>(1,153,954)</b>	<b>(2,690,492)</b>	<b>(5,921,111)</b>
Foreclosures	–	–	<b>(87,302)</b>	<b>(87,302)</b>
Transfers to stage 1	<b>2,221,025</b>	<b>(2,221,025)</b>	–	–
Transfers to stage 2	<b>(429,880)</b>	<b>429,880</b>	–	–
Transfers to stage 3	<b>(25,000)</b>	<b>(2,200)</b>	<b>27,200</b>	–
Balances at end of year	<b>14,127,244</b>	<b>461,247</b>	<b>5,244,853</b>	<b>19,833,344</b>
<b>Allowance for Impairment and Credit Losses</b>				
Balances at beginning of year	<b>144,134</b>	<b>51,226</b>	<b>2,466,213</b>	<b>2,661,573</b>
Provisions	<b>44,598</b>	<b>16,387</b>	<b>1,083,671</b>	<b>1,144,656</b>
Reversals	<b>(128,772)</b>	<b>(51,101)</b>	<b>(594,847)</b>	<b>(774,720)</b>
Transfers to stage 1	<b>(9,960)</b>	<b>9,960</b>	–	–
Transfers to stage 2	–	<b>(125)</b>	<b>125</b>	–
Transfers to stage 3	–	–	–	–
Balances at end of year	<b>50,000</b>	<b>26,347</b>	<b>2,955,162</b>	<b>3,031,509</b>
<b>Carrying Amount</b>	<b>₱14,077,244</b>	<b>₱434,900</b>	<b>₱2,289,691</b>	<b>₱16,801,835</b>

Below is the analysis of movements of individual accounts:

	2020			
	Stage 1	Stage 2	Stage 3	Total
<b>Gross Carrying Amount</b>				
Balances at beginning of year	₱2,870,107	₱792,398	₱1,931,936	₱5,594,441
Loan releases	762,974	—	10,000	772,974
Payments	(542,806)	(320,394)	(132,058)	(995,258)
Foreclosures	—	—	(52,950)	(52,950)
Transfers to stage 1	1,129,547	(472,004)	(657,543)	—
Transfers to stage 2	—	144,719	(144,719)	—
Transfers to stage 3	(600)	—	600	—
Balances at end of year	4,219,222	144,719	955,266	5,319,207
<b>Allowance for impairment and credit losses</b>				
Balances at beginning of year	—	—	879,706	879,706
Provisions	13,900	—	43,293	57,193
Reversals	—	—	(150,179)	(150,179)
Transfer to stage 1	325,118	—	(325,118)	—
Transfer to stage 2	—	14,472	(14,472)	—
Balances at end of year	339,018	14,472	433,230	786,720
<b>Carrying Amount</b>	<b>₱3,880,204</b>	<b>₱130,247</b>	<b>₱522,036</b>	<b>₱4,532,487</b>

	2019			
	Stage 1	Stage 2	Stage 3	Total
<b>Gross Carrying Amount</b>				
Balances at beginning of year	₱3,389,691	₱93,722	₱1,920,235	₱5,403,648
Loan releases	1,287,477	—	—	1,287,477
Payments	(827,431)	(132)	(249,455)	(1,077,018)
Foreclosures	—	—	(19,666)	(19,666)
Transfers to stage 1	20,792	(20,792)	—	—
Transfers to stage 2	(791,298)	792,398	(1,100)	—
Transfers to stage 3	(209,124)	(72,798)	281,922	—
Balances at end of year	2,870,107	792,398	1,931,936	5,594,441
<b>Allowance for Impairment and Credit Losses</b>				
Balances at beginning of year	97,448	7,706	1,124,054	1,229,208
Provisions	—	—	26,565	26,565
Reversals	(97,448)	(4,873)	(273,746)	(376,067)
Transfers to stage 3	—	(2,833)	2,833	—
Balances at end of year	—	—	879,706	879,706
<b>Carrying Amount</b>	<b>₱2,870,107</b>	<b>₱792,398</b>	<b>₱1,052,230</b>	<b>₱4,714,735</b>

#### 14. Deposit Liabilities

This account consists of:

	2020	2019
Demand	₱1,327,761	₱1,362,696
Savings	97,285,281	89,305,646
Time	42,214,539	43,677,826
	<b>₱140,827,581</b>	<b>₱134,346,168</b>

As mandated by the BSP, the Bank is subject to statutory reserve requirement on peso deposit and deposit substitute liabilities. The reserve requirement as at December 31, 2020 and 2019 are 12.00% and 14.00%, respectively.

As at December 31, 2020 and 2019, the Bank is in compliance with such regulations. Available reserves of the Bank submitted to the BSP are as follows:

	2020	2019
Cash and other cash items	<b>₱1,053,253</b>	₱904,496
Due from BSP	<b>53,609,068</b>	30,355,961
	<b>₱54,662,321</b>	<b>₱31,260,457</b>

The deposit liabilities bear annual fixed interest rate of 0.05% to 3.75% in 2020, 0.25% to 5.75% in 2019 and 0.25% to 4.0% in 2018.

Interest expense on deposit liabilities account consists of:

	2020	2019	2018
Savings deposits	<b>₱2,447,770</b>	₱2,933,485	₱2,141,320
Time deposits	<b>847,816</b>	1,147,414	1,079,271
	<b>₱3,295,586</b>	<b>₱4,080,899</b>	<b>₱3,220,591</b>

#### 15. Accrued Taxes, Interest and Other Expenses

This account consists of:

	2020	2019
Accrued expenses and other taxes	<b>₱184,895</b>	₱134,372
Accrued interest	<b>44,340</b>	78,658
Others	—	10,306
	<b>₱229,235</b>	<b>₱223,336</b>

#### 16. Other Liabilities

This account consists of:

	Note	2020	2019
Accounts payable		<b>₱81,226</b>	₱50,161
Statutory liabilities		<b>41,851</b>	40,792
Dormant deposit accounts		<b>36,544</b>	32,081
Outstanding acceptances and customers' liabilities		<b>23,672</b>	56,105
Provision for impairment losses on commitments and other contingent assets	13	<b>14,257</b>	19,435
Due to the Treasurer of the Philippines		<b>14,086</b>	14,364
Security deposit		<b>3,772</b>	5,759
Deposits for safety deposit boxes		<b>3,357</b>	3,256
Retirement liability	21	<b>947</b>	1,324
Others		<b>6,861</b>	1,950
		<b>₱226,573</b>	<b>₱225,227</b>

Accounts payable mainly consist of unpaid charges pertaining to cash card and trading transactions.

Outstanding acceptances and customers' liabilities pertain to payables arising from customer trade for which the Bank has given accommodations to the buyer/importer in the form of acceptance credit.

Due to the Treasurer of the Philippines pertains to remaining balances of dormant accounts surrendered to the Treasurer of the Philippines.

Others mainly consist of deferred charges.

## 17. Maturity Analysis of Assets and Liabilities

The following table presents the assets and liabilities of the Bank analyzed according to whether these are expected to be recovered or settled within one year and beyond one year from the reporting date (amounts in thousands):

		2020			2019		
		Within	Over		Within	Over	
	Note	One Year	One Year	Total	One Year	One Year	Total
<b>Financial Assets</b>							
Cash and other cash items	6	₱1,053,253	₱—	₱1,053,253	₱904,496	₱—	₱904,496
Due from BSP	6	53,609,068	—	53,609,068	30,355,961	—	30,355,961
Due from other banks	6	2,056,689	—	2,056,689	2,631,549	—	2,631,549
Securities purchased under resale agreement	7	12,759,152	—	12,759,152	20,336,561	—	20,336,561
Loans and receivables	9	14,353,472	12,789,428	27,142,900	18,405,798	8,177,804	26,583,602
Investment securities:	8						
Financial assets at FVOCI		1,022,051	25,315,846	26,337,897	—	37,022,302	37,022,302
Financial assets at amortized cost		9,148,654	35,102,529	44,251,183	—	41,439,535	41,439,535
Other assets		163	44,017	44,180	10,867	18,641	29,508
		94,002,502	73,251,820	167,254,322	72,645,232	86,658,282	159,303,514
<b>Nonfinancial Assets</b>							
Property and equipment	10	—	4,069,634	4,069,634	—	3,969,017	3,969,017
Investment properties	11	—	1,814,555	1,814,555	—	1,651,234	1,651,234
Deferred tax assets	26	—	697,983	697,983	—	961,126	961,126
Other assets	12	166,749	12,789	179,538	160,957	49,573	210,530
		166,749	6,594,961	6,761,710	160,957	6,630,950	6,791,907
Less:							
Allowance for credit and impairment losses	13	—	4,247,239	4,247,239	—	4,089,361	4,089,361
Accumulated depreciation and amortization	10, 11	—	1,291,713	1,291,713	—	1,227,335	1,227,335
		—	5,538,952	5,538,952	—	5,316,696	5,316,696
		₱94,169,251	₱74,307,829	₱168,477,080	₱72,806,189	₱87,972,536	₱160,778,725
<b>Financial Liabilities</b>							
Deposit liabilities	14	₱129,272,581	₱11,555,000	₱140,827,581	₱122,902,463	₱11,443,705	₱134,346,168
Manager's checks		94,165	—	94,165	155,936	—	155,936
Accrued interest, taxes and others expenses	15	229,235	—	229,235	223,336	—	223,336
Lease liabilities	24	42,802	140,368	183,170	33,423	111,443	144,866
Other liabilities	16	183,775	—	183,775	182,485	—	182,485
		₱129,822,558	₱11,695,368	₱141,517,926	₱123,497,643	₱11,555,148	₱135,052,791

## 18. Equity

### **Capital Stock**

Capital stock as at December 31, 2020 and 2019 consists of:

	Number of Shares	Amount
Authorized - ₱10 par value	2,200,000	₱22,000,000
Issued and outstanding	1,000,000	10,000,000

The Bank listed its shares in the PSE on February 17, 1988. As at December 31, 2020 and 2019, 1,000 million of the Bank's common shares are listed in the PSE.

There are no movements in the number of outstanding shares for all the periods presented. As at December 31, 2020 and 2019, the Bank has 82 stockholders of record.

### **Reserves**

Reserves as at December 31, 2020 and 2019 consist of:

Reserve for contingencies	₱38,658
Reserve for self-insurance	33,342
Reserve for trust business	320
	<b>₱72,320</b>

In compliance with the existing BSP regulations, the Bank should, before the declaration of dividends, carry to retained earnings at least 10% of its income from trust operations since the last preceding dividend declaration until the retained earnings amount to 20% of its authorized capital stock.

Reserve for self-insurance represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of the Bank's personnel or third parties.

### **Cash Dividends**

The Bank has not declared cash dividends in 2020, 2019 and 2018.

## 19. Earnings Per Share

Basic EPS amounts are calculated by dividing the net income for the year by the weighted average number of common shares outstanding during the year.

The following reflects the income and share data used in the basic earnings per share computations:

	2020	2019	2018
Net income	<b>₱948,538</b>	₱780,430	₱823,762
Weighted average of outstanding common shares	<b>1,000,000</b>	1,000,000	1,000,000
	<b>₱0.95</b>	₱0.78	₱0.82

As at December 31, 2020, 2019 and 2018, there were no outstanding dilutive potential common shares.

## 20. Other Income (Charges)

This account consists of:

	Note	2020	2019	2018
Rent income		<b>₱46,047</b>	₱76,832	₱52,131
Dividend income		<b>27,845</b>	29,073	23,506
Gain on sale of investment properties	11	<b>10,295</b>	99,728	45,672
Gain on sale of property and equipment	10	<b>8,131</b>	11,771	143
Income from trust operations		<b>2,838</b>	2,492	1,659
Gain on sale of computer software	12	—	1,526	—
Others		<b>(45,655)</b>	22,734	21,877
		<b>₱49,501</b>	₱244,156	₱144,988

Others consist of loss on derecognition of investment properties, commission from sale of COCI tickets, income on pre-terminated time deposits, sale of defective materials, charges for refitting lockset, and interest on bid amount of auctioned properties.

## 21. Compensation and Employee Benefits

This account consists of:

	2020	2019	2018
Salaries and other employee benefits	<b>₱829,904</b>	₱773,596	₱791,780
Retirement benefits	<b>52,675</b>	43,514	48,760
Statutory benefits	<b>20,612</b>	18,288	15,483
Dental, medical and hospitalization	<b>19,045</b>	17,407	15,511
	<b>₱922,236</b>	₱852,805	₱871,534

### Retirement Benefits

The Bank has a funded, DC plan for qualifying employees. Under the plan, the employees are entitled to retirement benefits in relation to the proportion of the fair value of the total contributions on their attainment of the retirement age. The assets of the fund are being administered by trustees and are held separately from those of the Bank.

Under R.A. 7641, the Bank also provides for its qualified employees a DB minimum guarantee, which is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service.

The present value of the DB minimum guarantee under R.A. 7641 amounted to ₱946,822 and ₱1.3 million as at December 31, 2020 and 2019, respectively. The Bank has no unallocated DC plan assets as at December 31, 2020 and 2019.

The Bank is exposed to the risk of changes in government securities yields, wherein a decrease in government securities yields will increase the projected DB minimum guarantee, although this will be partially offset by an increase in the value of any unallocated plan assets' securities holdings.



Details of the present value of the DB minimum guarantee obligation are as follows:

	2020	2019
Balance at beginning of year	<b>₱1,324</b>	₱6,875
Interest expense	<b>53</b>	70
Current service cost	<b>34</b>	27
Remeasurement loss (gain) arising from:		
Experience adjustments	<b>(472)</b>	90
Changes in financial assumptions	<b>8</b>	90
Adjustments	<b>—</b>	(5,828)
Balance at end of year	<b>₱947</b>	₱1,324

Details of the retirement benefits recognized in profit or loss are as follows:

	2020	2019	2018
Interest expense	<b>₱53</b>	₱70	₱81
Current service cost	<b>34</b>	27	34
Adjustments	<b>—</b>	(5,828)	—
Retirement benefits (income) recognized	<b>87</b>	(5,731)	115
Retirement benefits on DC plan (contributions during the year)	<b>52,588</b>	49,245	48,645
	<b>₱52,675</b>	₱43,514	₱48,760

Details of cumulative remeasurement gains on retirement liability follow:

	2020		
	Cumulative Remeasurement Gains	Deferred Tax (see Note 26)	Net
Balance at beginning of year	<b>₱11,243</b>	<b>(₱3,373)</b>	<b>₱7,870</b>
Remeasurement gain	<b>464</b>	<b>(139)</b>	<b>325</b>
Balance at end of year	<b>₱11,707</b>	<b>(₱3,512)</b>	<b>₱8,195</b>

	2019		
	Cumulative Remeasurement Gains	Deferred Tax (see Note 26)	Net
Balance at beginning of year	<b>₱11,423</b>	<b>(₱3,427)</b>	<b>₱7,996</b>
Remeasurement loss	<b>(180)</b>	<b>54</b>	<b>(126)</b>
Balance at end of year	<b>₱11,243</b>	<b>(₱3,373)</b>	<b>₱7,870</b>

The average duration of the defined benefit obligation at the end of the reporting year is five years.

As at December 31, 2020 and 2019, the Bank's undiscounted benefit payments amounting to ₱1.0 million and ₱1.4 million are expected to be settled within one to five years.

The Bank's assumptions are based on actual historical experience and external data regarding salary and discount rate trends. The Bank considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the estimation of DB obligation.

## 22. Occupancy and Equipment-Related Expenses

This account consists of:

	Note	2020	2019	2018
Depreciation and amortization	10	<b>₱163,226</b>	₱124,140	₱74,792
Rent	24	<b>6,520</b>	26,539	70,934
		<b>₱169,746</b>	₱150,679	₱145,726

## 23. Other Operating Expenses

This account consists of:

	Note	2020	2019	2018
Taxes and licenses		<b>₱373,262</b>	₱303,011	₱274,687
Insurance		<b>279,074</b>	273,147	271,575
Security, messengerial and janitorial		<b>158,593</b>	158,127	148,791
Supervision and examination fees		<b>50,875</b>	73,203	71,541
Communications, light and water		<b>47,146</b>	53,204	53,126
Information technology		<b>31,074</b>	31,110	30,991
Litigation expense		<b>27,202</b>	20,943	23,598
Documentary stamp tax		<b>18,093</b>	38,893	42,198
Professional fees		<b>17,880</b>	14,996	8,662
Promotions and business development		<b>17,676</b>	26,901	96,014
Repairs and maintenance		<b>14,160</b>	12,732	12,101
Interest expense on lease liabilities	24	<b>10,211</b>	10,470	–
Supplies expense		<b>7,667</b>	7,667	7,388
Transportation and travel		<b>5,350</b>	6,570	5,626
Others		<b>55,580</b>	70,781	67,803
		<b>₱1,113,843</b>	₱1,101,755	₱1,114,101

Others pertain to bank charges, meals and service charges.

## 24. Leases

The Bank has various non-cancellable lease agreements for the use of its branches for a period of one to 10 years, renewable upon mutual agreement of both parties and subject to annual lease escalation of 5% to 10%.

ROU assets pertain to leased branch premises (see Note 10).

Movements in the lease liabilities are presented below.

	2020	2019
Balance as at beginning of year	<b>₱144,866</b>	₱180,527
Additions	<b>102,976</b>	–
Payments	<b>(69,964)</b>	(46,131)
Interest expense	<b>10,211</b>	10,470
Pre-termination	<b>(4,919)</b>	–
	<b>183,170</b>	144,866
Current portion	<b>42,802</b>	36,548
Noncurrent portion	<b>₱140,368</b>	₱108,318

In 2020, the Bank has pre-terminated a lease contract for one of its branch premises. The carrying of which amount of the related ROU and lease liability amounting to ₱4.4 million and ₱4.9 million, respectively, was derecognized resulting to a gain on pre-termination of ₱492,646.

Lease-related expenses are presented below.

	Note	2020	2019	2018
Amortization of ROU assets	10	<b>₱63,161</b>	₱40,580	₱–
Interest on lease liabilities		<b>10,211</b>	10,470	–
Rent expense	22	<b>6,520</b>	26,539	70,934
		<b>₱79,892</b>	₱77,589	₱70,934

Rent expense in 2020 and 2019 pertains to short-term lease on some branches with less than 12 months term at date of transition and variable lease payments.

Future lease commitments are as follows:

	2020	2019
Not later than one year	<b>₱48,491</b>	₱42,481
Later than one year but not more than five years	<b>140,274</b>	102,076
Later than five years	<b>20,686</b>	29,698
	<b>₱209,451</b>	₱174,255

## 25. Related Party Transactions and Balances

In the ordinary course of business, the Bank can enter into loan and other transactions with its related parties and with certain directors, officers, stockholders, and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of individual loans to DOSRI, of which 70.00% must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Bank. These limits do not apply to loans secured by assets considered as non-risk as defined in the BSP regulations.

In the ordinary course of business, the Bank has transactions with related parties summarized as follows:

Nature of Transactions	2020		2019	
	Transactions during the Year	Outstanding Balances	Transactions during the Year	Outstanding Balances
<b>Entities under Common Management</b>				
Loans and receivables	₱30,000	₱799,002	₱155,000	₱775,002
Interest income	29,619	—	45,246	—
Investment in equity securities	—	2,013,344	—	1,795,360
Deposit liabilities	42,157	293,705	(18,848)	251,548
Interest expense	2,745	—	3,483	—
Rent income	27,695	—	49,311	—
Rent expense	8,797	—	10,165	—
Others	6,012	—	15,333	—
<b>Stockholders</b>				
Loans and receivables	—	725,000	100,000	725,000
Interest income	27,262	—	46,781	—
<b>Related Interests</b>				
Loans and receivables	153,000	1,153,000	40,000	1,165,000
Interest income	38,456	—	69,730	—

### Terms and Conditions

*Loans and Receivables.* Loans and receivables from related parties pertain to bills discounted loan with a term of three to five years and bear annual interest rates ranging from 3.50% to 5.00% in 2020 and 2019.

*Investment in Equity Securities.* This pertains to investments in quoted equity securities that are classified as financial assets at FVOCI.

*Deposit Liabilities.* Deposits made by related parties bear interest rates ranging from 0.25% to 3.25% in 2020 and 2019.

*Rent Income.* Lease transactions, as a lessor, have term of one to 10 years and renewable upon mutual agreement of the parties.

*Rent Expense.* Lease transaction, as a lessee, have term of one to two years and renewable upon mutual agreement of the parties.

*Others.* Other transactions with entities under common management pertain to services rendered by related parties to the Bank that are included under other operating expenses.

### Compensation of Key Management Personnel

The compensation of the key management personnel included under compensation and employee benefits follows:

	2020	2019	2018
Short-term employee benefits	₱146,546	₱152,288	₱156,513
Post-employment retirement benefits	13,197	5,427	10,226
	<b>₱159,743</b>	<b>₱157,715</b>	<b>₱166,739</b>

### **Transactions with Retirement Plan**

Management of the retirement fund of the Bank is handled by its Trust Unit. The fair values of the fund amounted to ₱1,138.2 million and ₱988.5 million as at December 31, 2020 and 2019, respectively.

## **26. Income Taxes**

Income taxes include corporate income tax and FCDU final taxes, as discussed below, and final tax paid at the rate of 20.00% on gross interest income from government securities and other deposit substitutes. These income taxes, as well as the deferred tax benefits and provisions, are presented as "Income tax expense" in the statements of income.

Effective in May 2004, RA No. 9294 restored the tax exemption of FCDU and offshore banking units (OBU). Under such law, the income derived by the FCDU from foreign currency transactions with nonresidents, OBU, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBU or other depository banks under the expanded system is subject to 10% final income tax.

Components of income tax expense (benefit) are as follows:

	2020	2019	2018
Current tax:			
Final tax	<b>₱737,314</b>	₱606,018	₱515,057
Deferred income tax	<b>263,004</b>	103,366	(53,375)
	<b>₱1,000,318</b>	₱709,384	₱461,682

The reconciliation of the income tax expense at statutory tax rate and income tax expense as presented in the statements of comprehensive income is as follows:

	2020	2019	2018
Income tax expense at statutory tax rate	<b>₱584,657</b>	₱446,944	₱385,633
Tax effects of:			
Nontaxable income	<b>(1,072,759)</b>	(672,184)	(802,060)
Changes in unrecognized deferred tax assets	<b>961,676</b>	611,689	466,319
Nondeductible expenses	<b>454,803</b>	465,517	572,015
Interest income subjected to final tax	<b>(60,451)</b>	(308,765)	(266,097)
Expiration of NOLCO and MCIT	<b>132,392</b>	166,183	105,872
	<b>₱1,000,318</b>	₱709,384	₱461,682

Deferred tax expense (benefit) is recognized as follows:

	2020	2019
Through:		
Profit or loss	<b>₱263,004</b>	(₱103,366)
Other comprehensive income	<b>139</b>	54
	<b>₱263,143</b>	(₱103,312)

Deferred tax assets arise from the following:

	2020	2019
Deferred tax assets on:		
Allowance for credit and impairment losses	<b>₱762,083</b>	₱997,687
Excess of lease liabilities over ROU assets	<b>5,382</b>	–
Retirement liability	<b>284</b>	397
MCIT	–	4,126
	<b>767,749</b>	1,002,210
Deferred tax liabilities on:		
Unrealized gain on foreclosure of investment properties	<b>(64,711)</b>	(12,622)
Rent receivable	<b>(5,044)</b>	(5,044)
Fair value changes on government securities	–	(15,740)
Excess of amortization of ROU assets and interest expense on lease liabilities over lease payments	–	(7,667)
Others	<b>(11)</b>	(11)
	<b>(69,766)</b>	(41,084)
	<b>₱697,983</b>	₱961,126

Net deferred tax assets are recognized as follows:

	2020	2019
Through:		
Profit or loss	<b>₱709,690</b>	₱972,369
Other comprehensive income	<b>(11,707)</b>	(11,243)
	<b>₱697,983</b>	₱961,126

As at December 31, 2020 and 2019, the Bank has not recognized deferred tax assets relating to the following deductible temporary differences:

	2020	2019
NOLCO	<b>₱1,669,891</b>	₱1,238,841
Allowance for impairment losses on financial assets	<b>516,365</b>	234,951
	<b>₱2,186,256</b>	₱1,473,792

Management assessed that it is not probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets on the foregoing deductible temporary differences to be utilized.

Details of MCIT are as follows:

Year of incurrence	Year of expiry	Amount	Expired	Balance
2017	2020	₱4,126	(₱4,126)	₱–

Details of NOLCO are as follows:

Year of incurrence	Year of expiry	Amount	Expired	Balance
2017	2020	₱445,433	(₱445,433)	₱—
2018	2021	1,418,508	—	1,418,508
2019	2022	2,265,529	—	2,265,529
2020	2025	2,712,971	—	2,712,971
		₱6,842,441	(₱445,433)	₱6,397,008

Under Republic Act No. 11494, *Bayanihan to Recover as One Act*, and Revenue Regulations No. 25-2020, the Bank is allowed to carry over its net operating losses for the taxable years 2020 and 2021 for the next five consecutive taxable years immediately following the year of such loss.

On March 26, 2021, the CREATE Act was approved and signed into law by the country's President. Under the CREATE Act, the RCIT of domestic corporations was revised from 30% to 25% or 20% depending on the amount of total assets or total amount of taxable income. In addition, the MCIT was changed from 2% to 1% of gross income for a period of three (3) years. The changes in the income tax rates shall retrospectively become effective beginning July 1, 2020.

However, the income tax rates used in preparing the financial statements as at and for the year ended December 31, 2020 are 30% and 2% for RCIT and MCIT, respectively.

The table below summarizes the financial impact of the change in income tax rate to the Bank's financial statements had the CREATE been substantively enacted as at December 31, 2020:

	Audited Balances (Based on Old Income Tax Rate)	Balances Using Revised Income Tax Rate	Differences
CWT	₱38,828	₱38,828	₱—
Deferred tax assets	697,983	581,652	116,331
Retained earnings	13,848,728	13,732,374	116,354
Equity	26,909,110	26,792,756	116,354
Other equity reserve	2,988,062	2,988,039	23
Income tax expense:			
Current	737,314	737,314	—
Deferred	263,004	379,358	(116,354)
Net income	948,538	832,184	116,354

## 27. Trust Operations

Securities and other properties (other than deposits) held by the Bank in fiduciary or agency capacities for clients and beneficiaries are not included in the accompanying statements of financial position since these are not assets of the Bank.

In compliance with the requirements of current banking regulations relative to the Bank's trust functions: (a) government securities included under financial assets at amortized cost in the statements of financial position with a total face value of ₱11.0 million and ₱10.0 million as at December 31, 2020 and 2019, respectively, are deposited with the BSP as security for the Bank's

faithful compliance with its fiduciary obligations; and (b) a certain percentage of the Bank's trust fee income is transferred to retained earnings. This yearly transfer is required until the retained earnings for trust function equals 20.00% of the Bank's authorized share capital.

## 28. Commitments and Contingent Assets and Liabilities

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. Management does not anticipate any material losses as a result of these transactions.

As at December 31, 2020 and 2019, the Bank is involved in various legal proceedings relating to uncollected loans and acquired properties. Based on the opinion of its legal counsels, the Bank is in a good position to secure favorable judgment in most of these cases. Management therefore believes that the outcome of these proceedings will not have material adverse effect on the financial position and performance of the Bank.

The following is a summary of contingencies and commitments of the Bank with the equivalent peso contractual amounts:

	2020	2019
Trust department accounts	<b>₱1,138,264</b>	₱998,832
Unused commercial letters of credit	<b>209,594</b>	327,524
Outward bills for collection	<b>12,966</b>	24,532
Inward bills for collection	<b>8,706</b>	8,303
Items held as collateral	<b>34</b>	17
Late deposits/payments received	<b>—</b>	10,968
	<b>₱1,369,564</b>	₱1,370,176

## 29. Segment Information

A segment is a distinguishable component of the Bank that is engaged either in providing types of services (business segment).

The table below present financial information on business segments as at and for the years ended December 31, 2020, 2019 and 2018:

	2020		
	Treasury Group	Lending Group	Total
<b>Segment Revenue</b>			
Interest income from lending operations	<b>₱—</b>	<b>₱1,276,845</b>	<b>₱1,276,845</b>
Interest income from treasury operations	<b>4,094,162</b>	<b>—</b>	<b>4,094,162</b>
Other income	<b>2,231,960</b>	<b>—</b>	<b>2,231,960</b>
Interest expense	<b>(3,295,586)</b>	<b>—</b>	<b>(3,295,586)</b>
Provision for credit and impairment losses	<b>(46,383)</b>	<b>199,083</b>	<b>152,700</b>
	<b>2,984,153</b>	<b>1,475,928</b>	<b>4,460,081</b>

(Forward)



	2020		
	Treasury Group	Lending Group	Total
Compensation and employee benefits	(P922,236)	P—	(P922,236)
Occupancy and equipment-related expenses	(169,746)	—	(169,746)
Other operating expenses	(1,113,843)	—	(1,113,843)
Income tax expense	(1,000,318)	—	(1,000,318)
<b>Segment Operating Profit (Loss)</b>	<b>(P221,990)</b>	<b>P1,475,928</b>	<b>P1,253,938</b>
<b>Segment Assets</b>	<b>P140,067,242</b>	<b>P22,941,384</b>	<b>P163,008,626</b>

	2019		
	Treasury Group	Lending Group	Total
Segment Revenue			
Interest income from lending operations	P—	P2,053,141	P2,053,141
Interest income from treasury operations	4,595,694	—	4,595,694
Other income	1,064,467	—	1,064,467
Interest expense	(4,080,899)	—	(4,080,899)
Provision for credit and impairment losses	(15,722)	(21,627)	(37,349)
	1,563,540	2,031,514	3,595,054
Compensation and employee benefits	(852,805)	—	(852,805)
Occupancy and equipment-related expenses	(150,679)	—	(150,679)
Other operating expenses	(1,101,756)	—	(1,101,756)
Income tax expense	(709,384)	—	(709,384)
<b>Segment Operating Profit (Loss)</b>	<b>(P1,251,084)</b>	<b>P2,031,514</b>	<b>P780,430</b>
<b>Segment Assets</b>	<b>P135,730,178</b>	<b>P25,061,245</b>	<b>P160,791,423</b>

	2018		
	Treasury Group	Lending Group	Total
<b>Segment Revenue</b>			
Interest income from lending operations	P—	P1,443,370	P1,443,370
Interest income from treasury operations	4,215,397	—	4,215,397
Other income	1,431,656	—	1,431,656
Interest expense	(3,220,591)	—	(3,220,591)
Provision for credit and impairment losses	(3,872)	(449,155)	(453,027)
	2,422,590	994,215	3,416,805
Compensation and employee benefits	(871,534)	—	(871,534)
Occupancy and equipment-related expenses	(145,726)	—	(145,726)
Other operating expenses	(1,114,101)	—	(1,114,101)
Income tax expense	(461,682)	—	(461,682)
<b>Segment Operating Profit (Loss)</b>	<b>(P170,453)</b>	<b>P994,215</b>	<b>P823,762</b>
<b>Segment Assets</b>	<b>P124,663,683</b>	<b>P28,346,863</b>	<b>P153,010,546</b>



## **REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors  
Philtrust Bank (Philippine Trust Company)  
Philtrust Bank Bldg., 1000 United Nations Avenue corner  
San Marcelino St., Manila

We have audited in accordance with Philippine Standards on Auditing, the accompanying financial statements of the Philippine Trust Company (Philtrust Bank) (the Bank) as at December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018, and have issued our report dated April 27, 2021. Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplementary schedules for submission to the Securities and Exchange Commission (SEC) are the responsibility of the Bank's management.

These supplementary schedules include the following:

- Reconciliation of Surplus/Retained Earnings Available for Dividend Declaration for the Year Ended December 31, 2020
- Schedule of Financial Soundness Indicators as at December 31, 2020 and 2019
- Schedules required by Paragraph 6 Part II of the Revised Securities Regulation Code (SRC) Rule 68

The financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titles measures presented by other companies. The components of these financial soundness indicators have been traced to the Bank's Financial Statements as at December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018, and no material exceptions were noted.



These foregoing supplementary schedules are presented for purposes of complying with Revised Securities Regulation Code Rule 68 issued by the SEC, and are not part of the basic financial statements prepared in accordance with PFRS. These supplementary schedules have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, fairly states, in all material respects, the financial data required to be set forth therein in relation to the financial statements taken as a whole.

**REYES TACANDONG & Co.**

HAYDEE M. REYES

Partner

CPA Certificate No. 83522

Tax Identification No. 102-095-265-000

BOA Accreditation No. 4782; Valid until August 15, 2021

SEC Accreditation No. 83522-SEC Group A

Issued March 10, 2020

Valid for Financial Periods 2019 to 2023

BIR Accreditation No. 08-005144-006-2019

Valid until October 20, 2022

PTR No. 8534276

Issued January 5, 2021, Makati City

April 27, 2021

Makati City, Metro Manila

**PHILIPPINE TRUST COMPANY (PHILTRUST BANK)**

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**SCHEDULES AS REQUIRED UNDER ANNEX 68-3E**  
**OF THE REVISED SECURITIES REGULATIONS CODE RULE 68**  
**AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2020**

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*C – The Bank no longer prepares consolidated financial statements because its only subsidiary is already dissolved.*

*D – The Bank does not have long-term debt. Long-term liabilities pertain to deposit and lease liabilities.*

*E – The Bank does not have long-term loans from related companies.*

*F – None to report.*

**PHILIPPINE TRUST COMPANY (PHILTRUST BANK)**

**RECONCILIATION OF RETAINED EARNINGS  
AVAILABLE FOR DIVIDEND DECLARATION**

**FOR THE YEAR ENDED DECEMBER 31, 2020**

*Amounts in Thousands*

<b>Retained earnings as shown in the financial statements, at beginning of year</b>		<b>₱12,900,190</b>
Adjustments for deferred tax assets at beginning of year		(961,126)
<b>Retained earnings, at beginning of year, as adjusted</b>		<b>11,939,064</b>
Net income		948,538
Add (Deduct):		
Amortization of premium and discount of investment securities	(854,369)	
Movement in deferred tax assets	263,143	
Fair value adjustment of investment properties resulting to gain	(173,628)	
Net unrealized foreign exchange gain (excluding those attributable to cash and cash equivalents)	(131,536)	(896,390)
<b>Net income actually earned</b>		<b>52,148</b>
<b>Retained Earnings Available for Dividend Declaration</b>		<b>₱11,991,212</b>

**PHILIPPINE TRUST COMPANY (PHILTRUST BANK)**  
**SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS**  
**AS AT DECEMBER 31, 2020 AND 2019**  
*Amounts in Thousands*

<b>Ratio</b>	<b>Formula</b>	<b>2020</b>	<b>2019</b>
Current ratio	Total current assets	<b>₱94,169,251</b>	₱72,806,189
	Divided by: total current liabilities	<b>129,914,156</b>	123,540,385
	Current ratio	<b>0.72:1</b>	0.59:1
Acid test ratio	Cash and other cash items, due from BSP and other banks, investment securities	<b>₱140,067,242</b>	₱132,603,475
	Divided by: total current liabilities	<b>129,914,156</b>	123,540,385
	Acid test ratio	<b>1.08:1</b>	1.07:1
Solvency ratio	Net income	<b>₱948,538</b>	₱780,430
	Add: interest, depreciation and amortization	<b>3,458,812</b>	4,205,039
	Net income before interest, depreciation and amortization	<b>4,407,350</b>	4,985,469
	Divided by: total liabilities	<b>141,560,724</b>	135,095,533
	Solvency ratio	<b>0.03:1</b>	0.04:1
Debt-to-equity ratio	Total liabilities	<b>₱141,560,724</b>	₱135,095,533
	Divided by: Total equity	<b>26,909,110</b>	25,695,890
	Debt-to-equity ratio	<b>5.26:1</b>	5.26:1
Asset-to-equity ratio	Total assets	<b>₱168,469,834</b>	₱160,791,423
	Divided by: total equity	<b>26,909,110</b>	25,695,890
	Asset-to-equity ratio	<b>6.26:1</b>	6.26:1
Interest rate coverage ratio	Earnings before interest expense and taxes	<b>₱5,244,442</b>	₱5,570,713
	Divided by: interest expense	<b>3,295,586</b>	4,080,899
	Interest rate coverage ratio	<b>1.59:1</b>	1.37:1

Ratio	Formula	2020	2019
Return on average equity			
	Net income	<b>₱948,538</b>	₱780,430
	Divided by: average equity	<b>26,302,500</b>	23,423,234
	Return on equity	<b>0.04:1</b>	0.03:1
Return on average assets			
	Net income	<b>₱948,538</b>	₱780,430
	Divided by: average assets	<b>164,630,629</b>	156,900,985
	Return on assets	<b>0.006:1</b>	0.005:1
Capital Adequacy Ratio			
	Tier 1 capital	<b>₱27,211</b>	₱21,115
	Tier 2 capital	<b>50</b>	242
	Gross qualifying capital	<b>27,261</b>	21,357
	Less: regulatory adjustments/required deductions	<b>2,805</b>	—
	Total qualifying capital	<b>24,456</b>	21,357
	Divided by: risk weighted assets	<b>48,199</b>	46,883
		<b>0.51:1</b>	0.46:1

**PHILIPPINE TRUST COMPANY (PHILTRUST BANK)**

**SCHEDULE A – FINANCIAL ASSETS**

**DECEMBER 31, 2020**

*Amounts in Thousands, except for Number of shares*

**I. Cash and Cash Equivalents**

<b>Name of issuing entity and association of each issue</b>	<b>Amount shown on the statement of financial position</b>	<b>Valued based on market quotation at end of reporting period</b>	<b>Income received and accrued</b>
Cash and other cash items	₱1,053,253	₱1,053,253	₱–
Due from Bangko Sentral ng Pilipinas	53,609,068	53,609,068	982,417
Due from other banks	2,056,689	2,056,689	4,059
	<b>₱56,719,010</b>	<b>₱56,719,010</b>	<b>₱986,476</b>

**II. Financial Assets at Fair Value through Other Comprehensive Income**

<b>Name of issuing entity and association of each issue</b>	<b>Number of shares</b>	<b>Amount shown on the statement of financial position</b>	<b>Valued based on market quotation at end of reporting period</b>	<b>Income received and accrued</b>
<b><i>Equity Securities</i></b>				
Philippine Bank of Communications	46,519	₱1,067,612	₱1,067,612	₱–
Euromed Lab. Phil., Inc.	365,111	854,360	854,360	18,256
Centro Escolar University	29,892	206,260	206,260	–
Manila Electric Railroad and Light Company	34	10,015	10,015	–
Philippine Long Distance Corporation	2	2,503	2,503	–
San Miguel Corporation	3	395	395	4
Casino Espanol De Manila	–	120	120	–
Philippine Columbian Association	–	27	27	–
Manila Executive Center	–	21	21	–
	<b>441,561</b>	<b>₱2,141,313</b>	<b>₱2,141,313</b>	<b>₱18,260</b>



Name of issuing entity and association of each issue	Principal amount of bonds or notes	Amount shown on the statement of financial position	Valued based on market quotation at end of reporting period	Income received and accrued
<b><i>Peso-denominated Debt Securities</i></b>				
Government Securities				
Fixed Treasury Notes	₱1,900,000	₱1,949,238	₱1,949,238	₱79,861
<b><i>Foreign currency-denominated Debt Securities</i></b>				
Government Bonds	\$377,938	₱21,525,365	₱21,525,365	₱635,374
Corporate Bond -				
SMC Global Power	15,009	721,981	721,981	48,652
	\$392,947	₱22,247,346	₱22,247,346	₱684,026

### III. Financial Assets at Amortized Cost

Name of issuing entity and association of each issue	Principal amount of bonds or notes	Amount shown on the statement of financial position	Valued based on market quotation at end of reporting period	Income received and accrued
<b><i>Peso-denominated Debt Securities</i></b>				
Government Securities:				
Retail Treasury Bond	₱17,300,000	₱17,300,000	₱18,771,400	₱808,790
Treasury Bills	6,173,626	3,067,620	3,382,584	121,091
Fixed Treasury Notes	3,068,300	6,173,626	6,203,566	146,187
BSP Bill	100,000	100,000	100,000	131
	₱26,641,926	₱26,641,246	₱28,457,550	₱1,076,199
<b><i>Foreign currency-denominated Debt Securities</i></b>				
Government Bonds	\$353,481	₱17,483,245	₱19,778,131	₱697,302
Corporate Bond -				
JG Summit Holdings	3,000	145,800	152,552	5,804
	\$356,481	₱17,629,045	₱19,930,683	₱703,106

**PHILIPPINE TRUST COMPANY (PHILTRUST BANK)**

**SCHEDULE B – AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND  
PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**

**DECEMBER 31, 2020**

*Amounts in Thousands*

<b>Name and designation of debtor</b>	<b>Balance at beginning of year</b>	<b>Additions</b>	<b>Amounts collected</b>	<b>Amounts written off</b>	<b>Current</b>	<b>Noncurrent</b>	<b>Balance at end of year</b>
Manila Bulletin Publishing Corp.	₱1,000,000	₱–	₱–	₱–	₱1,000,000	₱–	₱1,000,000
Manila Hotel Corporation	769,002	30,000	–	–	799,002	–	799,002
U.S. Automotive Co. Inc.	725,000	–	–	–	725,000	–	725,000
U.N. Properties Development Corp.	165,000	153,000	165,000	–	153,000	–	153,000
Centro Escolar University	6,000	24,000	₱24,000	–	6,000	–	6,000
	<b>₱2,665,002</b>	<b>₱207,000</b>	<b>₱189,000</b>	<b>₱–</b>	<b>₱2,683,002</b>	<b>₱–</b>	<b>₱2,683,002</b>

*Note: Receivables from Directors, Officers, Employees, Related Parties and Principal Stockholders are subject to usual terms in the normal course of business.*

**PHILIPPINE TRUST COMPANY (PHILTRUST BANK)**

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**SCHEDULE C – AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF THE  
FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

<b>Name of Debtor</b>	<b>Balance at the beginning of the period</b>	<b>Additions</b>	<b>Amounts collected (i)</b>	<b>Amounts written-off(ii)</b>	<b>Current</b>	<b>Non- current</b>	<b>Balance at the end of period</b>
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None to report.

*i. If collected was other than in cash, explain.*

*ii. Give reasons to write-off.*

**PHILIPPINE TRUST COMPANY (PHILTRUST BANK)**

**SCHEDULE D – LONG-TERM DEBT**

**DECEMBER 31, 2020**

<b>Title of issue and type of obligation (i)</b>	<b>Amount authorized by indenture</b>	<b>Amount shown under caption "Current portion of long-term debt in related balance sheet " (ii)</b>	<b>Amount shown under caption "Long- term debt in related balance sheet " (iii)</b>	<b>Interest Rate %</b>	<b>Maturity Date</b>
--	---	--	---	----------------------------	--------------------------

None to report.

*i. Include in this column each type of obligation authorized.*

*ii. This column is to be totalled to correspond to the related balance sheet caption.*

*iii. Include in this column details as to interest rates, amounts or numbers of periodic instalments, and maturity dates*

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**PHILIPPINE TRUST COMPANY (PHILTRUST BANK)**  
**SCHEDULE E – INDEBTEDNESS TO RELATED PARTIES**  
**DECEMBER 31, 2020**

Name of Related Parties (i)	Balance at the beginning of the period	Balance at the end of the period (ii)
-----------------------------	--	---------------------------------------

None to report.

- i. The related party shall be grouped as in Schedule D. The information called for shall be stated for any persons whose investments shown in separately in such related schedule.*
- ii. For each affiliate named in the first column, explain in a note hereto the nature and purpose of any material increase during the period that is in excess of 10% of the related balance at either the beginning or end of the period.*

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**PHILIPPINE TRUST COMPANY (PHILTRUST BANK)**  
**SCHEDULE F – GUARANTEES OF SECURITIES OF OTHER ISSUERS**  
**DECEMBER 31, 2020**

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Name of the 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 (i)	Amount owned by person of which statement is filed	Nature of Guarantee (ii)
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None to report.

i. Indicate in the note any significant changes since the date of the last balance sheet file. If this schedule is filed in support of consolidated financial statements, there shall be set forth guarantees by any person included in the consolidation except such guarantees of securities which are included in the consolidated balance sheet.

ii. There must be a brief statement of the nature of the guarantee, such as "Guarantee of Principal and Interest", "Guarantee of Interest" or "Guarantee of Dividend". If the guarantee is of interest, dividends, or both, state the annual aggregate amount of interest or dividends so guaranteed.

**PHILIPPINE TRUST COMPANY (PHILTRUST BANK)**

**SCHEDULE G – CAPITAL STOCK**

**DECEMBER 31, 2020**

<b>Title of Issue (i)</b>	<b>Number of shares authorized</b>	<b>Number of shares issued and outstanding as shown under the related balance sheet caption</b>	<b>Number of shares reserved for options, warrants, conversion and other rights</b>	<b>Number of shares held by related parties (ii)</b>	<b>Directors, officers and employees</b>	<b>Others (iii)</b>
Common	2,200,000	1,000,000	–	–	8,678	–

*i. Include in this column each type of issue authorized*

*ii. Related parties referred to include persons for which separate financial statements are filed and those included in the consolidated financial statements, other than the issuer of the particular security.*

*iii. Indicate in a note any significant changes since the date of the last balance sheet filed.*

**Management's Discussion and Analysis of Financial Condition and  
Results of Operations for Calendar Year 2018**

**Financial Condition**

The Bank closed the year 2018 with Total Resources amounting to P153.010 Billion, a minimal decrease of P947.329 Million, over the previous year of P153.958 Billion. Due from Bangko Sentral ng Pilipinas representing 12.02% of Total Resources decreased by P7.108 Million or by 27.87% as funds were invested in Reverse Repurchase Agreement with the Bangko Sentral ng Pilipinas, thus increasing Loans and Other Receivables by 10.62% or by P4.950 Billion compared from last year's level. The 15.45% or P638.221 Million decrease in Due from Other Banks reflects lower operating balance maintained from both local and foreign correspondent banks. Cash and Other Cash Items increased by 36.84% or by P305.313 Million, arising from more effective management of reserve deposits. Held to Maturity Investments increased by 1,040.46% whereas Available for Sale Investments decreased by 50.19% due to reclassification of Available for Sale Investments to Held to Maturity Investments. Upon reassessment of business model under PFRS 9 the Bank reclassified some of its government securities from AFS financial assets to financial assets at amortized cost. Other Assets decreased by 10.45% or by P22.104 Million as movements in these accounts can be accounted for by transactions in the ordinary course of business.

Deposit Liabilities stood at P131.177 Billion, compared to P129.664 Billion from last year's level, a P1.513 Billion increase. Deposit increase came mainly from Demand Deposit with a 15.96% increase from last year's level. The decrease of 12.15% in Manager's Checks represents lesser outstanding payables compared from last year's level. Deferred credits and other liabilities increased by 39.60% or by P75.078 Million due to higher level of transactions for the period.

Capital Funds closed at P21.150 Billion, reflecting a P2.539 Billion decrease from last year's level of P23.690 Billion. Other Comprehensive Income, Net Unrealized Gains (Losses) decrease by P2.762 Billion due largely on account of mark to market valuation of investments. The Capital Adequacy Ratio (CAR) for the period is 34.12%, which is well above the Bangko Sentral ng Pilipinas minimum requirements of 10% is indicative of the sufficiency of the Bank's capital to support the current level of its risk assets.

The Bank has outstanding commitments, contingent liabilities, and bank guarantees that arise from the normal course of operations. The Bank does not anticipate any losses that will materially affect its financial position and results of operations. Changes in nature and amounts in the financial statements were due more to market related factors inherent in nature of the issuers business operations and were not considered unusual.



## Results of Operations

The Bank generated at year end a Gross Earnings amounting to P7.090 Billion compared to P7.261 Billion from the previous year. With less accrual compared from previous year, interest on Loans and Advances decreased by a minimal 9.02%. Interest on Held to Maturity Investments increased by 429.41% or P757.277 Million compared from year's level of P176.354 Million due to maturing securities for the period. The Bank opted not to engage in the market thru sales of bonds and securities because of low market rate, thus a decrease of 20.27% on Available for Sale Securities. Interest on Deposits with Banks decreased by 10.55% due to lower placements with the Bangko Sentral ng Pilipinas. Income from foreign exchange profits increased by 152.18% due to higher exchange rate compared from last year's level. Other operating income decreased by a minimal 121.71%. With the adoption of PFRS 9, we provided additional valuation for Loans and Receivables.

Interest expense increased by 17.57% compared from last year's level due to higher interest rate. Depreciation/Amortization decreased by 49.51% due to disposal of some office and IT related equipments. Provision for income tax closed at P461.682 Million compared to P333.756 Million of previous year. Net Income closed at P823.761 Million.

For the past 102 years, the Bank continued to be conservative in the development of depositors' and stockholders' funds. The Bank will continue to focus on its core business and to deepen its banking relationship with more prospective clients and to offer more excellent customer service.

We are confident that we can successfully meet the challenges of the times as we have proven in the past and make the Bank an even stronger financial institution. We will continue investing in technology and thereby fully support electronic commerce in the coming years.

## Key Performance Indicators

The performance of the bank is reflected in the following financial ratios:

	<u>Dec. 31, 2018</u>	<u>Dec. 31, 2017</u>
Return on Average Equity	3.93%	6.37%
Return on Average Assets	0.54%	0.96%
Net Interest Margin	1.66%	1.64%
Capital to Risk Assets	34.12%	44.56%
Cost to Income Ratio	66.78%	50.31%

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

<u>Key Performance Indicator</u>	<u>Formula</u>
1. Return on Average Equity (%)	$\frac{\text{Net Income After Income Tax}}{\text{Average Total Capital Accounts}}$
2. Return on Average Assets (%)	$\frac{\text{Net Income After Income Tax}}{\text{Average Total Assets}}$

3. Net Interest Margin (%)	$\frac{\text{Net Interest Income}}{\text{Average Interest Earning Assets}}$
4. Capital to Risk Assets (%)	$\frac{\text{Total Qualifying Capital}}{\text{Market and Credit Risk Weighted Exposures}}$
5. Cost to Income Ratio (%)	$\frac{\text{Total Operating Expenses}}{\text{Net Interest Income} + \text{Other Income}}$

## **Part II - Other Information**

Our financial report for the year 2018 was prepared in compliance with Generally Accepted Accounting Principles as set forth in Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, PAS and SIC/IFRIC interpretations which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC pronouncements. The same accounting policies and methods of computation were consistently followed in our financial statements as compared with the annual audited financial statements. There were no cash dividends paid during the year of 2018. There were no material contingencies or any other unusual events or transactions affecting our financial condition since December 31, 2017. There are no known trends, demands, commitments, events or uncertainties that would have had a material conflict on our financial condition or results of operations or unfavorable impact on net revenues from continuing operations. There is no material commitment for capital expenditures. We don't anticipate any events that may cause any default or acceleration of an obligation. There are no material off-balance sheet transactions, arrangements, obligations, including contingent obligations with unconsolidated entities.

### **PFRS 9, Financial Instruments: Classification and Measurement**

**Transition.** As allowed under transitory provisions of PFRS 9, the Bank applied the requirements of PFRS 9 retrospectively but opted not to restate the comparative information. Differences in the carrying amounts of financial assets resulting from the adoption of PFRS 9 were recognized in the unrealized gains and losses and beginning balance of cumulative unrealized gains on investment securities and other upon reclassification of the financial assets. The beginning balances of allowance for credit and impairment losses on loans and receivables and surplus were adjusted as a result of the adoption of PFRS 9.

**Classification and Measurement.** Based on the Bank's analysis of its business model and the contractual cash flow characteristics of its financial assets and liabilities as at January 1, 2018, the Bank has concluded that all of its financial assets and liabilities shall continue to be measured on the same basis as under PAS 39, except for some of its government securities

**Impairment.** The Bank has determined that the application for the new requirement for impairment under PFRS 9 resulted in an additional allowance for credit and impairment losses on loans and receivables and investment securities.

For the year 2018, the Bank had no transactions that would require the following information or disclosures:

- a. Explanatory comments about the seasonality or cyclicity of interim operations;
- b. The nature and amount of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidents;
- c. The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period;

- d. Issuances, repurchases and repayments of debt and equity securities;
- e. Segment revenue and segment result for business segments or geographical segments, whichever is the issuer's primary basis of segment reporting;
- f. Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.
- g. The effect of changes in the composition of the issuer during the interim period, including business combinations, acquisition or disposal of subsidiaries and long term investments, restructurings, and discontinuing operations;
- h. Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period.
- i. Any significant elements of income or loss that did not arise from the issuer's continuing operations.
- j. Any seasonal aspects that had a material effect on the financial condition or results of operations.

FINANCIAL RISK DISCLOSURE	REMARKS
<p>a. Assess the financial risk exposures of the company and its subsidiaries particularly on currency, interest, credit, market and liquidity risks. If any change thereof would materially affect the financial condition and results of operation of the company, provide a discussion in the report on the qualitative and quantitative impact of such risks and include a description of any enhancement in the company's risk management policies to address the same;</p>	<p><b>A. Assessment of Financial Risk Exposure of the Bank as of December 31, 2018.</b></p> <p><b>I. Market Risk:</b> Foreign Exchange and Interest Rates.</p> <p><b>1.1 Foreign Exchange Position</b>  The net overbought open FX position of the bank, the bulk of which is in USD as of <b>December 31, 2018</b> is in <b>USD49.391 Million</b>, the peso equivalent of <b>Php2.597 Billion</b> or <b>15.00%</b> of the bank's unimpaired capital which is well within the 20 percent limit prescribed by BSP regulation. The overbought (long) USD position is exposed to foreign exchange risk as well as interest rate risk. But the probability of risks is moderate because of normal volatility of exchange rates and owing to effective monetary policy of BSP and strong economic fundamentals of the country. In our specific case, the bank consistently made foreign exchange gain for year of 2018.</p> <p>It is our view that foreign exchange and interest rates volatility will remain stable because of BSP proactive stance and any variance would be within our level of confidence for the following reasons:</p> <p>1.1.1 BSP's effective management of foreign exchange reserves vis-à-vis the major global currencies, to wit: USD, EURO, SGD, GBP, JPY, HKD and AUD.</p> <p>1.1.2 The interest rate curve outlook on the USD will flat to decreasing because of recessionary conditions in the US in the medium term and longer term and in</p>

		<p>which case the bank will necessarily align its position.</p> <p>1.1.3 Net open position of our bank is not speculative and manageable.</p> <p><b>II. Liquidity Risk</b></p> <p>The risk profile of the bank's balance sheet remains low with more concentration in liquid assets and investments in government securities other than lending. Liquid assets and investment securities accounted for <b>Php121.705 Billion</b> while loans amounted to <b>Php25.884 Billion</b>. Marginal returns have been low by the distribution in our assets portfolio but the bank has always been strategically conservative in business policy.</p> <p><b>III. Credit Risk</b></p> <p>The bulk of bank loans are fully secured by real estate. Some major loan accounts are backed by guarantees, and a small percentage of the loans are clean, without collateral or guarantee but extended to clients who are known to the bank for their good credit reputation. The lending process begins with credit selection and continues to administration and review of loan accounts on a regular basis. Reporting to and review by the credit committee are parts of the whole credit process and done on a regular basis.</p>
b. Evaluate whether the company could provide clearer and more transparent disclosure regarding its financial instruments including but not limited to the following information:		
1. A description of the financial instruments of the company and the classification and measurements		1. The bank has none of hedging or derivatives financial contracts. The bank main financial contracts are:

applied for each. If material in amount, provide detailed explanation on complex securities particularly on derivatives and their impact on the financial condition of the company;		Available for Sale Securities and Held to Maturity Securities. The bulk of these securities are securitized government obligations.
2. The amount and description of the company's investment in foreign securities;		2. The bank has no investment in foreign securities or equities.
4. An explanation of how risk is incorporated and considered in the valuation of assets or liabilities;		4. Asset and liability management involved in matching the economic characteristics of the bank cash flows. Our bank strives to match inflows and outflows despite the natural structural difference of the terms of assets and liabilities by averaging and scheduling terms and maturities of assets vs. liabilities. We look at duration, the fixed/floating nature of our commitments, the repricing period and over liquidity position and stress testing. Strategic decisions are made regarding interest rate exposure. Impairments are recognized via valuation reserves as in loan valuation.
6. The criteria used to determine whether the market for a financial instrument is active or inactive, as defined under PAS 39- Financial instruments.		6. Before our bank makes any investment decision, it is a precondition that the secondary market must have liquidity, breadth and depth to transact all tenors of financial instruments.

**Management's Discussion and Analysis of Financial Condition and  
Results of Operations for Calendar Year 2019**

**Financial Condition**

The year 2019 proved to be another fruitful year for our Bank, as Total Resources reached a new record high of P160.791 Billion compared to P153.010 Billion in 2018. Growth in resources came primarily from deposit liabilities and due from Bangko Sentral ng Pilipinas representing 83.55% and 18.88% of the Total Resources respectively. Cash and other cash items decreased by 20.24% as funds were shifted to higher yielding investments. The 24.63% or P859.775 Million decrease in Due from Other Banks was due to lower level of deposits and working balances maintained with our correspondent banks. Securities purchased under Resale Agreement decreased by P5.343 Billion or by 20.81% as Bangko Sentral ng Pilipinas minimize its allocation with our Bank. Loans and Receivables, net decreased by 12.76% as the Bank rationalized its loan portfolio. Other Assets increased by 15.74% as movements in these accounts can be accounted for by transactions in the ordinary course of business.

Deposit liabilities stood at P134.346 Billion compared to P131.177 Billion from last year's level, a P3.169 Billion increase. The 39.27% or P43.968 Million increase in Manager's Checks represents various payables which have not yet been collected from the Bank. Accrued taxes and other expenses payable decreased by 25.40% or by P76.028 Million due to tax payments on matured time deposits and gross receipts tax for the quarter. Deferred credits and other liabilities increased by 39.33% due to higher level of transactions for the period. All other payables were paid within stated term.

Capital Funds closed at P25.696 Billion reflecting a P4.545 Billion increase from last year's level of P21.151 Billion. This can be accounted for from the earnings for the year amounting to P780.429 Million, the increase in Net Unrealized Gain of P3.786 Billion and the decrease of Cumulative Translation Adjustments amounting to P20.776 Million. The capital adequacy ratio (CAR) for the year is 45.55% which is well above the Bangko Sentral ng Pilipinas minimum requirements of 10% is indicative of the sufficiency of the Bank's capital to support the current level of fixed assets.

The Bank has outstanding commitments, contingent liabilities and bank guaranties that arise from the normal course of operations. The Bank does not anticipate any losses that will materially affect its financial position and results of operations. Changes in nature and amounts in the financial statements were due more to market related factors inherent in nature of the issuer's business operations and were not considered unusual.



## Results of Operations

The Bank generated at year end Gross Earnings amounting to P7.713 Billion compared to P7.090 Billion from the previous year. Interest on Loans and Advances increased by 42.24% or by P609.758 Million due to collection of interest and accrual of some outstanding loans. Interest on Held to Maturity Investment increased by a remarkable 94.24% or by P879.900 Million as the Bank disposed some of its maturing securities at a higher market rate. Interest on Available for Sale Securities decreased by 23.86% as the Bank hold on its securities due to lower market rate. Income from foreign exchange profit decrease by 78.97% due to lower exchange rate compared from last year level. Service charges and commissions increased by 39.24% due to higher volume of transactions for the period. Other operating income decreased by 23.49% or by P295.621 Million due to lower profits recognized on Sale or Redemption of Investments.

Interest expense increased by 26.71% because of the increase in total deposits. Occupancy and equipment related expenses decrease by 62.59% due to adoptions of PFRS 16. Depreciation and amortization increased by 65.98% due to increases in amortization of IT related equipments. Taxes and licenses increased by 10.31% due to higher gross receipts tax compared from last year's level. All other expenses increased/decreased by less than 10% which is normal in the ordinary course of business. Net income closed at P780.429 Million, 5.26% lower than last year's level of P823.761 Million

For the past 102 years, the Bank continued to be conservative in the management of depositors and stockholders funds. The Bank will continue to focus on its core business and to deepen its banking relationship with more prospective clients and to offer more excellent services. Furthermore, more branches will be opened including ATM offsite and onsite in strategic locations to provide access to new clients. We are hopeful that the continued confidence of Bank stockholders and the dedication and competence of Bank employees will ensure that the Bank continue to focus on its core business and deepen its banking relationship with more prospective clients and to offer more excellent customer service.

### Key Performance Indicators

The performance of the bank is reflected in the following financial ratios:

	<u>Dec. 31, 2019</u>	<u>Dec. 31, 2018</u>
Return on Average Equity	3.15%	3.93%
Return on Average Assets	0.50%	0.54%
Net Interest Margin	1.67%	1.66%
Capital to Risk Assets	45.55%	34.12%
Cost to Income Ratio	59.60%	66.78%

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

<u>Key Performance Indicator</u>	<u>Formula</u>
1. Return on Average Equity (%)	$\frac{\text{Net Income After Income Tax}}{\text{Average Total Capital Accounts}}$

2. Return on Average Assets (%)	$\frac{\text{Net Income After Income Tax}}{\text{Average Total Assets}}$
3. Net Interest Margin (%)	$\frac{\text{Net Interest Income}}{\text{Average Interest Earning Assets}}$
4. Capital to Risk Assets (%)	$\frac{\text{Total Qualifying Capital}}{\text{Market and Credit Risk Weighted Exposures}}$
5. Cost to Income Ratio (%)	$\frac{\text{Total Operating Expenses}}{\text{Net Interest Income} + \text{Other Income}}$

## **Part II - Other Information**

Our financial report for the year 2019 was prepared in compliance with Generally Accepted Accounting Principles as set forth in Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, PAS and SIC/IFRIC interpretations which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC pronouncements. The same accounting policies and methods of computation were consistently followed in our financial statements as compared with the annual audited financial statements. There were no cash dividends paid during the year of 2019. There were no material contingencies or any other unusual events or transactions affecting our financial condition since December 31, 2018. There are no known trends, demands, commitments, events or uncertainties that would have had a material conflict on our financial condition or results of operations or unfavorable impact on net revenues from continuing operations. There is no material commitment for capital expenditures. We don't anticipate any events that may cause any default or acceleration of an obligation. There are no material off-balance sheet transactions, arrangements, obligations, including contingent obligations with unconsolidated entities.

### **PFRS 9, Financial Instruments: Classification and Measurement**

**Transition.** As allowed under transitory provisions of PFRS 9, the Bank applied the requirements of PFRS 9 retrospectively but opted not to restate the comparative information. Differences in the carrying amounts of financial assets resulting from the adoption of PFRS 9 were recognized in the unrealized gains and losses and beginning balance of cumulative unrealized gains on investment securities and other upon reclassification of the financial assets. The beginning balances of allowance for credit and impairment losses on loans and receivables and surplus were adjusted as a result of the adoption of PFRS 9.

**Classification and Measurement.** Based on the Bank's analysis of its business model and the contractual cash flow characteristics of its financial assets and liabilities as at January 1, 2019, the Bank has concluded that all of its financial assets and liabilities shall continue to be measured on the same basis as under PAS 39, except for some of its government securities

**Impairment.** The Bank has determined that the application for the new requirement for impairment under PFRS 9 resulted in an additional allowance for credit and impairment losses on loans and receivables and investment securities.

**PFRS 16, Leases –** As at January 1, 2019, the Bank has adopted the modified retrospective approach in initial application of PFRS 16. Accordingly, no adjustment in the beginning retained earnings/surplus and 2018 financial statements were not restated.

As a practical expedient, the Bank applied the exemption not to recognize right-of-use (ROU) assets and liabilities for leases with lease term that ends within 12 months from the date of initial adoption. Rent expense for these leases amounted to P20.2 Million in 2019.

For the year 2019, the Bank had no transactions that would require the following information or disclosures:

- a. Explanatory comments about the seasonality or cyclical nature of interim operations.
- b. The nature and amount of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidents.
- c. The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period.
- d. Issuances, repurchases and repayments of debt and equity securities.
- e. Segment revenue and segment result for business segments or geographical segments, whichever is the issuer's primary basis of segment reporting.
- f. Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.
- g. The effect of changes in the composition of the issuer during the interim period, including business combinations, acquisition or disposal of subsidiaries and long term investments, restructurings, and discounting operations.
- h. Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period.
- i. Any significant elements of income or loss that did not arise from the issuer's continuing operations.
- j. Any seasonal aspects that had a material effect on the financial condition or results of operations.

FINANCIAL RISK DISCLOSURE	REMARKS
<p>a. Assess the financial risk exposures of the company and its subsidiaries particularly on currency, interest, credit, market and liquidity risks. If any change thereof would materially affect the financial condition and results of operation of the company, provide a discussion in the report on the qualitative and quantitative impact of such risks and include a description of any enhancement in the company's risk management policies to address the same;</p>	<p><b>A. Assessment of Financial Risk Exposure of the Bank as of December 31, 2019.</b></p> <p><b>I. Market Risk:</b> Foreign Exchange and Interest Rates.</p> <p><b>1.1 Foreign Exchange Position</b>  The net overbought open FX position of the bank as of <b>December 31, 2019</b>, the bulk of which is in USD is <b>USD34.24 Million</b>, the peso equivalent of <b>Php1.734 Billion</b> or <b>8.203%</b> of the bank's unimpaired capital which is well within the 20 percent limit prescribed by BSP regulation. The overbought (long) USD position is exposed to foreign exchange risk as well as interest rate risk. But the probability of risks is moderate because of the normal volatility of exchange rates and also owing to effective monetary policy of BSP and strong economic fundamentals of the country. In our specific case, the bank managed the risk quite well and made foreign exchange profit on a year-on-year basis and also 2019.</p> <p>It is our view that foreign exchange and interest rates volatility will remain within normal bounds of 2SD because of BSP proactive stance and any variance would be within our level of confidence for the following reasons:</p> <p>1.1.1 BSP's effective management of foreign exchange reserves vis-à-vis the major global currencies, to wit: USD, EURO, SGD, GBP, JPY, HKD and AUD.</p> <p>1.1.2 The interest rate on the USD will gradually increase in the medium term and longer term and in</p>

		<p>which case the bank will necessarily align its position.</p> <p>1.1.3 Net open position of our bank is not speculative and manageable.</p> <p><b>II. Liquidity Risk</b></p> <p>The risk profile of the bank's balance sheet remains low with more concentration in liquid assets and investments in government securities other than lending. Liquid assets and investment securities accounted for <b>Php132.381 Billion</b> while loans amounted to <b>Php21.700 Billion</b>. Marginal returns have been low by the distribution in our assets portfolio but the bank has always been strategically conservative in business policy.</p> <p><b>III. Credit Risk</b></p> <p>The bulk of bank loans are fully secured by real estate. Some major loan accounts are backed by guarantees, and a small percentage of the loans are clean, without collateral or guarantee but extended to clients who are known to the bank for their good credit reputation. The lending process begins with credit selection and continues to administration and review of loan accounts on a regular basis. Reporting to and review by the credit committee are parts of the whole credit process and done on a regular basis.</p>
b. Evaluate whether the company could provide clearer and more transparent disclosure regarding its financial instruments including but not limited to the following information:		
1. A description of the financial instruments of the company and the classification and measurements		1. The bank has none of hedging or derivatives financial contracts. The bank main financial contracts are:

applied for each. If material in amount, provide detailed explanation on complex securities particularly on derivatives and their impact on the financial condition of the company;		Available for Sale Securities (as FVOCI) and Held to Maturity Securities (AC). The bulk of these securities are securitized government obligations.
2. The amount and description of the company's investment in foreign securities;		2. The bank has no investment in foreign securities or equities.
4. An explanation of how risk is incorporated and considered in the valuation of assets or liabilities;		4. Asset and liability management involved in matching the economic characteristics of the bank cash flows. Our bank strives to match inflows and outflows despite the natural structural difference of the terms of assets and liabilities by averaging and scheduling terms and maturities of assets vs. liabilities. We look at duration, the fixed/floating nature of our commitments, the repricing period and over liquidity position and stress testing. Strategic decisions are made regarding interest rate exposure. Impairments are recognized via valuation reserves as in loan valuation, in accordance with PFRS 9.
6. The criteria used to determine whether the market for a financial instrument is active or inactive, as defined under PAS 39- Financial instruments.		6. Before our bank makes any investment decision, it is a precondition that the secondary market must have liquidity, breadth and depth to transact all tenors of financial instruments.

**Management's Discussion and Analysis of Financial Condition and  
Results of Operations for Calendar Year 2020**

**Financial Condition**

The Bank closed the year 2020 with Total Resources reaching a new record high of P168.470 Billion, a remarkable increase of P7.678 Billion over the previous year. Growth in resources came primarily from Due from Bangko Sentral ng Pilipinas and Deposit Liabilities representing 31.82% and 83.59% respectively. Due from Bangko Sentral ng Pilipinas increased by 76.60% or by P23.253 Billion because of minimal allocation of Reverse Repurchase Agreement which decreased by 37.26% or by P7.577 Billion. Cash and Other Cash Items increased by 16.45% or by P148.756 Million on account of higher cash placements this period compared from last year's level. Due from Other Banks decreased by 21.84% due to lower level of deposits and working balances with both local and correspondent banks. Available for Sale Investments decreased by P10.640 Billion or by 28.77% as the Bank dispose some of its securities. Deferred Tax Assets decreased by 27.38% compared from last year's level as the Bank did not recognized deferred tax asset for the year 2020. Other Assets increased by 15.45% as movements in these accounts can be accounted for by transactions in the ordinary course of business.

Deposit Liabilities stood at P140.828 Billion, compared to P134.346 Billion from last year's level, a remarkable P6.481 Billion. The increase in Deposit Liabilities came primarily from savings deposit which registered a P7.980 Billion. The 39.61% decrease in Manager's Checks represents lower volume of outstanding checks issued compared from last year's level. Deferred Credits and Other Liabilities increased by 10.71% or by P39.650 Million due to higher level of transactions for the year. All other payables were paid within the stated terms.

Capital Funds now at P26.909 Billion, reflected a P1.213 Billion increase compared to last year's level of P25.696 Billion. This can be accounted from the earnings for the year amounting to P948.538 Million and the increase in Net Unrealized Gains of P358.189 Million due largely on account of mark to market valuation of investments and the decrease of Cumulative Transition Adjustment amounting to P93.506 Million. The Capital Adequacy Ratio (CAR) for the period is 50.74%, which is well above the BSP minimum requirements of 10% is indicative of the sufficiency of the Bank's capital to support the current level of its risk assets.

The Bank has outstanding commitments, contingent liabilities, and bank guarantees that arise from the normal course of operations. The Bank does not anticipate any losses that will materially affect its financial position and results of operation. Changes in nature and amounts in the financial statement were due more to market related factors inherent in nature of the issuer's business operations and were not considered unusual.



## Results of Operations

Total gross earnings for the period amounted to P7.602 Billion compared to P7.713 Billion of the previous year. Declining interest rates on loans resulted in the decrease on interest on Loans and Receivables by 37.81% or by P776.296 Million. Interest on Available for Sale Securities decreased by 27.59% as the Bank hold on its securities due to lower market rate. Interest on Deposit with Bank decreased by 12.07% due to lower availment of Reverse Repurchase Agreement with the Bangko Sentral ng Pilipinas. Income from Foreign Exchange Profit decreased by 29.01% due to lower exchange rate compared from last year's level. Service Charges and Commissions decreased by 39.58% due to lower volume of transactions. Other Operating Income increased by 125.11% due to higher profits on Sale or Redemption of Investments. We provided additional allowance for credit losses for the year, thus provision for probable losses closed at P152.700 Million compared from P37.349 Million from previous year.

Interest Expense decreased by 19.24% because of lower interest rate compared from last year level. Occupancy and Equipment related expenses increased by 197.38% due to some renovation for relocation of some branches. Depreciation/Amortization decreased by 26.84%. Taxes and Licenses increased by 23.18% due to higher gross receipts tax compared from last year's level. All other expenses with an increase/decrease by less than 10% are normal in the ordinary course of business. Net Income closed at P948.538 Million compared from last year's level of P780.429 Million.

We are confident that we can successfully meet the challenges of times as we have proven in the past and make the Bank an even stronger financial institution. We will continue investing in technology and thereby fully support electronic commerce in the coming years. The Bank will continue to focus on its core business and to deepen its banking relationship with more prospective clients and to offer more excellent customer serve despot with the recent Covid 19 pandemic.

Covid 19 and its effect for the year 2020. The Bank has been determining critically of function on the basis of importance in completing needed transactions. So far the pandemic does not hampered Bank operations whether at the Head Office of in Branches. The Bank has been observing health protocols established by the government agencies concerned.

## Key Performance Indicators

The performance of the bank is reflected in the following financial ratios:

	<u>Dec. 31, 2020</u>	<u>Dec. 31, 2019</u>
Return on Average Equity	4.34%	3.15%
Return on Average Assets	0.71%	0.50%
Net Interest Margin	1.23%	1.67%
Capital to Risk Assets	50.74%	45.55%
Cost to Income Ratio	57.66%	59.60%

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

<u>Key Performance Indicator</u>	<u>Formula</u>
1. Return on Average Equity (%)	$\frac{\text{Net Income After Income Tax}}{\text{Average Total Capital Accounts}}$
2. Return on Average Assets (%)	$\frac{\text{Net Income After Income Tax}}{\text{Average Total Assets}}$
3. Net Interest Margin (%)	$\frac{\text{Net Interest Income}}{\text{Average Interest Earning Assets}}$
4. Capital to Risk Assets (%)	$\frac{\text{Total Qualifying Capital}}{\text{Market and Credit Risk Weighted Exposures}}$
5. Cost to Income Ratio (%)	$\frac{\text{Total Operating Expenses}}{\text{Net Interest Income} + \text{Other Income}}$

## **Part II - Other Information**

Our financial report for the year 2020 was prepared in compliance with Generally Accepted Accounting Principles as set forth in Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, PAS and SIC/IFRIC interpretations which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC pronouncements. The same accounting policies and methods of computation were consistently followed in our financial statements as compared with the annual audited financial statements. There were no cash dividends paid during the year of 2020. There were no material contingencies or any other unusual events or transactions affecting our financial condition since December 31, 2019. There are no known trends, demands, commitments, events or uncertainties that would have had a material conflict on our financial condition or results of operations or unfavorable impact on net revenues from continuing operations. There is no material commitment for capital expenditures. We don't anticipate any events that may cause any default or acceleration of an obligation. There are no material off-balance sheet transactions, arrangements, obligations, including contingent obligations with unconsolidated entities.

### **PFRS 9, Financial Instruments: Classification and Measurement**

**Transition.** As allowed under transitory provisions of PFRS 9, the Bank applied the requirements of PFRS 9 retrospectively but opted not to restate the comparative information. Differences in the carrying amounts of financial assets resulting from the adoption of PFRS 9 were recognized in the unrealized gains and losses and beginning balance of cumulative unrealized gains on investment securities and other upon reclassification of the financial assets. The beginning balances of allowance for credit and impairment losses on loans and receivables and surplus were adjusted as a result of the adoption of PFRS 9.

**Classification and Measurement.** Based on the Bank's analysis of its business model and the contractual cash flow characteristics of its financial assets and liabilities as at January 1, 2019, the Bank has concluded that all of its financial assets and liabilities shall continue to be measured on the same basis as under PAS 39, except for some of its government securities

**Impairment.** The Bank has determined that the application for the new requirement for impairment under PFRS 9 resulted in an additional allowance for credit and impairment losses on loans and receivables and investment securities.

**PFRS 16, Leases –** As at January 1, 2019, the Bank has adopted the modified retrospective approach in initial application of PFRS 16. Accordingly, no adjustment in the beginning retained earnings/surplus and 2018 financial statements were not restated.

As a practical expedient, the Bank applied the exemption not to recognize right-of-use (ROU) assets and liabilities for leases with lease term that ends within 12 months from the date of initial adoption. Rent expense for these leases amounted to P20.2 Million in 2019.

For the year 2020, the Bank had no transactions that would require the following information or disclosures:

- a. Explanatory comments about the seasonality or cyclicity of interim operations.
- b. The nature and amount of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidents.
- c. The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period.
- d. Issuances, repurchases and repayments of debt and equity securities.
- e. Segment revenue and segment result for business segments or geographical segments, whichever is the issuer's primary basis of segment reporting.
- f. Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.
- g. The effect of changes in the composition of the issuer during the interim period, including business combinations, acquisition or disposal of subsidiaries and long term investments, restructurings, and discounting operations.
- h. Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period.
- i. Any significant elements of income or loss that did not arise from the issuer's continuing operations.
- j. Any seasonal aspects that had a material effect on the financial condition or results of operations.

FINANCIAL RISK DISCLOSURE	REMARKS
<p>a. Assess the financial risk exposures of the company and its subsidiaries particularly on currency, interest, credit, market and liquidity risks. If any change thereof would materially affect the financial condition and results of operation of the company, provide a discussion in the report on the qualitative and quantitative impact of such risks and include a description of any enhancement in the company's risk management policies to address the same;</p>	<p><b>A. Assessment of Financial Risk Exposure of the Bank as of December 31, 2020.</b></p> <p><b>I. Market Risk:</b> Foreign Exchange and Interest Rates.</p> <p><b>1.1 Foreign Exchange Position</b>  The net overbought open FX position of the bank as of <b>December 31, 2020</b>, the bulk of which is in USD is <b>USD44.64 Million</b>, the peso equivalent of <b>Php2.144 Billion</b> or <b>8.779%</b> of the bank's unimpaired capital which is well within the 20 percent limit prescribed by BSP regulation. The overbought (long) USD position is exposed to foreign exchange risk as well as interest rate risk. But the probability of risks is moderate because of the normal volatility of exchange rates and also owing to effective monetary policy of BSP and strong economic fundamentals of the country. In our specific case, the bank managed the risk quite well and made foreign exchange profit on a year-on-year basis.</p> <p>It is our view that foreign exchange and interest rates volatility will remain within normal bounds of 2SD because of BSP proactive stance and any variance would be within our level of confidence for the following reasons:</p> <p>1.1.1 BSP's effective management of foreign exchange reserves vis-à-vis the major global currencies, to wit: USD, EURO, SGD, GBP, JPY, HKD and AUD.</p> <p>1.1.2 The interest rate on the USD will remain low (0.05</p>

		<p>to 1.5% range) in the short, medium, and longer term and in which case the bank will necessarily align its position.</p> <p>1.1.3 Net open position of our bank is not speculative and manageable.</p> <p><b>II. Liquidity Risk</b></p> <p>The risk profile of the bank's balance sheet remains low with more concentration in liquid assets and investments in government securities other than lending. Liquid assets and investment securities accounted for <b>Php140.075 Billion</b> while loans amounted to <b>Php22.216 Billion</b>. Marginal returns have been low by the distribution in our assets portfolio but the bank has always been strategically conservative in business policy.</p> <p><b>III. Credit Risk</b></p> <p>The bulk of bank loans are fully secured by real estate. Some major loan accounts are backed by guarantees, and a small percentage of the loans are clean, without collateral or guarantee but extended to clients who are known to the bank for their good credit reputation. The lending process begins with credit selection and continues to administration and review of loan accounts on a regular basis. Reporting to and review by the credit committee are parts of the whole credit process and done on a regular basis.</p>
b. Evaluate whether the company could provide clearer and more transparent disclosure regarding its financial instruments including but not limited to the following information:		

1. A description of the financial instruments of the company and the classification and measurements applied for each. If material in amount, provide detailed explanation on complex securities particularly on derivatives and their impact on the financial condition of the company;		1. The bank has none of hedging or derivatives financial contracts. The bank main financial contracts are: Available for Sale Securities (as FVOCI) and Held to Maturity Securities (AC). The bulk of these securities are securitized government obligations.
2. The amount and description of the company's investment in foreign securities;		2. The bank has no investment in foreign securities or equities.
4. An explanation of how risk is incorporated and considered in the valuation of assets or liabilities;		4. Asset and liability management involved in matching the economic characteristics of the bank cash flows. Our bank strives to match inflows and outflows despite the natural structural difference of the terms of assets and liabilities by averaging and scheduling terms and maturities of assets vs. liabilities. We look at duration, the fixed/floating nature of our commitments, the repricing period and over liquidity position and stress testing. Strategic decisions are made regarding interest rate exposure. Impairments are recognized via valuation reserves as in loan valuation, in accordance with PFRS 9.
6. The criteria used to determine whether the market for a financial instrument is active or inactive, as defined under PAS 39- Financial instruments.		6. Before our bank makes any investment decision, it is a precondition that the secondary market must have liquidity, breadth and depth to transact all tenors of financial instruments.

Philippine Trust Company (Philtrust Bank)  
 Bank-Owned Properties (Land & Building) - Existing Bank Sites  
 As of December 31, 2020

Branch Office	Location	Improvements/Condition of Properties	Mortgage, Lien or Encumbrance and Limitations on Ownership or Usage
<u>Metro Manila Branches</u>			
Bambang Branch	Philtrust Bank Building, 1499 G. Masangkay corner Bambang Sts., Tondo, Manila	3-storey building in good condition. The branch occupies only the ground floor.	None
Binondo Branch	Philtrust Bank Building, Quintin Paredes St. cor. Dasmariñas and Plaza Cervantes Sts., Binondo, Manila	The branch occupies the ground floor of a 6-storey building. The building is in good condition.	None
Caloocan Branch	Philtrust Bank Building, Samson Road (near Bonifacio Monument), Caloocan City	2-storey building in good condition, fully occupied by the branch.	None
Divisoria Branch	Philtrust Bank Building, 539 C.M. Recto Ave. cor. Carmen Planas St., Divisoria, Tondo, Manila	4-storey building in good condition. The branch occupies only the ground floor.	None
Elcano Branch	Philtrust Bank Building, Elcano cor. Lavezares Sts., Binondo, Manila	2-storey building in good condition, fully occupied by the branch.	None
Ermita Branch	Philtrust Bank Building, A. Mabini St. cor. U.N. Avenue, Brgy. 667 Zone 72, Ermita, Manila	4-storey building in good condition. The branch occupies only the ground floor.	None
Escolta Branch	Philtrust Bank Building, 277 Escolta St., Binondo, Manila	5-storey building in good condition. The branch occupies only the ground floor.	None
Juan Luna Branch	Philtrust Bank Building, Juan Luna cor. San Fernando Sts., Binondo, Manila	5-storey building in good condition. The branch occupies the ground floor and the 2nd floor.	None
Las Piñas Branch	Philtrust Bank Building, Alabang Zapote Road., Almanza 1, Las Piñas City	1-storey building in good condition, fully occupied by the branch.	None
Libertad Branch	Philtrust Bank Building, Taft Avenue cor. A. Arnaiz Avenue, Pasay City	3-storey building in good condition. The branch occupies only a portion of the ground floor.	None
Mandaluyong Branch	Philtrust Bank Building, Shaw Blvd. cor. Gen. Kalentong St., Mandaluyong City	3-storey building in good condition, fully occupied by the branch.	None



Philippine Trust Company (Philtrust Bank)  
Bank-Owned Properties (Land & Building) - Existing Bank Sites  
As of December 31, 2020

Branch Office	Location	Improvements/Condition of Properties	Mortgage, Lien or Encumbrance and Limitations on Ownership or Usage
Marikina Branch	Philtrust Bank Building, Sumulong Highway cor. P. Burgos St., Sto. Niño, Marikina City	3-storey building in good condition. The branch occupies only a portion of the ground floor and the 2nd floor.	None
Maypajo Branch	Philtrust Bank Building, A. Mabini cor. L. Lupa St., Maypajo, Caloocan City	4-storey building in good condition. The branch occupies only the ground floor.	None
Morayta Branch	Philtrust Bank Building, 890-892 Dr. Nicanor Reyes cor. R. Papa Sts., Sampaloc, Manila	2-storey building in good condition, fully occupied by the branch.	None
Pasig Branch	Philtrust Bank Building, Dr. S. Antonio Avenue, Caniogan, Pasig City	1-storey building in good condition, fully occupied by the branch.	None
Puyat Ave. Branch	Philtrust Bank Building, 259-263 Sen. Gil Puyat Ave., Makati City	9-storey building in good condition. The branch occupies only a portion of the ground floor.	None
Quezon Ave. Branch	Quezon Avenue cor. Sto. Domingo St., Quezon City	2-storey building in good condition. The branch occupies only a portion of the ground floor.	None
Reina Regente Branch	Philtrust Bank Building, Reina Regente cor. Soler and Alvarado Sts., Binondo, Manila	4-storey building in good condition. The branch occupies the ground floor and the 2nd floor.	None
Sta. Cruz Branch	Philtrust Bank Building, Rizal Ave. cor. Plaza Lacson, Sta. Cruz, Manila	5-storey building in good condition. The branch occupies only the ground floor.	None
Taguig Branch	Unit 101-A, One Global Place, 5th Ave. cor. 25th St., Bonifacio South District, Bonifacio Global City, Taguig	The branch occupies a portion/unit of the ground floor of a 25-storey building. The building is in good condition.	None
Valenzuela Branch	Philtrust Bank Building, McArthur Highway (Fronting Valenzuela City Hall), Brgy. Malinta, Valenzuela City	3-storey building in good condition. The branch occupies a portion of the ground floor.	None

Philippine Trust Company (Philtrust Bank)  
Bank-Owned Properties (Land & Building) - Existing Bank Sites  
As of December 31, 2020

Branch Office	Location	Improvements/Condition of Properties	Mortgage, Lien or Encumbrance and Limitations on Ownership or Usage
<u>Provincial Branches</u>			
Angeles Branch	Philtrust Bank Building, McArthur Highway cor. B. Aquino St., Angeles City, Pampanga	1-storey building in good condition, fully occupied by the branch.	None
Bacolod Branch	Philtrust Bank Building, Gatuslao cor. Cuadra Sts., Bacolod City	5-storey building in good condition. The branch occupies only the ground floor.	None
Bulacan Branch	Philtrust Bank Building, Paseo Del Congreso, Malolos City, Bulacan	2-storey building in good condition. The branch occupies only the ground floor.	None
Cabanatuan Branch	Philtrust Bank Building, Burgos Ave. cor. Beedle St., Cabanatuan City	2-storey building in good condition, fully occupied by the branch.	None
Cagayan De Oro Branch	Philtrust Bank Building, S. Osmeña cor. J. Ramonal Sts., Cogon, Cagayan De Oro City	3-storey building in good condition. The branch occupies only the ground floor.	None
Cavite Branch	Philtrust Bank Building, Km. 41 Aguinaldo Highway, Silang, Cavite	1-storey building in good condition, fully occupied by the branch.	None
Cebu Colon Branch	Colon St., Cebu City	2-storey building in good condition, fully occupied by the branch.	None
Cebu Magallanes Branch	Philtrust Bank Building, Magallanes cor. F. Gonzales St., Cebu City	4-storey building in good condition. The branch occupies the ground floor and the 2nd floor.	None
Davao Sta. Ana Branch	Philtrust Bank Building, Monteverde Ave. cor. F. Bangoy St., Sta. Ana, Davao City	2-storey building in good condition. The branch occupies only the ground floor.	None
Dumaguete Branch	Philtrust Bank Building, Silliman Avenue cor. Real St., Brgy. Poblacion 007, Dumaguete City	2-storey building in good condition. The branch occupies only the ground floor.	None



Philippine Trust Company (Philtrust Bank)  
Bank-Owned Properties (Land & Building) - Existing Bank Sites  
As of December 31, 2020

Branch Office	Location	Improvements/Condition of Properties	Mortgage, Lien or Encumbrance and Limitations on Ownership or Usage
Iloilo Branch	Philtrust Bank Building, Quezon cor. Delgado Sts., Iloilo City	5-storey building in good condition. The branch occupies only the ground floor.	None
Limay Branch	Philtrust Bank Building, Brgy. Luz, National Road, Limay, Bataan	1-storey building in good condition, fully occupied by the branch.	None
Naga Branch	Philtrust Bank Building, Caceres cor. E. Angeles Sts., Naga City, Camarines Sur	2-storey building in good condition. The branch occupies only the ground floor.	None
Roxas Branch	Philtrust Bank Building, Roxas Ave. cor. Primero De Mayo St., Roxas City, Capiz	2-storey building in good condition, fully occupied by the branch.	None
Santiago Branch	Maharlika Highway cor. Abauag St., Santiago City, Isabela	4-storey building in good condition. The branch occupies only a portion of the ground floor and the 2nd floor.	None
Urdaneta Branch	Philtrust Bank Building, McArthur Highway cor. Ambrosio St., Urdaneta City, Pangasinan	2-storey building in good condition. The branch occupies only the ground floor.	None

Philippine Trust Company (Philtrust Bank)  
 Leased Bank Sites  
 As of December 31, 2020

Branch Office	Location	Amount of Lease Payment Per Month	Lease Expiration Date	Lease Term
<u>Metro Manila Branches</u>				
Aurora Blvd. Branch	Manila Bulletin Bldg., 904 Aurora Blvd. cor. Harvard St., Cubao, Quezon City	Php203,840.00	Jan. 31, 2025	5 years
Ayala Branch	National Life Insurance Bldg., 6762 Ayala Avenue, Makati City	Php760,976.59	Dec. 31, 2020	1 year
Edsa-Muñoz Branch	EDSA cor. Roosevelt Ave., Quezon City	Php218,046.26	June 30, 2028	20 years
Grace Park Branch	225 Rizal Ave. Ext., Grace Park, Caloocan City	Php602,671.47	Sept. 30, 2025	10 years
Greenhills Branch	Metrosquare Building, 224 Ortigas Avenue, North Greenhills, San Juan City	Php193,881.95	Jan. 15, 2024	5 years
Makati-Pasay Road Branch	Liberty Building, 835 A. Arnaiz Ave., Makati City	Php509,927.19	Sept. 30, 2025	5 years
Malabon Branch	Rizal Avenue cor. Leoño St., Tañong, Malabon City	Php130,953.79	Feb. 28, 2022	5 years
Malate Branch	Remedios cor. M.H. Del Pilar Sts., Malate, Manila	Php461,039.04	Dec. 31, 2020	1 year
Morayta Branch Ext. (CEU - Mendiola)	Ground Floor, Generosa De Leon Science Center Building, Centro Escolar University, No. 9 Mendiola St., San Miguel, Manila	Php69,182.40	March 31, 2021	5 years
NAIA Branch (Terminal 1)	Departure Level, NAIA Terminal 1, Parañaque City	Php32,882.88	Dec. 31, 2020	1 year
NAIA Branch Ext. (Terminal 3)	Stall No. 12 Arrival Level, NAIA Terminal 3, Pasay City	Php35,540.11	Dec. 31, 2020	1 year
Ongpin Branch	Ongpin cor. Padilla Sts., Binondo, Manila	Php453,600.00	Oct. 31, 2022	5 years
Ortigas Branch	G102 One Magnificent Mile-CITRA Condo., Ortigas Center, Pasig City	Php179,032.00	July 31, 2025	5 years



Philippine Trust Company (Philtrust Bank)  
 Leased Bank Sites  
 As of December 31, 2020

Branch Office	Location	Amount of Lease Payment Per Month	Lease Expiration Date	Lease Term
Paco Branch	Simplicia Bldg., Pedro Gil cor. A. Linao Sts., Paco, Manila	Php65,296.00	-	Monthly
Padre Rada Branch	Padre Rada cor. Ilaya Sts., Tondo, Manila	Php345,744.00	Dec. 31, 2026	25 years
Quiapo Branch	F & C Tower, Plaza Miranda, Quiapo, Manila	Php298,144.00	June 30, 2022	5 years
Sucat Branch	Dr. A. Santos Ave. cor. Sta. Rita St., Parañaque City	Php145,851.66	Jan. 3, 2026	10 years
Tabora Branch	Tabora cor. M. De Santos Sts., San Nicolas, Manila	Php181,515.60	Dec. 31, 2020	1 year
Taft Branch	1844 Taft Avenue, Pasay City	Php274,757.57	June 6, 2022	5 years
Tordesillas Branch	Unit 101 Le Metropole Condominium, Sen. Gil Puyat Ave. cor. Tordesillas St., Makati City	Php206,941.80	Aug. 31, 2023	5 years
<u>Provincial Branches</u>				
Batangas Branch	Rizal Avenue cor. P. Gomez St., Batangas City	Php144,300.80	March 14, 2023	5 years
Cebu Fuente Branch	Osmeña Blvd. cor. J. Llorente St., Cebu City	Php202,796.74	March 31, 2022	5 years
Davao Recto Branch	Caritas Building, C.M. Recto St., San Pedro, Davao City	Php49,516.90	Oct. 1, 2021	1 year
La Union Branch	Diocesan Building, P. Gomez St., San Fernando City, La Union	Php91,800.00	Dec. 31, 2021	3 years
Lucena Branch	Quezon Ave. cor. Don Queblar St., Lucena City, Quezon	Php108,226.27	July 31, 2030	10 years

Philippine Trust Company (Philtrust Bank)  
 Bank-Owned Properties - Future Bank Sites  
 As of December 31, 2020

Branch Office	Location	Mortgage, Lien or Encumbrance and Limitations on Ownership of Usage
<u>Metro Manila Branches</u>		
Grace Park Branch	Rizal Avenue Ext., Grace Park, Caloocan City	None
Parañaque Branch	NAIA Road cor. Quirino Avenue, Parañaque City	None
Roosevelt Branch	274 Roosevelt Avenue, San Francisco Del Monte, Quezon City	None
Taft Avenue Branch	1812 Taft Avenue, Pasay City	None
<u>Provincial Branches</u>		
Gen. Santos Branch	Roxas Avenue cor. Osmeña St., Dadiangas, General Santos City	None
Kalibo Branch	Roxas Blvd. Extension, Brgy. Andagao, Kalibo, Aklan	None
La Union Branch	Quezon Avenue cor. Ancheta St., San Fernando City, La Union	None
Laoag Branch	Brgy. 13, Nuestra Señora de Visitacion, Laoag City	None
Mandaue Branch	A. Del Rosario & Zamora Sts., Centro, Mandaue City, Cebu	None
Ozamiz Branch	Rizal cor. Juan Luna St., Ozamiz City	None
Tarlac Branch	McArthur Highway cor. R. Mercado St., Brgy. Sto. Cristo, Tarlac City	None
Tuguegarao Branch	No. 1 Bonifacio St., Tuguegarao City, Cagayan	None
Vigan Branch	Bonifacio cor. Jacinto Sts., Vigan City, Ilocos Sur	None

ITEMS REPORTED UNDER CURRENT REPORT  
(SEC Form 17-C)

Date of Report	Item Reported
February 19, 2020	Board approval on February 18, 2019 setting the Annual Stockholders’ Meeting (ASM) on May 26, 2020 at 8:00 a.m. at the Philtrust Building, 1000 United Nations Avenue corner San Marcelino Street, Manila.
March 16, 2020	Management approval of guidelines concerning the Bank’s operations in response to SEC Notice of March 12, 2020 regarding COVID-19 pandemic.
April 6, 2020	In light of ECQ over Luzon to prevent the spread of COVID-19, the ASM scheduled on May 26, 2020 was postponed, the new schedule to be disclosed at appropriate time.
May 21, 2020	The Board, thru a referendum held on May 21, 2020 participated in by the 12 Directors of the Bank constituting the entire membership of the Board, unanimously approved the postponement of the ASM from May 26 to July 28, 2020. (Submitted to SEC thru PSE EDGE)
May 22, 2020	Amended the above Report to include the required Secretary’s Certificate. (Submitted to SEC thru PSE EDGE)
June 2, 2020	Demise of Atty. Martin B. Isidro, SVP/Corporate Secretary, on May 28, 2020.
July 30, 2020	Authority granted by the Stockholders on July 28, 2020 for the Board to appoint and/or change the Bank’s external auditor for the year 2020.
July 30, 2020	Election on July 28, 2020 of the twelve (12) Directors of the Bank for the ensuing year 2020-2021.
July 30, 2020	Results of the July 28, 2020 Organizational Meeting of the Board.
October 28, 2020	Re-appointment of Reyes Tacandong & Co. as the Bank’s external auditor for the year 2020, pursuant to the authority granted by the Stockholders.
February 24, 2021	Board approval on February 23, 2021 setting the ASM on May 25, 2021 at 8:00 a.m. at the Philtrust Building, 1000 United Nations Avenue corner San Marcelino Street, Manila.
March 29, 2021	Resignation of Mr. Armando L. Suratos as Independent Director effective April 16, 2021.
April 5, 2021	Demise of Dr. Rosalinda Y. Gaw, Director, on March 30, 2021.
April 20, 2021	The Board approved on April 19, 2021 the postponement of the ASM from May 25, 2021 to July 20, 2021 due to COVID-19 pandemic which delayed the completion of the audited financial statements.

# Philippine Trust Company (PHILTRUST BANK) Sustainability Report 2020

## Contextual Information

Company Details	
Name of Organization	PHILIPPINE TRUST COMPANY, also known as PHILTRUST BANK
Location of Headquarters	Philtrust Bank Building, 1000 United Nations Avenue corner San Marcelino Street, Manila
Location of Operations	Philippines
Report Boundary: Legal entities (e.g. subsidiaries) included in this report*	None
Business Model, including Primary Activities, Brands, Products, and Services	Personal and Corporate Loans Savings, Checking and Time Deposits FCDU and International Services Trust and Investment Services Other Banking Services
Reporting Period	2020
Highest Ranking Person responsible for this report	Dr. Jaime C. Laya President

*\*If you are a holding company, you could have an option whether to report on the holding company only or include the subsidiaries. However, please consider the principle of materiality when defining your report boundary.*

## Materiality Process

This Sustainability Report is in compliance with the SEC Memorandum Circular No. 4 Series of 2019 and has been prepared in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Standards.

The material topics for this Report were identified based on their relevance to Philtrust Bank’s operations and activities and their importance in reflecting its economic, environmental and social impacts or in substantially influencing its stakeholders’ decisions.

Based on the GRI, unless otherwise stated, “impact” refers to the effect Philtrust Bank has on the economy, the environment and/or the society, which in turn can indicate its contribution (positive or negative) to sustainable development.



# ECONOMIC

## Economic Performance

### Direct Economic Value Generated and Distributed

Disclosure	Amount	Units
Direct economic value generated (revenue)	7,602,967,540.95	PhP
Direct economic value distributed:		
a. Operating costs	3,295,585,704.44	PhP
b. Employee wages and benefits	922,236,264.06	PhP
c. Payments to suppliers, other operating costs	910,173,308.38	PhP
d. Dividends given to stockholders and interest payments to loan providers	-	PhP
e. Taxes given to government	636,266,111.54	PhP
f. Investments to community (e.g. donations, CSR)	153,507.50	PhP

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
<p>The impact is the increased economic value to Philtrust Bank, hereinafter referred to as the "Bank", and to its Stakeholders.</p> <p>The Bank is directly involved in the generation and distribution of the impact. Part of the revenue earned by the Bank was distributed to its stakeholders thru payment of supplies, wages and benefits, dividends, taxes and donations. The difference is retained by the Bank for liquidity and for future investment.</p>	<p>Suppliers Employees Stockholders Government Community</p>	<p>Management ensures the economic policies approved by the Board are faithfully implemented and monitored.</p>
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
<p>1. Health Pandemic such Covid-19</p> <p>2. Adverse effects of natural calamities such as typhoon, flooding, volcanic eruptions and other natural calamities disrupting banking operations.</p>	<p>Client Employees Suppliers Government Community</p>	<p>Management strictly complies with health and safety protocols imposed by the government and other regulatory bodies.</p> <p>Management adheres to the Business Continuity Plan (BCP) which was approved by the Board of Directors.</p>

		Business continuity is a critical element in the Banks operations and any interruption thereto, whether perceived or real, negatively impacts to the financial resources of the Bank and its stakeholders. Having a BCP will mitigate the ill effects of business disruption by providing counter-active response to each disruptive incident.
<b>What are the Opportunity/ies Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
Greater focus on digitization	Clients Employees Supplier	Transition to more aggressive computerized banking operations to serve clients unable to physically transact with the Bank.

## Climate-related risks and opportunities<sup>1</sup>

Governance	Strategy	Risk Management	Metrics and Targets
N/A	N/A	N/A	N/A
Recommended Disclosures			
a) N/A	a) N/A	a) N/A	a) N/A
b) N/A	b) N/A	b) N/A	b) N/A
	c) N/A	c) N/A	

The Bank's Business Continuity Plan which includes strategies pertaining to climate-related risks and opportunities is currently under revision to include, among others, detailed long, medium and short term plans.

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<sup>1</sup> Adopted from the Recommendations of the Task Force on Climate-Related Financial Disclosures. The TCFD Recommendations apply to non-financial companies and financial-sector organizations, including banks, insurance companies, asset managers and asset owners.

## Procurement Practices

### Proportion of spending on local supplier

Disclosure	Quantity	Units
Percentage of procurement budget used for significant locations of operations that is spent on local suppliers	100	%

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Effective procurement management enabled the Bank to lower costs by procuring supplies and services locally at the best price. It provided the Bank better insight into its budget and how funds are spent.	Suppliers & Government	The Bank adheres to stringent procurement policy that supports its operational requirements. The procurement process is continuously monitored to ensure that it is effective and is aligned with the Bank's sustainability goals.
What are the Risks identified?	Which stakeholders are affected?	Management Approach
Supply and logistics risks are the major challenges in the procurement process of the Bank. Common type of risks i.e. market risks, potential frauds, cost and quality risks are also considered by the Bank in the context of risks associated with procurement practice.	Suppliers & Government	The Bank's procurement process involves an in-depth understanding of a business unit's requirements, identifying the right supplier in meeting those requirements, periodically evaluating supplier performance, and negotiating contracts that can provide the highest value at minimum cost.
What are the opportunities identified?	Which stakeholders are affected?	Management Approach
Cost reduction is one of the benefits of good procurement practice valued by the Bank. Building good relationship with suppliers is another vital consideration for operational sustainability.	Suppliers & Government	The Bank employs sound procurement practice to ensure the right supply of materials, products and services, maintains quality standards, minimizes operational overheads, and preserves business sustainability.

## Anti-corruption

### Training on Anti-corruption Policies and Procedures

Disclosure	Quantity	Units
Percentage of employees to whom the organization's anti-corruption policies and procedures have been communicated to	100	%
Percentage of business partners to whom the organization's anti-corruption policies and procedures have been communicated to	100	%
Percentage of directors and management that have received anti-corruption training	100	%
Percentage of employees that have received anti-corruption training	100	%

All new Directors, Officers and Staff are provided orientation which includes the Bank's Anti-Corruption Policy and Employee Code of Conduct.

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Communication and training intensify the internal and external awareness of the evils of corruption, and empower the Bank and its stakeholders with the necessary capacity to combat it.	Employees, suppliers, community and government	The Bank is committed to the principle of honesty, integrity and transparency where corruption is not tolerated. Hence, the Board has approved an Anti-Corruption Policy to identify and provide mechanism to prevent and report incidents of corruption.
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
Operational and reputational risks	Employees, suppliers, community and government	Compliance with the Bank's Anti-Corruption Policy and other pertinent laws, rules and regulations
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
Greater resolve to fight corruption could lead to fairer and more arm's length transactions, increased revenue, goodwill and untarnished reputation.	Employees	Compliance with the Bank's Anti-Corruption Policy and other pertinent laws, rules and regulations

## Incidents of Corruption

Disclosure	Quantity	Units
Number of incidents in which directors were removed or disciplined for corruption	0	#
Number of incidents in which employees were dismissed or disciplined for corruption	0	#
Number of incidents when contracts with business partners were terminated due to incidents of corruption	0	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Primary business operations and supply chain	Employees, suppliers, community and government	Strict implementation of Anti-Corruption Policies and the Employee Code of Conduct
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
Operational Risk	Employees, suppliers, community and government	Compliance with laws, rules and regulations
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
The absence of corruption is an opportunity to highlight the Bank's good reputation and create value. Its positive impact to stakeholders demonstrates the Bank's adherence to integrity, governance and responsible business practice.	Employees, suppliers, community and government	Compliance with laws, rules and regulations

# ENVIRONMENT

## Resource Management

Energy consumption within the organization:

Disclosure	Quantity	Units
Energy consumption (renewable sources)		GJ
Energy consumption (gasoline)	8,874.07*	Gallon
Energy consumption (LPG)		GJ
Energy consumption (diesel)	6,052.19*	Gallon
Energy consumption (electricity)	857,920*	kWh

\*Energy Consumption for the year 2020

Reduction of energy consumption

Disclosure	Quantity	Units
Energy reduction (gasoline)		GJ
Energy reduction (LPG)		GJ
Energy reduction (diesel)		GJ
Energy reduction (electricity)		kWh
Energy reduction (gasoline)		GJ

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
The environmental dimension of sustainability concerns the Bank's impacts on living and non-living systems, including land, air, water and ecosystems. As a financial institution, the impact of energy consumption particularly electricity within the Bank is very minimal.	Employees, community, suppliers, government, and vulnerable groups	Management strives to instill responsible and efficient use of electricity within the Bank in order to reduce operating cost, help combat climate change and lessen the Bank's over-all environmental footprints.
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
Adverse effects to the environment	Employees, community, suppliers, government, and vulnerable groups	Management strives to instill responsible and efficient use of electricity within the Bank in order to reduce operating cost, help combat climate change and lessen the Bank's over-all environmental footprints.

What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
Efficient Resource Management	Employees, community, suppliers, government, and vulnerable groups	Management strives to instill responsible and efficient use of electricity within the Bank in order to reduce operating cost, help combat climate change and lessen the Bank's over-all environmental footprints.



## Water consumption within the organization

Disclosure	Quantity	Units
Water withdrawal		Cubic meters
Water consumption	6.255*	Cubic meters
Water recycled and reused		Cubic meters

\*Water consumption for the year 2020

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
As a financial institution, the consumption and discharge of water within the Bank have very minimal impact on the ecosystem.	Employees, community, suppliers and government	Management encourages responsible and efficient use of water within the Bank in order to reduce operating cost, help prevent scarcity and other negative impacts to the ecosystem
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
Adverse effects to the environment	Employees, community, suppliers, government, and vulnerable groups	Management shall be mindful of the negative impacts of improper water discharge and take the necessary corrective action that may be undertaken within the Bank.
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
Efficient Resource Management	Employees, community, suppliers, government, and vulnerable groups	Management shall endeavor to prevent water wastage to help ensure its availability for the next generation.

## Materials used by the organization

Disclosure	Quantity	Units
Materials used by weight or volume	N/A	
• renewable	N/A	kg/liters
• non-renewable	N/A	kg/liters
Percentage of recycled input materials used to manufacture the organization's primary products and services	N/A	%

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
N/A	N/A	N/A
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
N/A	N/A	N/A
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
N/A	N/A	N/A

Ecosystems and biodiversity (whether in upland/watershed or coastal/marine)

Disclosure	Quantity	Units
Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	N/A	
Habitats protected or restored	N/A	ha
IUCN <sup>2</sup> Red List species and national conservation list species with habitats in areas affected by operations	N/A	

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
N/A	N/A	N/A
<b>What are the Risk/s Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
N/A	N/A	N/A
<b>What are the Opportunity/ies Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
N/A	N/A	N/A

<sup>2</sup> International Union for Conservation of Nature

## Environmental impact management

### Air Emissions

#### GHG

Disclosure	Quantity	Units
Direct (Scope 1) GHG Emissions	N/A	Tonnes CO <sub>2</sub> e
Energy indirect (Scope 2) GHG Emissions	N/A	Tonnes CO <sub>2</sub> e
Emissions of ozone-depleting substances (ODS)	N/A	Tonnes

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
N/A	N/A	N/A
<b>What are the Risk/s Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
N/A	N/A	N/A
<b>What are the Opportunity/ies Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
N/A	N/A	N/A

Air pollutants

Disclosure	Quantity	Units
NO <sub>x</sub>	N/A	kg
SO <sub>x</sub>	N/A	kg
Persistent organic pollutants (POPs)	N/A	kg
Volatile organic compounds (VOCs)	N/A	kg
Hazardous air pollutants (HAPs)	N/A	kg
Particulate matter (PM)	N/A	kg

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
N/A	N/A	N/A
<b>What are the Risk/s Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
N/A	N/A	N/A
<b>What are the Opportunity/ies Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
N/A	N/A	N/A

## Solid and Hazardous Wastes

### Solid Waste

Disclosure	Quantity	Units
Total solid waste generated	8,064	kg/year
Reusable		kg
Recyclable	2,760	kg
Composted		kg
Incinerated		kg
Residuals/Landfilled		kg

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
<p>Waste can have significant impacts on the environment and human health when inadequately managed.</p> <p>The Bank is involved in recycling paper and plastic wastes which were accumulated in the regular course of banking operations.</p>	Employees, community, suppliers, government and vulnerable group.	Implementation of environmentally sound waste management in order to prevent or reduce waste through reuse and recycling.
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
Extensive negative impacts even beyond the location of dumpsites. Depletion of the materials and resources contained in wastes when incinerated or dumped in landfills.	Employees, community, suppliers, government and vulnerable group	Implementation of environmentally sound waste management in order to prevent or reduce waste through reuse and recycling.
What are the Opportunity/ies Identified?	Which stakeholders are affected?	Management Approach
Opens opportunities to better understand and communicate waste related impacts and how to manage them.	Employees, community, suppliers, government and vulnerable group	Implementation of environmentally sound waste management in order to prevent or reduce waste through reuse and recycling.

### Hazardous Waste

Disclosure	Quantity	Units
Total weight of hazardous waste generated	N/A	kg
Total weight of hazardous waste transported	N/A	kg

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
N/A	N/A	N/A
<b>What are the Risk/s Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
N/A	N/A	N/A
<b>What are the Opportunity/ies Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
N/A	N/A	N/A

## Effluents

Disclosure	Quantity	Units
Total volume of water discharges	N/A	Cubic meters
Percent of wastewater recycled	N/A	%

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
N/A	N/A	N/A
<b>What are the Risk/s Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
N/A	N/A	N/A
<b>What are the Opportunity/ies Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
N/A	N/A	N/A



## Environmental compliance

### Non-compliance with Environmental Laws and Regulations

Disclosure	Quantity	Units
Total amount of monetary fines for non-compliance with environmental laws and/or regulations	Nil	PhP
No. of non-monetary sanctions for non-compliance with environmental laws and/or regulations	Nil	#
No. of cases resolved through dispute resolution mechanism	Nil	#

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
N/A	N/A	N/A
<b>What are the Risk/s Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
N/A	N/A	N/A
<b>What are the Opportunity/ies Identified?</b>	<b>Which stakeholders are affected?</b>	<b>Management Approach</b>
N/A	N/A	N/A

# SOCIAL

## Employee Management

### Employee Hiring and Benefits

#### Employee data

Disclosure	Quantity	Units
Total number of employees <sup>3</sup>	800	
a. Number of female employees	550	#
b. Number of male employees	250	#
Attrition rate <sup>4</sup>	-1.3%	rate
Ratio of lowest paid employee against minimum wage	PH minimum wage= P537/day (21 days/month = P11,277) Lowest Salary = P12,000	Note: The Bank follows a 21 days per month rate.

The 2020 attrition rate decreased partly due to Covid-19 pandemic restrictions. There was hardly a need to hire new employees because banks operated on skeleton workforce at shortened banking hours.

#### Employee benefits

List of Benefits	Y/N	% of female employees who availed for the year	% of male employees who availed for the year
SSS	Y	8%	8%
PhilHealth	Y	4%	2%
Pag-ibig	Y	4%	3%
Parental leaves	Y	4%	3%
Vacation leaves	Y	100%	100%
Sick leaves	Y	50%	30%
Medical benefits (aside from PhilHealth)	Y	30%	20%
Housing assistance (aside from Pag-ibig)	N	0%	0%
Retirement fund (aside from SSS)	Y	1%	2%
Further education support	Y	1%	0%
Company stock options	N	0%	0%
Telecommuting	N	0%	0%
Flexible-working Hours	N	0%	0%
(Others)			

<sup>3</sup> Employees are individuals who are in an employment relationship with the organization, according to national law or its application ([GRI Standards 2016 Glossary](#))

<sup>4</sup> Attrition are = (no. of new hires – no. of turnover)/(average of total no. of employees of previous year and total no. of employees of current year)

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
The impact is investment in human resources occurring in the primary business operations thru the compensation paid and benefits given by the Bank to its regular employees.	The Bank values its most important asset, the human resources. The Bank believes that adequate compensation, quality benefits and opportunity for career development are the key factors in gaining the loyalty of employees and in retaining them.
<b>What are the Risk/s Identified?</b>	<b>Management Approach</b>
Transfer of competent employees to other banks and scarcity of potential replacements.	Competitive salaries, benefits and other incentives that would attract and retain competent personnel.
<b>What are the Opportunity/ies Identified?</b>	<b>Management Approach</b>
Opportunities for career advancement	Scholarship progress and skills development/enhancement trainings

## Employee Training and Development

Disclosure	Quantity	Units
Total training hours provided to employees		
a. Female employees	2519	hours
b. Male employees	753	hours
Average training hours provided to employees		
a. Female employees	4	hours/employee
b. Male employees	4	hours/employee

<b>What is the impact and where does it occur?</b> <b>What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
<p>Effective training and development positively impact on Bank employees. The acquired upgraded skills and competencies particularly on the primary business operations of the Bank affecting deposits, lending, I.T., branches, audit and accounting.</p> <p>The Bank is directly involved through continuous training, monitoring, assessment and deployment of trained personnel.</p>	<p>Implementation and periodic review of the Bank's Guidelines on Training and Development</p>
<b>What are the Risk/s Identified?</b>	<b>Management Approach</b>
<p>Operational and reputational risks</p>	<p>Compliance with pertinent laws, rules and regulations</p>
<b>What are the Opportunity/ies Identified?</b>	<b>Management Approach</b>
<p>Employee training and development open opportunities for professional growth, promote employee satisfaction with their job, and strengthen loyalty to the Bank.</p>	<p>The Bank supports the growth and development of its employees who are considered partners in the success of the Bank</p>

## Labor-Management Relations

Disclosure	Quantity	Units
% of employees covered with Collective Bargaining Agreements	50	%
Number of consultations conducted with employees concerning employee-related policies		#

<b>What is the impact and where does it occur?</b> <b>What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
<p>The impact is the commitment by the Bank and the Employees Union to respect each other's rights. The Bank shall respect the right of employees to exercise freedom of association and to collectively bargain for a reasonable living wage on services rendered, while the Union shall respect the right of the Bank to a just and fair return on its capital.</p>	<p>Management is cognizant of, and upholds, the collective Bargain Agreement between the Bank and the Employees Union covering the period from January 1, 2020 to December 31, 2024 and granting benefits superior to the statutory provisions of the Labor Code and related issuances.</p>
<b>What are the Risk/s Identified?</b>	<b>Management Approach</b>
<p>Disruption of banking operations and supply chain due to grievances.</p>	<p>Referral to grievance and adjustment procedure.</p>
<b>What are the Opportunity/ies Identified?</b>	<b>Management Approach</b>
<p>Open opportunities for dialogue and grievance resolutions</p>	<p>The Management-Employee Committee shall meet to resolve grievances of parties involving the meaning, interpretation or application of the provision of the CBA.</p>

## Diversity and Equal Opportunity

Disclosure	Quantity	Units
% of female workers in the workforce	68.75	%
% of male workers in the workforce	31.25	%
Number of employees from indigenous communities and/or vulnerable sector*	0	#

*\*Vulnerable sector includes, elderly, persons with disabilities, vulnerable women, refugees, migrants, internally displaced persons, people living with HIV and other diseases, solo parents, and the poor or the base of the pyramid (BOP; Class D and E).*

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
While the Bank hired more female employees (68.75%) than male (31.25%) in the primary banking operations, the recruitment, remuneration, and opportunities/training for advancement were equally applied regardless of gender.	The Bank is committed to promote diversity of qualified employees, eliminate gender bias and uphold equality in the recruitment, remuneration and opportunity for career advancement.
<b>What are the Risk/s Identified?</b>	<b>Management Approach</b>
Exposing the vulnerable group to disproportionate burden.	The Bank shall endeavor to hire qualified applicants from the said group.
<b>What are the Opportunity/ies Identified?</b>	<b>Management Approach</b>
Opportunity for the vulnerable group to prove their worth despite their age, physical disability or ethnic origin.	The Bank shall endeavor to hire qualified applicants from the said group.

## Workplace Conditions, Labor Standards, and Human Rights

### Occupational Health and Safety

Disclosure	Quantity	Units
Safe Man-Hours	1,540,944	hours
No. of work-related injuries	0	#
No. of work-related fatalities	0	#
No. of work related ill-health	0	#
No. of safety drills	182.5	hours

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
Work related injuries, fatalities and ill-health of employees indirectly give impact to the Company's primary business operations.	<p>The PTC Safety and health Committee facilitated a virtual presentation thru E-learning, the Mandatory Worker's Seminar at no cost to the workers.</p> <p>Employees were enjoined to perform required duties and responsibilities as provided for in the OSH Law to ensure a safe and healthful workplace for all.</p>
What are the Risk/s Identified?	Management Approach
<p>Employees exposure to the following most common office hazards:</p> <ol style="list-style-type: none"> <li>1. Slips, Trips and Falls</li> <li>2. Ergonomic Injuries</li> <li>3. Eye Strain</li> <li>4. Electrical Hazards</li> </ol>	<p>The effective implementation of control measures will definitely reduce or if not totally eliminate accidents related to the mentioned four most common office hazards.</p> <p>Supervisors, Officer in Charge and Staff will implement the following basic control measures:</p> <ol style="list-style-type: none"> <li>1. Better housekeeping in all operational areas.</li> <li>2. Regular inspection of wear and tear of power of cords and extension cords. Replacements of exposed wires.</li> <li>3. Taking a 10-minute break for every hour you spend looking at the computer screen. Correct positioning of computer monitors slightly below eye level.</li> </ol>
What are the Opportunity/ies Identified?	Management Approach
Prevention of workplace accidents	The Management conducts risk assessment as required to prevent workplace accidents as well as comply with other provisions of the Company's Occupational Safety and Health Program.

## Labor Laws and Human Rights

Disclosure	Quantity	Units
No. of legal actions or employee grievances involving forced or child labor	0	#

Do you have policies that explicitly disallows violations of labor laws and human rights (e.g. harassment, bullying) in the workplace?

Topic	Y/N	If Yes, cite reference in the company policy
Forced labor*	N	N/A
Child labor*	N	N/A
Human Rights	Y	Policy against Sexual Harassment

\*The provisions of the Labor Code are deemed incorporated in the CBA.

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
Any incident of human rights violation would negatively impact the primary business operations and supply chain. There are no such incidents in the Bank.	Management does not allow any form of forced or child labor.
What are the Risk/s Identified?	Management Approach
Operational and reputational risks	Management strictly adheres to Labor Code and the Bill of Rights
What are the Opportunity/ies Identified?	Management Approach
The absence of the said violations adds goodwill and value to the Bank.	Adheres to applicable law, rules and regulations.



## Supply Chain Management

Do you have a supplier accreditation policy? If yes, please attach the policy or link to the policy:

      No      

Do you consider the following sustainability topics when accrediting suppliers?

Topic	Y/N	If Yes, cite reference in the supplier policy
Environmental performance		N/A
Forced labor		N/A
Child labor		N/A
Human rights		N/A
Bribery and corruption		N/A

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
N/A	N/A
<b>What are the Risk/s Identified?</b>	<b>Management Approach</b>
N/A	N/A
<b>What are the Opportunity/ies Identified?</b>	<b>Management Approach</b>
N/A	N/A

## Relationship with Community

### Significant Impacts on Local Communities

Operations with significant (positive or negative) impacts on local communities (exclude CSR projects; this has to be business operations)	Location	Vulnerable groups (if applicable)*	Does the particular operation have impacts on indigenous people (Y/N)?	Collective or individual rights that have been identified that or particular concern for the community	Mitigating measures (if negative) or enhancement measures (if positive)
Branch banking	Key cities in several provinces	N/A	N/A	Accessibility of bank services	Transfer/hiring of Officers and Staff who are native or residents of the community and knowledgeable of the preference, norm and culture therein.

*\*Vulnerable sector includes children and youth, elderly, persons with disabilities, vulnerable women, refugees, migrants, internally displaced persons, people living with HIV and other diseases, solo parents, and the poor or the base of the pyramid (BOP; Class D and E)*

For operations that are affecting IPs, indicate the total number of Free and Prior Informed Consent (FPIC) undergoing consultations and Certification Preconditions (CPs) secured and still operational and provide a copy or link to the certificates if available: N/A

Certificates	Quantity	Units
FPIC process is still undergoing	N/A	#
CP secured	N/A	#

What are the Risk/s Identified?	Management Approach
Operational risks	Efficiency and constant coordination with the Head Office and higher management.
What are the Opportunity/ies Identified?	Management Approach
Business expansion and creation of goodwill and loyalty to the Bank.	To anticipate probable negative impacts from local residents so that the same could be adequately addressed.

## Customer Management

### Customer Satisfaction

Disclosure	Score	Did a third party conduct the customer satisfaction study (Y/N)?
Customer satisfaction	N/A	N/A

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
For more than a hundred years, the Bank's service anchored on the principles of conservatism and efficiency had positive impacts on its primary business operations, the supply chain and other stakeholders. The Bank was directly involved in the impact.	Efficient personalized service to gain client trust and loyalty.
<b>What are the Risk/s Identified?</b>	<b>Management Approach</b>
Operational risk	Management shall endeavor to gradually shift to computerized banking without sacrificing its long time valued clients who prefer personalized service.
<b>What are the Opportunity/ies Identified?</b>	<b>Management Approach</b>
Bank expansion	To open more provincial branches.

## Health and Safety

Disclosure	Quantity	Units
No. of substantiated complaints on product or service health and safety	0	#
No. of complaints addressed	0	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
<p>The Health and safety of the clients indirectly impacts the Company's primary business operations.</p> <p>The Company is concerned with the health and safety and wellbeing of its clients.</p>	<p>The Management adheres to the prescribed government protocols, rules and regulations on health and safety.</p>
What are the Risk/s Identified?	Management Approach
Disease transmission (e.g., COVID-19)	<p>The Management has implemented the safety and health standards in all workplaces aligned with the objectives of the minimum health standards of the Department of Health.</p> <p>The effective implementation of safety measures will surely prevent the spread of COVID-19 cases within the workplace.</p>
What are the Opportunity/ies Identified?	Management Approach
Clients' satisfaction and loyalty	<p>The Management implements the DTI and DOLE interim guidelines on workplace prevention and control of COVID-19, which contribute to client's satisfaction and loyalty.</p>

## Marketing and labelling

Disclosure	Quantity	Units
No. of substantiated complaints on marketing and labelling*	N/A	#
No. of complaints addressed	N/A	#

*\*Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.*

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
N/A	N/A
<b>What are the Risk/s Identified?</b>	<b>Management Approach</b>
N/A	N/A
<b>What are the Opportunity/ies Identified?</b>	<b>Management Approach</b>
N/A	N/A

## Customer privacy

Disclosure	Quantity	Units
No. of substantiated complaints on customer privacy*	0	#
No. of complaints addressed	0	#
No. of customers, users and account holders whose information is used for secondary purposes	0	#

*\*Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.*

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
No perceived impact as there is no recorded customer complaints on data privacy.	The Bank has Data Privacy Program approved in November 2018 which includes protocols on how to manage privacy complaints.
<b>What are the Risk/s Identified?</b>	<b>Management Approach</b>
Based on 2020 Privacy Impact Assessment an attack/data breach will most likely come/originate from an insider.	Privacy Impact assessment is conducted yearly and employees are given training on Data Privacy every quarter. Moreover, all employees are required to sign and execute a non-disclosure agreement.
<b>What are the Opportunity/ies Identified?</b>	<b>Management Approach</b>
The management was able to strengthen existing controls on data privacy and recognized more the value of customers data in a digitized economy.	The Bank shall develop systems/programs to gain more access and offer various products to clients.

## Data Security

Disclosure	Quantity	Units
No. of data breaches, including leaks, thefts and losses of data	0	#

<b>What is the impact and where does it occur? What is the organization's involvement in the impact?</b>	<b>Management Approach</b>
No perceived impact as there is no recorded data breach and/or data leaks, thefts and losses.	The Bank has IT Security Policy which includes the creation of Breach Response Team and protocols on how to manage data breach.
<b>What are the Risk/s Identified?</b>	<b>Management Approach</b>
An attack may potentially come/originate from an insider. There is a need to strengthen Bank's Backup system.	All employees are required to sign and execute a Non-Disclosure Agreement. Bank entered a contract with ePLDT for co-location of its Backup system.
<b>What are the Opportunity/ies Identified?</b>	<b>Management Approach</b>
The management was able to strengthen existing controls on data security and employees get more updated in recent innovation on data security.	The Bank shall strengthen its existing system/program controls to be more resilient on a potential attack or data breach.

## UN SUSTAINABLE DEVELOPMENT GOALS

### Product or Service Contribution to UN SDGs

Key products and services and its contribution to sustainable development.

Key Products and Services	Societal Value / Contribution to UN SDGs	Potential Negative Impact of Contribution	Management Approach to Negative Impact
1. Donation to the Philippine Red Cross	The Board approved the Bank's commitment to donate to the Philippine Red Cross the total amount of Five Million Pesos (P5,000,000.00) by donating One Million Pesos (P1,000,000.00) per year for five (5) years beginning 2017 to help the Philippine Red Cross purchase on installment a vessel equipped to answer the needs of disaster victims around the Philippines.		
2. Bank deposits	To instill the habit of saving for the future		
3. Loans and other credit facilities	Provides working capital for the direct generation and distribution of economic value		
4. Scholarship Program	To assist deserving students earn college or post-college degrees and become productive members of the community.		
5. Provident Fund	To help retireable employees transition from active employment to retirement stage.		

*\* None/Not Applicable is not an acceptable answer. For holding companies, the services and products of its subsidiaries may be disclosed.*