PHILTRUST BANK
104th ANNUAL REPORT

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MESSAGE TO STAKEHOLDERS

We are pleased to report on your Bank's performance for 2020, a uniquely difficult year of a worldwide health emergency, social dislocation and economic crisis. The global Covid-19 pandemic led to the abrupt and unexpected lockdown in March, promptly followed by two-pronged measures adopted by government to control the disease while preparing the way to recovery.

The Bayanihan to Recover as One Acts were approved, among others providing for grace periods on outstanding loans during which borrowers were not to be charged interest on interest, penalties and fees. These were supported by measures to enhance credit availability and to reduce interest rate levels.

Philtrust Bank fully understood the situation that affected its borrowers both large and small and carefully balanced the interests of borrowers, depositors, shareholders, and other bank stakeholders within the parameters of Bangko Sentral ng Pilipinas regulations.

As in preceding years, the Bank reports its financial performance as called for by PFRS No. 9 and the corresponding Circulars of the Bangko Sentral ng Pilipinas, using an Expected Credit Losses Model consistent with the Bank's time-honored policy of conservatism in loan and investment policies.

On the basis of these developments, the Bank closed the year with resources of PhP 168.47 billion, 4.78% higher than end-2019 resources of PhP 160.79 billion. Bank clients had entrusted PhP 140.83 billion to the Bank in the form of deposits, while shareholder investment amounted to PhP 26.91 billion in the form of Capital Stock, Surplus and Surplus Reserves, and Undivided Profits. The end-2020 equity figure is higher than that of the previous year's P25.70 billion with the full reinvestment of earnings and unrealized gains in financial securities.

Continuing its traditional policy of conservatism and of maintaining a balanced asset portfolio between the private and public sectors, the Bank increased loans to clients of strong credit standing and investments in risk-free securities issued by the Republic of the Philippines, Bangko Senral ng Pilipinas, and high grade securities top Philippine corporations. The Bank continued to observe its traditional guiding principle to maintain sterling asset quality and liquidity in order to safeguard depositor funds.

Loans and Discounts (including agricultural credits) amounted to PhP 35.70 billion, a reduction of PhP 7.22 billion or 16.82% from the previous year. Funds thus released were placed in Investments in Bonds/Securities and Trading Account Securities that came to PhP 70.59 billion as of December 31, 2020.

Gross Earnings for the year amounted to PhP 7.60 billion. Interest Expense on Deposit Liabilities came to PhP 3.30 billion, resulting in Net Interest Income for the year of PhP 2.08 billion. Deducting Operating Expenses, providing for tax liabilities and allowing for other income, Net Income After Tax aggregated PhP 0.95 billion for the year. The Bank exerted maximum effort to assist clients who were meeting difficulties due to prevailing business conditions. At the same time, it adopted measures to increase efficiency, reduce cost, and maximizing other sources of revenue. The result was a satisfactory increase in net income after tax.

Risk Management

Risks from market, liquidity and credit considerations are constantly monitored by Management and the Board of Directors directly and through Board Committees. 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 and even exceeded.

Bank policies and procedures are constantly reviewed and strengthened, involving legal, compliance, operations and transactions processing, cash accountability or management, accounting and financial, settlement, systems and technology matters, with the aim of reducing to a minimum all 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.

As a matter of traditional policy, the Bank continues to be conservative in the deployment and management of depositor and stockholder funds. The Bank also continues to expand in geographic coverage and now has a total of 60 branches of which 36 are located in bank-owned buildings. The success of this practice has been amply demonstrated and the Bank is proud of its record of performance in terms of growth, profitability and liquidity.

Capital Structure and Capital Adequacy

The Bank's Aggregate Qualifying Capital was PhP 27.26 billion as of December 31, 2020 of which Tier 1 capital amounted to PhP 27.21 billion and Tier 2 capital, PhP 0.05 billion. Assets were analyzed as to credit, operational and market risks, resulting in total Risk Weighted Assets of PhP 48.20 billion. The Bank's Capital Adequacy Ratio (CAR) therefore came to 50.74%. Further details are presented in a separate section of this Report with comparable data for year-end 2019 and 2018. Capital Adequacy Ratios were 45.55% for 2019 and 34.12 % for 2018.

Details of the Bank's Credit Risk weighted assets for 2020, 2019 and 2018 are separately presented. For each major type of asset, information is provided on asset value, booked valuation reserves, and risk mitigants to determine Net Risk Weighted Assets of PhP 166.12 billion and Total Credit Risk of PhP 41.79 billion. Taking into account Off-Balance Sheet Exposures and Unbooked Valuation Reserves, Net Credit Risk as of December 31, 2020 came to PhP 40.20 billion. The comparable Net Credit Risk figure for 2019 is PhP 39.28 billion and for 2018, Php 43.02 billion.

Market Risk estimates, specifically those relating to foreign exchange exposure are in a separate section of this Report. Bank exposure in equivalent peso figures amounted to PhP 2.14 billion and Total Capital Charge came to PhP 0.17 billion as of end-2020. Total Market Risk as of end-2019 was PhP 1.73 billion and Total Capital Charge was PhP 0.14 billion. As of end-2018, Total Market Risk was PhP 2.60 billion and Total Capital Charge, PhP 0.23 billion.

As of December 31, 2020, Net Interest Income and income from dividends, fees and commission, net profit/loss on foreign exchange and other sources amounted to PhP 2.93 billion. Using a capital charge factor of 15%, capital requirement is computed at PhP 0.44 billion. Capital requirements as of end-2019 and end-2018 were similarly determined, arriving at a three-year average of PhP 0.47 billion. The Risk Weighted Amount for 2020 is therefore PhP 5.85 billion using a Capital Charge Adjustment of 125% and a Minimum Capital Multiplier of 10. Details of the Operations Risk analysis are separately presented with comparable information for 2019 and 2018.

Corporate Governance

The Bank's Board of Directors consists of twelve (12) individuals who are respected members of the Philippine business community, and who possess the expertise and experience to successfully formulate long-term Bank position and to oversee day-to-day decisions and operations. They do so as a Board and through Board Committees and the Bank's Officers and

Management. In line with their established practice, Board Committees evaluate significant aspects of Bank operation, including credit, trust, audit, risk management, loan review, and compensation.

Bank organizational structure, including Board and Management Committees the composition of the various Board Committees, and the Bank's policy on the remuneration of Directors, Officers and Staff are presented as separate sections of this Report.

* * * * * *

The Board of Directors and Management again wish to thank the Bank's stockholders, valued clients and friends for their continued support and confidence, and to express appreciation to Bank Officers and Staff for their steadfast professionalism, commitment to duty, allegiance and loyalty in maintaining the Bank's continuing endeavor to uphold the highest standards of banking service.

It has always been the support of its stakeholders, including the united effort of the Bank's Directors, Officers and Staff and that explains Philtrust Bank's long record of reliability and strength. We are hopeful that the continued confidence of Bank stakeholders and the dedication and competence of Bank staff will ensure that Philtrust Bank continues to move from strength to strength as it navigates the winds of national and international change.

BASILIO C. YAP
Chairman

JAIME C. LAYA
President

June 29, 2021

CORPORATE POLICY

Vision and Mission

Philtrust Bank motivated by its vision and mission aspires to exceed achievements in the past to maintain its status as a leading bank in asset stability, consistent profitable operation, reasonable return on investment, sufficient liquid position under any stress scenario and soundness of systems and internal controls. Bank's course of business is grounded on its belief that the business of banking is forever and a public trust and that as stewards of public funds, Philtrust Bank is not only accountable to its clientele but primarily to the Divine Providence, the source of all goodness.

The Bank's Brand

Philtrust Bank has been known for its conservatism, grounded on the principle that maintaining the safety of depositor funds is of the highest importance. Its corporate maxim of minimum risk to, and absolute protection of, public funds has attracted numerous loyal clients. Bank staff firmly believes that its multitude of dependable clients have valued Bank's personal service and healthy balance of liquid assets; high asset and loan portfolio quality; and a solid capital base. To its century of banking service to its growing clientele and other stakeholders, Bank Directors, Officers and Staff addresses its message, *"We value your Trust and Confidence."*

Business Model

The Bank offers traditional banking services including deposit products denominated in Philippine pesos and US dollars; a range of loan products designed to meet the needs of individuals, entrepreneurs and corporate entities; foreign currency transactions including foreign letters of credit and remittances; trust services including fund management, handling escrow arrangements, and guardianship services; and other allied banking services.

The Bank follows the traditional scheme of accepting deposits from customers and, together with capital invested by stockholders, investing them to loans and debt instruments. Profits are earned primarily through interest spread; trading activities; fees and commissions for supplementary services rendered; and sale of acquired assets.

The Bank serves its clients through its 61 branches nationwide, including its Head Office.

BOARD OF DIRECTORS

Basilio C. Yap, Chairman of the Board

Basilio C. Yap is Filipino, 71 years old. He is a Certified Public Accountant and has earned a Master of Business Management. He is also currently the Chairman of Manila Bulletin Publishing Corporation; Manila Hotel Corporation; and Centro Escolar University. He also the Chairman and President of U.S. Automotive Co., Inc.; USAUTOCO, Inc.; Philtrust Realty Corporation; Manila Prince Hotel Corporation; Cocusphil Development Corporation; U.N. Properties Development Corporation; and Seabreeze Enterprises, Inc. He is the Vice-Chairman of Euro-Med Laboratories Philippines, Inc. and a director of MH F&B Ideas Inc.

Jaime C. Laya, President

Dr. Jaime C. Laya is Filipino, 82 years old. He is a Certified Public Accountant and a Ph.D. in Financial Management. He is former Governor of the Central Bank of the Philippines (now Bangko Sentral ng Pilipinas) and Chairman of the Monetary Board from 1981 to 1984. He is currently an Independent Director of Philippine AXA Life Insurance Co., Inc.; GMA Network, Inc; GMA Holdings, Inc.; Ayala Land, Inc.; Manila Water Company, Inc.; and Charter Ping An Insurance Corporation. He is also a Trustee of the Cultural Center of the Philippines; Metropolitan Museum of Manila; Yuchengco Museum; St. Paul's University – Quezon City; Society for Cultural Enrichment, Inc.; and Ayala Foundation, Inc. Escuela Taller Foundation of the Philippines, Inc. He is likewise the Chairman of Don Norberto Ty Foundation, Inc. He is also a columnist of the Manila Bulletin.

Josue N. Bellosillo, Vice Chairman of the Board and Corporate Counsel

Justice Josue N. Bellosillo (Retired) is Filipino, 87 years old. He is a retired Senior Justice of the Supreme Court of the Philippines and is currently Dean of the Centro Escolar University – School of Law and Jurisprudence.

Emilio C. Yap III, Vice Chairman of the Board

Emilio C. Yap III is Filipino, 49 years old. He holds a Ph.D. in Journalism and in Business Administration (Honoris Causa). He is the Vice-Chairman and President of Manila Bulletin Publishing Corporation; Chairman of Manila Prime Land Holdings, Inc.; and Vice-Chairman of Manila Hotel Corporation. He is a Director of Centro Escolar University; Cocusphil Development Corporation; Manila Prince Hotel Corporation; U.N. Properties Development Corporation; MH F&B Ideas Inc.; TMH Transport Limousine Services Inc.; and Orient Enterprises, Inc. He is also a Director and Vice President of U.S. Automotive Co., Inc.; Director, Assistant Treasurer, and Asst. Corporate Secretary of USAUTOCO, Inc.; Director and Vice President of Philtrust Realty Corporation; and Director, Vice President, and Treasurer of Seabreeze Enterprises, Inc.

Hilario G. Davide, Jr., Independent Director

Chief Justice Hilario G. Davide, Jr. (Retired) is Filipino, 85 years old. He served as Chief Justice of the Supreme Court of the Philippines (1998-2005) and Ambassador and Permanent Representative of the Philippines to the United Nations. He is an Independent Director and Vice-Chairman of Manila Bulletin Publishing Corporation; Independent Director of Megawide Construction Corporation; and Trustee of University of San Carlos, Cebu City. He is also the Chairman of Kompass Credit and Financing Corporation; Chief Justice Claudio Teehankee Memorial Foundation, Inc.; Knights of Columbus F. George J. Willmann, SJ Charities, Inc.; Knights of Columbus of the Philippines Foundation, Inc.; and the Heart of Francis Foundation, Inc. He is a member of the Knights of Rizal – Council of Elders.

Ernesto O. Chan, Independent Director

Ernesto O. Chan is Filipino, 75 years old. He is the Chairman, Treasurer, and Senior Vice-President of Pioneer Insurance and Surety Corporation; Chairman of Pioneer Intercontinental Insurance Corporation; and Director of Pioneer Life, Inc.. He is also a Director and Treasurer of Bancasia Finance and Investment Corporation and Bancasia Capital Corporation.

Tomas V. Apacible, Independent Director

Tomas V. Apacible is Filipino, 75 years old and is a former Congressman (2010-2013) representing the First District of Batangas. He holds a Master's Degree in Business Administration. He is an Adviser of the Philippine Cancer Society and a Fellow at the Institute of Corporate Directors.

Jose M. Fernandez, Director and Executive Vice-President

Jose M. Fernandez is Filipino, 78 years old. He is a Certified Public Accountant with Master's Degree in Business Administration. He is currently the Executive Vice President and Chief Risk Officer of Philtrust Bank.

Miriam C. Cu, Director and Senior Vice-President

Miriam C. Cu is Filipino, 62 years old. She is a Certified Public Accountant. She is a Director and Treasurer of Orient Enterprises, Inc.; Vice President of Brightworld International Trading, Inc.; Director and Corporate Secretary of Seabreeze Enterprises, Inc.; and Director of G.A. Cu Unjieng Realty, Inc.

Rosalinda Y. Gaw, Director (+)

Rosalinda Y. Gaw is Filipino, 72 years old. She is a Certified Public Accountant and holds a Ph.D. in Business Administration. She is the Chairman and President of Orient Enterprises, Inc.; and the Vice Chairman, Treasurer, and Corporate Secretary of Goldclass, Inc. She is also a Director, Treasurer, and Corporate Secretary of U.S. Automotive Co., Inc.; USAUTOCO Inc.; Philtrust Realty Corporation; Cocusphil Development Corporation; and U.N. Properties Development Corp.

Director Gaw regretfully passed away in March 30, 2021

Benjamin C. Yap, Director

Benjamin C. Yap is Filipino, 75 years old. He is the Chairman and President of Benjamin Favored Son, Inc.; Chairman of House of Refuge Foundation; and a Director of USAUTOCO, Inc., Manila Hotel Corporation, Centro Escolar University, Seabreeze Enterprises, Inc., Philtrust Realty Corp., U.S. Automotive Co., Inc. and Euro-Med Laboratories Phil., Inc.

Armando L. Suratos, Independent Director *

Armando L. Suratos is Filipino, 75 years old, a BSBA graduate of the University of the Philippines and a LL.B. degree holder from Ateneo de Manila Law School. He is formerly connected with the Bangko Sentral ng Pilipinas as Deputy Governor and a member of the Monetary Board. He is currently independent director of Manila Bulletin, Philippine Payments Management Inc. and Philippine Life Assurance Corp.

***Resigned as Independent Director effective April 16, 2021 to pursue other endeavors

Martin B. Isidro, Corporate Secretary and Assistant Corporate Counsel (+)

Martin B. Isidro is Filipino, 91 years old and holds a LL.B. degree. He is a former Congressman, Vice-Mayor and Councilor of the City of Manila and was Director of Philtrust Bank from 2003 to 2013. He is a Senior Vice President and the Corporate Information Officer of Philtrust Bank.

Atty. Isidro regretfully passed away on May 28, 2020.

Agnes B. Urbano, Assistant Corporate Secretary

Agnes B. Urbano is Filipino, 59 years old. She holds an Ll.B. degree and is a First Vice President of the Bank.

SENIOR OFFICERS

Name		Position	Department/Branch	Nationality
Treasury and Cash Operations				
Benito D. Chua		Vice-President	Money Market Dept.	Filipino
Age	64			
College Degree/Profession	BSBA			
Years as Dept. Head	20			
Years in the Bank	38			
Loans & discounts and Credit Operations				
Carlos A. Pinpin, Jr.		Exec. Vice-Pres.	Loans & Credit Dept.	Filipino
Age	64			
College Degree/Profession	BSME/MBM			
Years as Dept. Head	1			
Years in the Bank	1			
Atty. Nemesio M. Domingo		Vice-President	Credit Department	Filipino
Age	59			
College Degree/Profession	BS CrImi'logy, LLB			
Years as Dept. Head	15			
Years in the Bank	31			
Josephine Y. Ang		Vice-President	Loans & Discounts Department	Filipino
Age	63			
College Degree/Profession	BSC-CPA			
Years as Dept. Head	23			
Years in the Bank	39			
Atty. Jane D. Laplana Suarez		First Vice-President	Legal and Collection Department	Filipino
Age	48			
College Degree/Profession	AB-Pol Sc. LLB			
Years as Dept. Head	17			
Years in the Bank	21			
International and FCDU				
Corazon L. Ho		Sr. Vice-President	FCDU Department	Filipino
Age	70			
College Degree/Profession	BSBA - CPA			
Years as Dept. Head	12			
Years in the Bank	38			

Deposits and CASA Operations

Heidy C. Chu		Vice-President	New Accounts Dept.	Filipino
Age	60			
College Degree/Profession	BSBA - CPA			
Years as Dept. Head	7			
Years in the Bank	36			

Comptroller/Finance Operations

Luisa A. Lucin		Sr. Vice-President	Accounting Department	Filipino
Age	64			
College Degree/Profession	BSC CPA			
Years as Dept. Head	16			
Years in the Bank	38			

Branches Human Resources Administrative Operations

Victoria C. Lu		Sr. Vice-President	Property/Purchasing Department	Filipino
Age	70			
College Degree/Profession	BSBA-CPA			
Years as Dept. Head	10			
Years in the Bank	10			
Cherry M. Lim		Vice-President	Personnel Department	Filipino
Age	62			
College Degree/Profession	BS-Psychology			
Years as Dept. Head	32			
Years in the Bank	40			
B Gen. Ramiro G. Busalanan		Vice-President	Security Department	Filipino
Age	64			
College Degree/Profession	BS Crim'lgy			
Years as Dept. Head	7			
Years in the Bank	7			

Compliance, Internal Control & Risk Management

Name		Position	Department	Nationality
Amelita G. Cua		Vice-President	Internal Audit Dept.	Filipino
Age	58			
College Degree/Profession	BSBA/CPA/MBA			
Years as Dept. Head	22			
Years in the Bank	35			
Pompeyo A. Claveria		Vice-President	Compliance Department	Filipino
Age	67			
College Degree/Profession	BSC/CPA			
Years as Dept. Head	2			
Years in the Bank	6			
Jose M. Fernandez		Exec. Vice-President	Risk Management Unit	Filipino
Age	78			
Years as Dept. Head	6			
Years in the Bank	18			
George P. Castro		Vice-President	Executive Information Systems	Filipino
Age	58			
College Degree/Profession	BSC-Acctg.			
Years as Dept. Head	14			
Years in the Bank	35			

Other Officers

Name		Position	Department	Nationality
Ms. Virginia S. Choa-Shi		Exec. Vice-President	Grace Park Branch	Filipino
Age	66			
College Degree/Profession	BSC CPA			
Years as Branch Head	39			
Years in the Bank	40			
Mr. Adriano A. Tacata		Sr. Vice-President	Trust Department	Filipino
Age	77			
College Degree/Profession	BSBA, CPA			
Years as Dept. Head	10			
Years in the Bank	10			
Mr. Chai Sen D. Uy		Sr. Vice-President	Cebu Branches	Filipino
Age	75			
College Degree/Profession	BSC			
Years as Branch Head	12			
Years in the Bank	12			

Mr. Cesar M. Esponilla		Vice-President	International Dept.	Filipino
Age	69			
College Degree/Profession	BSC-Acctg.			
Years as Dept. Officer	47			
Years in the Bank	47			

FINANCIAL HIGHLIGHTS

(In Thousand Pesos)

For the years 2020 and 2019

			Consolidated	
Particulars			Current Year	Previous Year
Profitability				
	Total Net Interest Income		2,075,422	2,567,937
	Total Non-Interest Income		2,231,960	1,064,466
	Total Non-Interest Expenses		2,205,825	2,105,240
	Pre-provision profit		2,075,422	2,567,937
	Allowance for credit losses		152,700	37,349
	Net Income		948,539	780,429
Selected Balance Sheet Data				
	Liquid Assets		162,147,323	154,147,584
	Gross Loans		39,007,889	45,764,346
	Total Assets		168,469,833	160,791,423
	Deposits		140,827,580	134,284,685
	Total Equity		26,909,111	25,593,359
Selected Ratios				
	Return on equity		3.56%	3.04%
	Return on assets		0.58%	0.49%
	CET 1 capital ratio		50.64%	45.04%
	Tier 1 capital ratio		50.64%	45.04%
	Capital Adequacy Ratio		50.74%	45.55%
Per common share data				
	Net income per share:			
		Basic	0.95	0.78
		Diluted		
	Book Value		26.91	25.69
Others				
	Headcount		800	819
		Officers	392	398
		Staff	408	421

FINANCIAL CONDITION AND RESULT OF OPERATIONS

The year ended with total resources reaching PhP 168.5 billion, an improvement of PhP 7.7 billion or 4.8% from previous year of PhP 160.8 billion. The rise in resources is attributable to increase in total deposits amounting to PhP 6.5 billion and improvement in net worth by PhP 1.2 billion

Total resources were made of earning assets composed of high-grade liquid assets and loans to clients that run up to PhP161.9 billion or 96.1% of total resources. High grade liquid assets, which comprise marketable government securities and placements with Bangko Sentral ng Pilipinas amplify Bank's commitment to clients that sufficient liquid funds cover their deposits.

Loan's receivables are generally business loans to individuals, entrepreneurs and a couple of corporates. Gross loans of PhP 27.1 billion in 2020 is PhP 0.5 billion higher than previous year of PhP 26.6 billion. Credit exposures were principally trading business, real estate activity, manufacturing, accommodation food/services, construction and agriculture. This diversified portfolio is a testament of management's guidance to avoid concentration of credit to select industries

Total Deposits of Php 140.8 billion is Php 6.5 billion higher than previous year's PhP 134.3 billion, attesting to the continued trust and confidence of Bank clients despite the volatility that pervades the market.

Total Equity at the end of 2020 amounted to Php 26.9 billion up by Php 1.2 billion due to net profit from operation and favorable market adjustment of securities investment.

Results of operation improved during the current year as Net Income of PhP .949 billion is PhP .169 billion higher than previous year's PhP .780 billion. Total interest income for the year amounted to Php 5.4 billion, Php 3.1 billion from investment securities, Php 1.3 billion from customers loans and receivables and Php 1.0 billion from other earning assets. Interest expense of Php 3.3 billon on deposit liabilities is PhP .8 billion less than a year ago despite increase in deposit portfolio. Non-interest income dominated by gains from sale of investment securities and foreclosed assets registered an increase of PhP 1.2 billion. while other operating expenses are up by Php .100 billion.

CAPITAL STRUCTURE AND CAPITAL ADEQUACY

(In PhP 0.000 Millions)

	DECEMBER		
	2020	**2019**	**2018**
I. Qualifying Capital			
Tier 1 Capital	27.211	25,593	21,699
Tier 2 Capital	50	242	172
Gross Qualifying Capital	27.261	25,835	21,871
Less: Regulatory Adjustments / Deductions	2.805	4,478	4,743
Net Qualifying Capital	24.456	21,357	17,484
II. Risk Weighted Assets			
Credit Risk Weighted Assets			
Risk Weight	40.201	39,276	43,025
Capital Requirement (10%)	4.020	3,928	4,302
Market Risk Weighted Assets			
Risk Weight	2.144	1,734	2,597
Capital Requirement (10%)	214	173	260
Operations Risk Weighted Assets			
Risk Weight	5.854	5,873	5,616
Capital Requirement (10%)	585	*587*	*562*
Total Capital Requirement	4.820	4,688	5,124
Required Capital Charge	10%	10%	10%
Total Risk Weights	48.200	46,883	51,238
III. COMMON EQUITY TIER 1 RATIO	50.64%	45.04%	33.79%
IV. CAPITAL CONVERSION BUFFER RATIO	44.64%	39.04%	27.79%
III. TOTAL CAPITAL ADEQUACY RATIO	50.74%	45.55%	34.12%

CAR averaged 43.47% for the last three (3) years and highest in 2020 at 50.74%. Even at its lowest in 2018 at 34.12%, the same is still many times above the mandatory 10% minimum ratio. Net qualifying capital show consistent compliance with the required minimum capital for the last three (3) years. Rising credit risk is expected as the current pandemic continue to devastate businesses in general. Minimal effect on credit risk is projected for the current year 2021.

RISK EXPOSURES

Credit Risk
As of December 31, 2020
(In PhP 0.000 Millions)

Risk Weighted Assets	Total Assets	Booked Valuation Reserves	Net Book Value	Risk Mitigant [2]/	Net Risk Weighted Assets	Total Credit Risk
Cash and Due from Banks	56,727	-	56,727	-	56,727	523
Available for Sale Securities	26,338	-	26,338	-	26,338	13,626
HTM Financial Assets	44,270	19	44,251	-	44,251	8,878
Loans and Receivables	39,041	4,066	34,975	2,620	32,356	12,666
Sales Contract Receivable	22	-	22	-	22	22
ROPA	1,587	42	1,545	-	1,545	2,317
Other Assets	3,796	78	3,718	-	3,718	3,718
Total on Balance Sheet	171,781	4,205	167,576	2,620	164,956	41,749
Total Off Balance Sheet	1,160	-	1,160	-	1,160	42
Total Credit Risk	172,941	4,205	168,736	2,620	166,116	41,791
Less: Unbooked Valuation Reserves [1]/						1,590
Net Credit Risk						40,201

[1]/ Based on BSP ROE as at September 30, 2018
[2]/ Risk mitigants are all in the form of hold-out on deposits.

Credit Risk
As of December 31, 2019
(In PhP 0.000 Millions)

Risk Weighted Assets	Total Assets	Booked Valuation Reserves	Net Book Value	Risk Mitigant [2]/	Net Risk Weighted Assets	Total Credit Risk
Cash and Due from Banks	33,916	-	33,916	-	33,916	586
Available for Sale Securities	36,978	-	36,978	-	36,978	12,529
HTM Financial Assets	41,194	43	41,151	-	41,151	10,433
Loans and Receivables	45,797	3,761	42,036	1,666	40,370	12,667
Sales Contract Receivable	32	-	32	-	32	32
ROPA	1,526	48	1,478	-	1,478	2,217
Other Assets	3,988	90	3,898	-	3,898	3,898
Total on Balance Sheet	163,431	3,942	159,489	1,666	157,823	42,362
Total Off Balance Sheet	1,043	-	1,043	-	1,043	66
Total Credit Risk	164,474	3,942	160,532	1,666	158,866	42,428
Less: Unbooked Valuation Reserves [1]/						3,152
Net Credit Risk						39,276

[1]/ Based on BSP ROE as at September 30, 2018
[2]/ Risk mitigants are all in the form of hold-out on deposits.

Credit Risk
As of December 31, 2018
(In PhP 0.000 Millions)

Risk Weighted Assets	Total Assets	Booked Valuation Reserves	Net Book Value	Risk Mitigant [2]/	Net Risk Weighted Assets	Total Credit Risk
Cash and Due from Banks	23,024	-	23,024	-	23,024	759
Available for Sale Securities	49,615	-	49,615	-	49,615	18,901
HTM Financial Assets	21,163	5	21,158	-	21,158	1,880
Loans and Receivables	54,671	3,140	51,531	2,443	49,088	15,840
Sales Contract Receivable	23	-	23	-	23	5
ROPA	2,926	36	2,890	-	2,890	4,335
Other Assets	3,796	90	3,706	-	3,706	4,365
Total on Balance Sheet	155,220	3,271	151,949	2,443	149,505	46,085
Total Off Balance Sheet	1,325	-	1,325	-	1,325	68
Total Credit Risk	156,545	3,271	153,274	2,443	150,830	46,153
Less: Unbooked Valuation Reserves [1]/						3,128
Net Credit Risk						43,025

[1]/ Based on BSP ROE as at November 30, 2016

[2]/ Risk mitigants are all in the form of hold-out on deposits.

Market Risk
As of Dates Indicated
(in 0.000 Millions)

Nature of Item	Currency	31/12/2020 Net Long/ (Short) Position (USD)	31/12/2020 Peso Equivalent	31/12/2019 Net Long/ (Short) Position (USD)	31/12/2019 Peso Equivalent	31/12/2018 Net Long/ (Short) Position (USD)	31/12/2018 Peso Equivalent
U.S. Dollar	USD	43.667	2,097.042	33.468	1,694.663	48.882	2,570.213
Japanese Yen	JPY	0.000	0.014	0.048	2.427	0.035	1.844
Swiss Franc	CHF	-	-	0.000	0.005	-	-
Pound Sterling	GBP	0.097	4.682	0.134	6.763	0.019	1.011
Euro	EUR	0.180	8.627	0.357	18.077	0.094	4.918
Canadian Dollar	CAD	0.346	16.609	0.004	0.223	0.004	0.222
Australian Dollar	AUD	0.130	6.246	0.020	0.998	0.103	5.412
Singapore Dollar	SGD	0.200	9.585	0.143	7.236	0.158	8.304
Foreign currencies not separately specified above		0.022	1.072	0.068	3.451	0.096	5.058
Overall Net Position			2,143.876		1,733.843		2,596.982
Risk Weight			8%		8%		8%
Total Capital Charge For ForEx			171.510		138.707		207.759
Capital Charge Adjustment for ForEx [1]/			125%		125%		125%
Adjusted Capital Charge for ForEx Exposures			214.388		173.384		259.698
Minimum Capital Multiplier [2]/			10		10		10
Total Risk Weighted ForEx Exposures			**2,143.876**		**1,733.843**		**2,596.982**
Period-end USD-PHP Exchange Rate			*48.023*		*50.635*		*52.580*

[1]/ Capital charge is multiplied by 125% to be consistent with BSP required minimum CAR of 10%, which is 25% higher than the Basel minimum of 8%.

[2]/ Adjusted capital charge is multiplied by 10 (i.e. the reciprocal of the minimum capital ratio of 10%)

Operations Risk
As of Dates Indicated
(In PhP 0.000 Millions)

Gross Income - Basic Indicator Approach:

	31-Dec-20			31-Dec-19			31-Dec-18		
	Year 3	Year 2	Last year	Year 3	Year 2	Last year	Year 3	Year 2	Last year
Interest Income	5,647	6,255	6,761	5,541	5,647	6,255	5,293	5,541	5,647
Interest Expense	2,739	3,221	4,063	2,862	2,739	3,221	2,609	2,862	2,739
Net Interest Income	2,907	3,034	2,698	2,679	2,907	3,034	2,684	2,679	2,907
Dividend Income	24	24	29	24	24	24	19	24	24
Fees and Commissions	61	57	63	142	61	57	52	142	61
Net Profit/(Loss) on ForEx	47	118	28	40	47	118	58	40	47
Other Income	58	103	115	80	58	103	111	80	58
Non-interest Income	190	301	235	285	190	301	240	285	190
Total Gross Income	3,097	3,335	2,933	2,964	3,097	3,335	2,924	2,964	3,097
Capital Charge Factor	15%	15%	15%	15%	15%	15%	15%	15%	15%
Capital Requirement	465	500	440	445	465	500	439	445	465
Average			468			470			449
Capital Charge Adjustment 1/			125%			125%			125%
Adjusted Capital Charge			585			587			562
Minimum Capital Multiplier 2/			10			10			10
Total Risk Weighted Amount			5,854			5,873			5,616

Notes

1/ Capital charge is multiplied by 125% to be consistent with BSP required minimum CAR of 10%, which is 25% higher than the Basel minimum of 8%.

2/ Adjusted capital charge is multiplied by 10 (i.e. the reciprocal of the minimum capital ratio of 10%)

RISK MANAGEMENT FRAMEWORK

The Bank's Board of Directors, Management and Staff recognize that risk is inherent in the entirety of banking operations and, if not well managed, could result to financial loss, regulatory sanctions, and penalties that may damage the Bank's reputation. The Bank takes a comprehensive approach to risk management with a defined risk framework and risk limits more particularly in credit. The types of risk faced by the Bank are generally credit, market, liquidity, operational, compliance, strategic and reputational.

The risk management framework provides, through carefully designed policies, clear responsibilities and accountability, and a tight monitoring and feedback mechanism involving all risk takers including the Board of Directors and the relevant committees.

Risk Appetite

The Bank is known for its conservative policies and practices that took root when it was majority owned by the Archdiocese of Manila. The late Dr. Emilio T. Yap, who headed the group that succeeded the Archdiocese of Manila as controlling shareholders, reinforced the Bank's strategy of slow but sure growth, ensuring the safety of depositor funds, and a reasonable return on investment.

Consistent with this strategy, the Bank's relatively low risk appetite is expressed in its ample capital, high liquidity position and profit levels that yield a reasonable return on stockholder investment. Credit risk is evaluated along time-proven lines that involve a series of reviews up to the Board Committee level. The Bank has adopted a default probability model to predict future losses and anticipate provisioning and capital requirement that are consistent with current pertinent banking regulations.

Risk Governance Structure and Risk Management Process

The risk governance framework establishes defense structures including front line units, the risk management unit, internal audit and compliance. The front-line units determine primary risk indicators in accordance with Board authority on the nature and limits of acceptable risk. The organizational units responsible risk management, internal audit and compliance serve as monitoring arms and assist management and the Board's oversight functions.

The risk management process starts with the identification and definition of risk, classifying these into quantifiable and non-quantifiable. The former calls for quantifying to the extent possible under validated methodologies and in specified monetary units, market, liquidity and credit risks. Similarly, non-quantifiable risks are defined under the Bank's "control culture" and internal control system designed to monitor and update operational policies and procedures. The following describes the Bank's risk management structure:

i. **Executive Committee** – analyzes, evaluates and approves activity/product attributes in relation to market, liquidity, credit and operations risks; control and compliance; audit, legal and regulatory; and technology issues.

ii. **Board Risk Oversight Committee (BROC)** – responsible for the continuing review of corporate risk policies, limits and controls, and ensures that business units continuously monitor the adequacy and soundness of such policies.

iii. **Budget, Assets Liability Committee (BALCO)** – ensures that the Bank maintains adequate liquidity, funding and capital to meet business and regulatory requirements.

iv. **Credit and Loans Review Committee (CLRC)** – primarily responsible for credit risk management, establishes credit standards for credit analysis, credit risk measurements, internal credit risk rating, and adequacy of credit risk structure.

v. **Risk Management Group** – an independent business unit that identifies analyzes, and measures risk position taking and lending, as well as borrowing hazards.

vi. **Audit Committee** – responsible for monitoring risk management policies and procedures and for reviewing the adequacy of the Bank's risk management system in relation to known and anticipated risks.

AML Governance and ML/TF Risk Management Framework

The Bank fully adheres to the national policies on: (a) protecting and preserving the integrity and confidentiality of bank accounts, preventing the use of banks to launder the proceeds of unlawful activity; and (b) the protection of life, liberty, and property from acts of terrorism, condemning terrorism and those who support and finance it. The Bank is also committed to assist the authorities in identifying potential money laundering transactions.

It is, therefore, the declared Bank corporate policy to observe the Anti-Money Laundering Law, as amended, its implementing rules and regulations, as well as to the various circulars, circular letters, and other issuances issued by competent authorities against money laundering, terrorism financing, and other related offenses.
In line with the declaration of policy, the Bank observes the following principles to combat money laundering:

i. Conduct business in conformity with high ethical standards in order to protect its safety and soundness as well as the integrity of the national banking and financial system. It shall not discriminate against certain customer types, such as Politically Exposed Persons, or against certain religion, race or ethnic origin, or such other attributes or profile as the only basis to deny these persons to access to the Bank's services;

ii. Know sufficiently its customer at all times and ensure that the financially or socially disadvantaged are not denied access to financial services while at the same time prevent suspicious individuals or entities from opening or maintaining an account or transacting with the Bank by himself or otherwise;

iii. Adopt and effectively implement a sound AML and terrorist financing risk management system that identifies, assesses, monitors and controls risks associated with money laundering and terrorist financing;

iv. Comply fully with the UARR and existing laws aimed at combating money laundering and terrorist financing by making sure that officers and employees are aware of their respective responsibilities and carry them out in accordance with superior and principled culture of compliance; and

v. Fully cooperate with Anti-Money Laundering Council (AMLC) for the effective implementation and enforcement of the AMLA, as amended, and its RIRR.

CORPORATE GOVERNANCE

Overall Corporate Governance Structure and Practices

The Bank's corporate governance follows processes through which corporate objectives are set and pursued in the context of the legal and regulatory frameworks, market environment, accountability, transparency, and effective participation to form solid relationship among stakeholders. Governance mechanisms include monitoring the actions, policies, practices, and decisions of the Board of Directors through its Corporate Governance, Nomination and Remuneration Committee.

Selection Process for the Board and Senior Management

The selection process for membership in the Board of Directors and Senior Management starts with nominations submitted to the Board's Corporate Governance, Nomination and Remuneration Committee. Candidates for directorship are submitted to stockholders for their consideration. Other bank officers that require appointment by the Board of Directors are reviewed by the same Committee for consideration of the Board.

Board's Overall Responsibility

The Board of Directors is primarily responsible for the governance of the corporation. It is the Board's responsibility to foster the long-term success of the Bank, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its stockholders.

The Board also formulates the Bank's vision, mission, strategic objectives, policies and procedures that shall guide its activities, including the means to effectively monitor management's performance.

All Directors, whether executive, non-executive or independent, participate in the decision making and resolution process of the Bank. The Chairman of the Board ensures that all concerns are addressed to the satisfaction of the entire membership. He also maintains qualitative and timely lines of communication and information between the Board and Management. Independent Directors, on the other hand, are mandated to validate actions taken by the Board and that the same complies with relevant banking laws and regulations.

Chairman of the Board

The Chairman of the Board presides over the meeting of the Board of Directors where all approvals for credit applications and policies are evaluated and approved. The Chairman is responsible for leading the Board to focus on strategic matters, and setting governance standards. He plays a critical role in nurturing the effectiveness of the Board and individual Directors.

Directors' Orientation and Education Program

Bank directors and senior executives attend annual training on updates and new trends on best practices in the industry regarding Corporate Governance and Anti Money Laundering conducted by the Institute of Corporate Directors, foremost provider of training and seminars for corporate directors. Also in attendance are directors and executives of other publicly listed companies within the umbrella of Yap Group of companies.

Board Qualification and Composition

All members of the Board possess the required integrity/probity, physical/mental fitness; relevant education/financial literacy/training and competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind; and sufficiency of time to fully carry out responsibilities. Two of the Bank's directors has served out the maximum term of nine (9) years in 2021 and due to be replaced in the next stockholder's meeting.

The Board consists of twelve (12) members, four (4) of whom are Independent Directors, as follows:

	Name of Director	Type of Directorship	Nominee	No. of Years Served	Number of Shares	% to Total Shares
1	Jaime C. Laya	ED	No	30	33,325	0.0033
2	Justice Josue N. Bellosillo	NED	No	11	1,512	0.0002
3	Basilio C. Yap	NED	No	30	1,339,030	0.1380
4	Dr. Emilio C. Yap III	NED	No	11	183,263	0.0180
5	Ernesto O. Chan	ID	No	7*	17,566	0.0018
6	Tomas V. Apacible	ID	No	7*	15,120	0.0002
7	Chief Justice Hilario G. Davide	ID	No	6*	1,000	0.0001
8	Jose M. Fernandez	ED	No	13	440	0.0000
9	Miriam C. Cu	ED	No	11	548,881	0.0549
10	Rosalinda Y. Gaw	NED	No	4	6,400,510	0.6954
11	Benjamin C. Yap	NED	No	4	19,310	0.0010
12	Atty. Armando L. Suratos	ID	No	Less than 1 yr.	**10	0.0000

Note: ED – Executive Director; NED – Non-Executive Director; ID – Independent Director.
*Reckoned from 2012

**Indirect ownership through PCD Nominee

Board-level Committees

Executive Committee

Dr. Jaime C. Laya	-	Chairman
Mr. Basilio C. Yap	-	Member
Sr. Justice Josue N. Bellosillo (Ret.)	-	Member
Dr. Emilio C. Yap III	-	Member
Ms. Miriam C. Cu	-	Member

The Executive Committee analyzes, evaluates, and approves 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.

Trust and Investment Committee

Chief Jus. Hilario G. Davide, Jr. (Ret.)	-	Chairman (Independent Director)
Dr. Jaime C. Laya	-	Member
Dr. Rosalinda Y. Gaw	-	Member
Mr. Benjamin C. Yap	-	Member
Mr. Adriano A. Tacata	-	Trust Officer

The Trust and Investment Committee is responsible for overseeing the fiduciary activities of the Bank, primarily ensuring that they are conducted in accordance with applicable laws, rules and regulations, and prudent practices.

Audit Committee

Mr. Ernesto O. Chan	-	Chairman (Independent Director)
Mr. Tomas V. Apacible	-	Member (Independent Director)
Mr. Benjamin C. Yap	-	Member

The Audit Committee assists the Board in fulfilling its oversight responsibilities over the Bank's financial reporting policies, practices and internal control, as well as the internal and external audit functions. It also monitors and evaluates the adequacy and effectiveness of the Bank's internal control system. It is responsible for recommending the appointment of the internal auditor and the independent external auditor who both reports directly to the Committee.

Board Risk Oversight Committee

Mr. Tomas V. Apacible	-	Chairman (Independent Director)
Chief Jus. Hilario G. Davide, Jr. (Ret.)	-	Member (Independent Director)
Mr. Jose M. Fernandez	-	Member

The Board Risk Oversight Committee is responsible for the creation and oversight of the Bank's corporate risk policy. It is responsible for identifying and analyzing the risks faced by the Bank; setting and recommending to the Board a system of risk limits and controls; and ensuring that each business unit continuously monitors the adequacy and soundness of policies, assumptions and practices.

Corporate Governance, Nomination and Remuneration Committee

Chief Jus. Hilario G. Davide, Jr. (Ret.)	-	Chairman (Independent Director)
Mr. Ernesto O. Chan	-	Member (Independent Director)
Mr. Tomas V. Apacible	-	Member (Independent Director)

The Committee reviews and evaluates nominees for membership in the Board of Directors and other positions requiring appointment by the Board; ensures the effectiveness and observance of corporate guidelines and principles; recommends to the Board the continuing education of directors assigned to different board committees, the succession planning and remuneration policy; and determines whether elected directors are adequately carrying out assigned duties and responsibilities.

Related Party Transactions Committee

Chief Jus. Hilario G. Davide, Jr. (Ret.)	-	Chairman (Independent Director)
Mr. Ernesto O. Chan	-	Member (Independent Director)
Mr. Tomas V. Apacible	-	Member (Independent Director)
Mr. Pompeyo A. Claveria	-	Compliance Officer
Ms. Amelita G. Cua	-	Internal Auditor

The Committee is responsible for identifying related parties; monitoring RPT transactions and ensuring that appropriate processes are undertaken to mitigate any risk that may arise from such transaction/s; and ensuring compliance with regulatory requirements.

Directors' Attendance at Board and Committee Meetings

Name of Director	**Board**		**Executive Committee**		**Audit Committee**		**Trust and Investment Committee**		**Board Risk Oversight Committee**		**Related Party Transaction Committee**		**Corporate Governance, Nomination & Remuneration Committee**	
Directors	P	%	P	%	P	%	P	%	P	%	P	%	P	%
Basilio C. Yap	13	100	1	100										
Jaime C. Laya	11	85	1	100										
Sr. J. Josue N. Bellosillo (Ret)	11	85	1	100										
Dr. Emilio C. Yap III	13	100	1	100										
Ernesto O. Chan	13	100			1	100			4	100	4	100	2	100
Tomas V. Apacible	10	77			1	100			4	100	4	100	2	100
C.J. Hilario G. Davide (Ret)	10	77							4	100	4	100	2	100
Jose M. Fernandez	8	62												
Miriam C. Cu	13	100												
Dr. Rosalinda Y. Gaw	6	46			1	100								
Benjamin C. Yap	13	100												
Atty. Armando L. Suratos**	7	54												
Total number of meetings	13		1		1				4		4		2	

* Number of meetings attended by committee members appointed effective August 3, 2020 to Present
** Elected July 28, 2020 , resigned April 16, 2021

Self-Assessment Functions

The Bank considers self-assessment as a collective effort of the entire organization. All departments/branches/units, together with their respective personnel, shall ensure adherence to internal policies and procedures, as well as to regulatory requirements.

The internal audit function provides independent appraisal of all the activities of the Bank in order to add value and improve operational efficiency, risk management, and internal control systems. It is headed by the Internal Auditor and reports directly to the Audit Committee. Through the Audit Committee, the Board assesses the adequacy and effectiveness of internal control as defined in the internal audit system.

The compliance function reviews and assesses the implementation of internal policies and procedures; conducts compliance risk assessment and compliance testing; educates staff on compliance matters; and monitors compliance risk exposures. The Board of Directors ensures that a compliance program is defined for the Bank, and that compliance issues are resolved expeditiously. Senior Management, on the other hand, ensures that bank personnel and affiliated parties adhere to the pre-defined compliance standards. The Compliance Officer is the lead operating officer on compliance, periodically reporting to the Board of Directors through the Board's Corporate Governance Committee on matters that affect the design and implementation of the compliance program, monitoring submission of reports to regulators and updates on Bank's compliance with respect to BSP examination findings.

Dividend Policy

As provided in the By-Laws, the Board of Directors may declare dividends only from the profits of the business of the Bank, and then only after retaining unimpaired the entire subscribed and paid-up capital stock, the reserve fund required by law, amount earmarked for the by-laws mandated profit sharing for all employees (Art. VII) and a sum sufficient to pay all expenses then incurred by the Bank, inclusive of taxes.

Corporate Social Responsibility

The Bank provides academic scholarships to deserving students in various colleges and universities in the Philippines, thereby giving them opportunity to finish undergraduate degrees. Successful scholar-graduates are eventually offered employment in the Bank. The Office of the President handles the selection process and maintenance of the scholarship program. Bank also selects from deserving bank employees to pursue postgraduate courses in the field of finance for free. During the height of the pandemic, the Bank offered its property across its head office as quarantine facilities for frontline medical /police personnel in the City of Manila and distributed bags of relief goods to affected families in pursuance of its corporate social responsibility.

Consumer Protection Practices and Risk Management System

The Board is responsible for approving and overseeing the implementation of the Bank's customer protection policies as well as the mechanism to ensure compliance with the said policies; developing and maintaining a sound Customer Protection Risk Management System that is integrated into the overall framework for the entire product and service life-cycle; delivering effective recourse to its customers; and providing adequate resources devoted to customer protection and assistance.
Accordingly, the Board has adopted policies and procedures on customer assistance, consumer protection, and risk management that are consistent with consumer protection laws, rules and regulations. These policies and procedures are embedded in the Bank's business operations.

Internal audit reviews the Bank's customer protection practices, adherence to internal policies and procedures, and compliance with existing laws, rules and regulations. It has established a Customer Protection Audit Program that provides for an assessment of the effectiveness of the adequacy and implementation of approved policies and standards formulated to meet customer protection objectives.

The compliance function proactively monitors and promotes the Bank's adherence to standards of customer protection. It has established a formal Customer Protection Compliance Program that is part of the over-all compliance system of the Bank, including compliance testing and monitoring.

Bank Management reviews and monitors identified risks inherent in all its products and services to ensure that consumers are protected against such risks. Bank systems ensure transparency in banking transactions with the public through informative materials and well-informed bank officers and staff. In accordance with relevant laws and regulations, personal information and transaction details are kept confidential except when required by the proper authorities.

The Bank has adopted a system of reporting violations and procedures on complaints handling to ensure timely corrective measures. There is a Customer Assistance Group (CAG), consisting of Department and Branch Heads, with the Head of the Branches Department as the group head, to handle customer inquiries, requests, and complaints.

Performance Assessment Program

Bank management through the Personnel Department in coordination with Branches Department, regularly carries out a performance assessment program for all employees assigned at the head office and branches based on set standards, including job knowledge, attendance/punctuality, office decorum, and character attributes identifying potential for career advancement. Board of Directors' performance are assessed by the Chairman of the Board.

Orientation and Education Program

An orientation program for new employees includes an introduction to company rules, code of conduct, human resources policies, employee benefits, and the basic AML rules and regulations and updates thereof. The Bank conducts training programs for existing staff on internal policies and procedures, specifically on areas requiring continuing education.

Retirement and Succession Policy

The Bank has established policies on the retirement of officers and employees and implements policies and procedures to ensure smooth transition upon the retirement, resignation, or other event affecting the employment of officers and staff. It also has a defined contribution or pension plan under which the Bank pays fixed contributions to an independent Provident Fund in full satisfaction of its legal and constructive obligations. The assets of the plan are held separately from those of the Bank and are under the control of Provident Fund trustees.

The Bank has no fixed retirement age for members of the Board of Directors or term limits for each director except for independent directors where the BSP requires a maximum cumulative term of nine (9) years. Our policy has been to find suitable candidates from among those nominated by the stockholders and incumbent directors. The stockholders elect the best candidates as members of the board of directors during the stockholder's meeting. Bank personnel retire at age sixty-five (65) but can be rehired at the Board's discretion depending on performance and need. Bank directors are not included in the retirement policy as their tenure is renewed annually and their continuous fitness as directors is determined by the Board's Corporate Governance and Nominations Committee.

On succession policy, the Bank identifies personnel within each department/unit/branch who can take over the leadership position in case a permanent or temporary vacancy for the top position occurs. The identified second-in-command is trained in the areas of operational proficiency, communications skills, and decision-making ability. The succession plan makes available experienced and capable employees to assume greater responsibilities in the future. It also increases employee satisfaction knowing that the Bank is planning for the employees' future opportunities for career advancement.

Remuneration Policy

The Bank has an approved position classification and compensation plan that emphasizes merit and performance for all employees from the lowest to the highest-ranking employee including bank directors. The profit-sharing system is part of the Bank's remuneration policy. The Board of Directors receives per diems for attendance in <u>each</u> Board and Committee meetings including Bank's profit-sharing program as provided by the Bank's By-Laws.

Policies and Procedures on Related Party Transactions

The Bank's transactions with directors, officers, stockholders and their related interests, and with other related parties are considered arm's length and done in the best interest of the Bank. Such transactions are undertaken without any special preferences and only in the regular course of Bank business. Dealings are subject to the approval of the Board of Directors as well as to the confirmation by the stockholders as may be necessary. All transactions of the Bank with its related parties are in accordance with existing laws, rules and regulations.

Accordingly, the Bank Board of Directors has constituted the Related Party Transaction Committee tasked to assist the Board of Directors in ensuring Bank compliance with applicable laws, rules and regulations, as well as in the effective implementation of relevant Policies and Procedures.

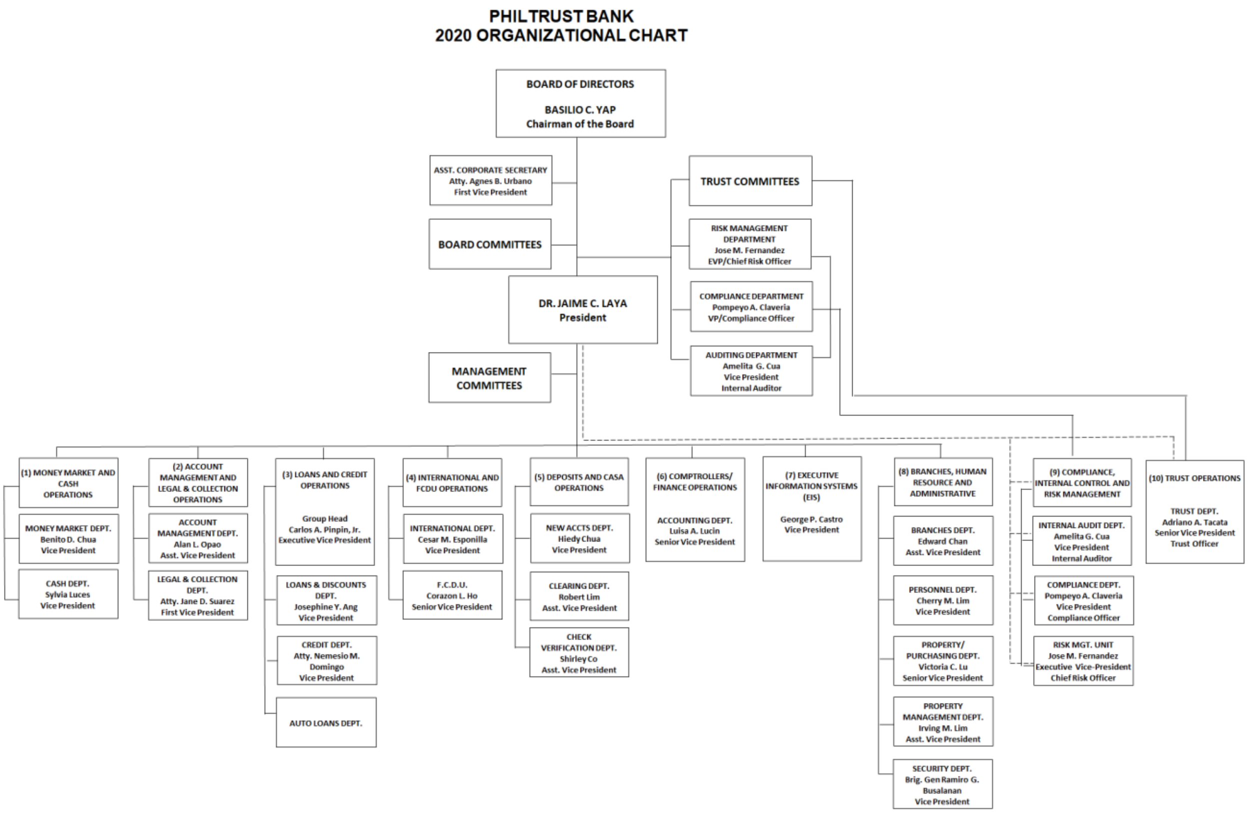
The Related Party Committee of the Board pass upon/approve RPT transaction including credit accommodations before they are recommended to the Board of Directors for approval. The Bank adopts policies and procedures to identify related parties; monitors related party transactions; ensures appropriate process of approval, identification, measurement, and monitoring risks; and sees to compliance with disclosure requirements.

Material RPTs as of 31 December 2020

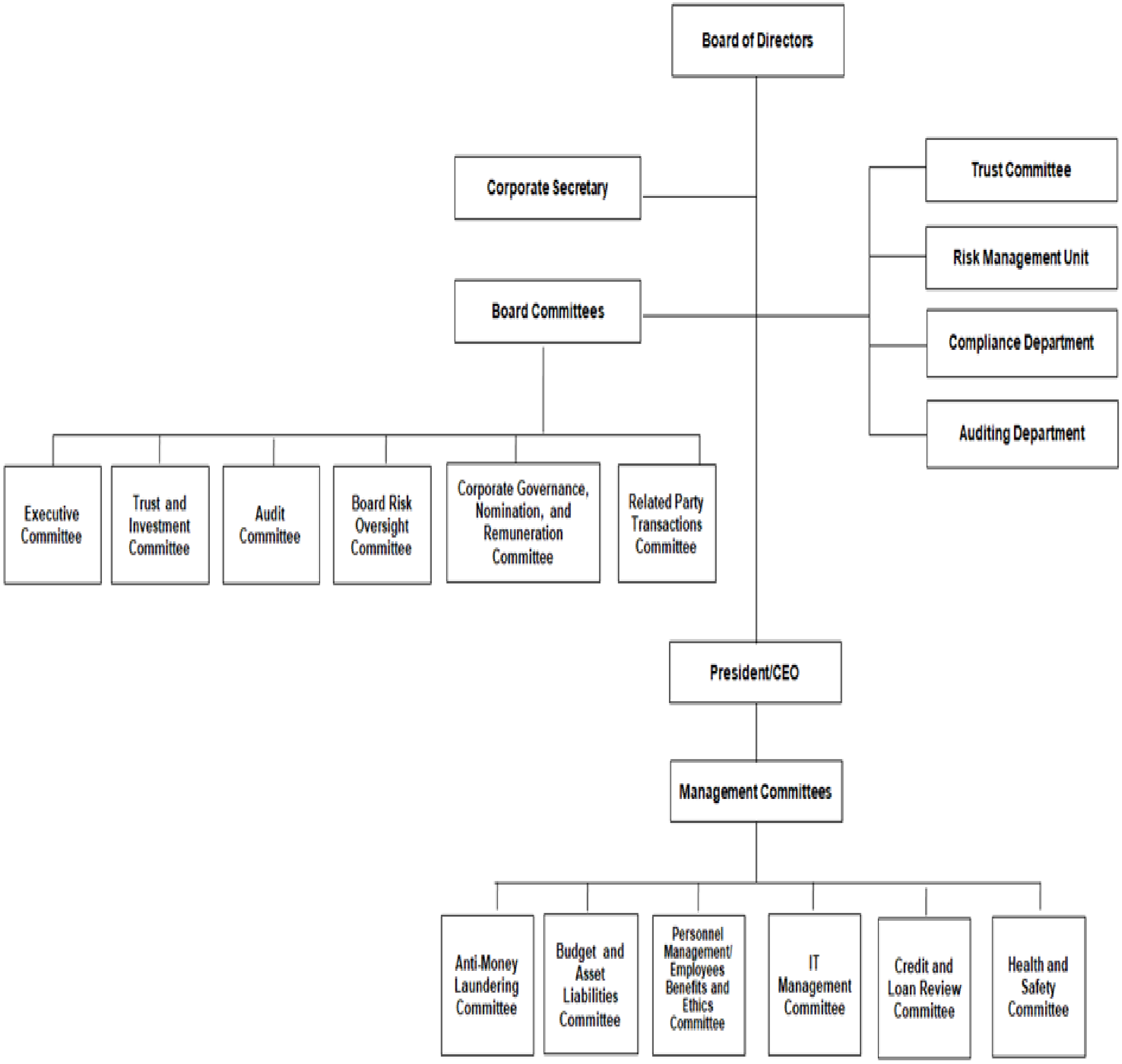
Related Counterparty	Relationship	Transaction				Rationale for Entering into the transaction
		Date	Type	Contract Price	Terms	
Philtrust Realty Corporation	Stockholder	Jan. 1, 2020	Lease/Lessee	1,912,453.20	1 year	For branch use
Philtrust Realty Corporation	Stockholder	Jan. 1, 2020	Lease/Lessee	4,939,704.00	1 year	For branch use
U.S. Automotive Co., Inc. (available for use: MH F&B Ideas,	Stockholder	June 20, 2017 Nov. 24, 2020	Credit Line	1,000,000,000.00 200,000,000.00	June 30, 2022	For interest income
Centro Escolar University	Related Interest	Jan. 1, 2005	Lease/Lessor	600,000,000.00	25 years	For rental income
Centro Escolar University	Related Interest	April 1, 2016	Lease/Lessee	3,773,998.42	5 years	For branch use
Café France Corporation	Related Interest	Aug. 1, 2012	Lease/Lessor	9,850,000.00	10 years	For rental income
Manila Bulletin Publishing Corp.	Related Interest	Sept. 29, 2020	Credit Line	800,000,000.00	1 year	For interest income
Manila Bulletin Publishing Corp.	Related Interest	Dec. 20, 2016	Credit Line	200,000,000.00	5 years	For interest income
U.N. Properties Development Corp.	Related Interest	Sept. 29, 2020	Credit Line	1,000,000,000.00	5 years	For interest income
Cocusphil Development Corp.	Related Interest	Jan. 1, 2020	Lease/Lessee	1,944,810.00	1 year	For branch use
Café France Corporation	Related Interest	Mar. 16, 2018	Lease/Lessor	6,199,729.05	5 years	For rental income
Manila Hotel Corporation	Affiliate	July 25, 2017	Credit Line	800,000,000.00	5 years	For interest income

CORPORATE INFORMATION

Organizational Structure



PHILTRUST BANK 2020 COMMITTEE ORGANIZATIONAL CHART



Directors and Senior Management

BOARD OF DIRECTORS

BASILIO C. YAP
CHAIRMAN
DR. JAIME C. LAYA
PRESIDENT

SR. JUSTICE JOSUE N. BELLOSILLO
DR. EMILIO C. YAP III
ATTY. ARMANDO L. SURATOS
BENJAMIN C. YAP
JOSE M. FERNANDEZ

CHIEF JUSTICE HILARIO G. DAVIDE, JR.
ERNESTO O. CHAN
TOMAS V. APACIBLE
DR. ROSALINDA Y. GAW
MIRIAM C. CU

ATTY. AGNES B. URBANO
ASSISTANT CORPORATE SECRETARY

OFFICERS

DR. JAIME C. LAYA
PRESIDENT

SR. JUSTICE JOSUE N. BELLOSILLO
CORPORATE COUNSEL

POMPEYO A. CLAVERIA
COMPLIANCE OFFICER

JOSE M. FERNANDEZ
CHIEF RISK OFFICER

CARLOS A. PINPIN, JR.
VIRGINIA S. CHOA-SHI
EXECUTIVE VICE PRESIDENTS

CORAZON L. HO
FCDU DEPARTMENT

VICTORIA C. LU
PROPERTY/PURCHASING DEPARTMENT

LUISA A. LUCIN
CHIEF ACCOUNTING OFFICER

CHAI SEN D. UY
CEBU BRANCH

ADRIANO A. TACATA
TRUST OFFICER

SENIOR VICE-PRESIDENTS

ATTY. JANE L. SUAREZ
FIRST VICE-PRESIDENT

ATTY. NEMESIO M. DOMINGO
Credit Department

HEIDY C. CHUA
New Accounts Department

BENITO D. CHUA
Money Market Department

CESAR M. ESPONILLA
International Department

JOSEPHINE Y. ANG
Loans and Discounts Department

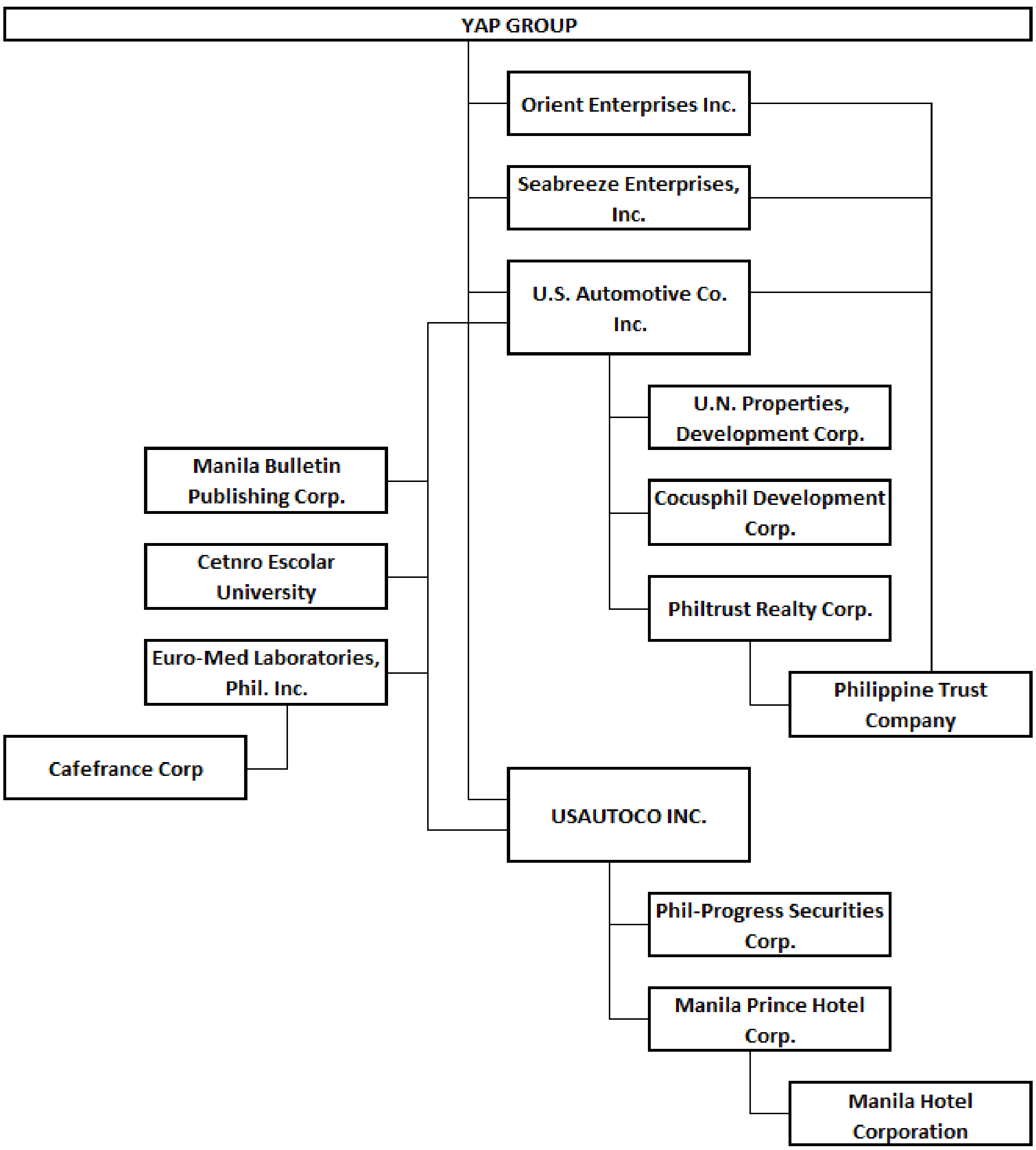
GEORGE P. CASTRO
E.I.S. Department

VICE PRESIDENTS

Major Stockholders

Name of Stockholder	Nationality	No. of Shares Subscribed and Paid Up	Amount	Percent
Philtrust Realty Corp.	Filipino	269,000,014	2,690,000,140	26.90
U.S. Automotive Co. Inc.	Filipino	209,873,774	2,098,737,740	20.99

CONGLOMERATE MAP
As of May 2018



Products and Services

Domestic Products and Services

1. Checking Account
2. Savings Account
3. ATM Savings Account
4. Time Deposit
5. Business and Personal Loans
6. Transfer of Funds and Collections
7. Remittances
8. Safe Deposit Boxes
9. Securities Investments

International Services

1. Import Financing
    a. Import Letters of Credit
    b. Domestic Letters of Credit
    c. Trust Receipts
    d. Shipping Guarantees
    e. Standby Letters of Credit
    f. Documents Against Payment
    g. Documents Against Acceptance
    h. Open Account
    i. Direct Remittance
    j. Advance Payment
2. Export Financing
    a. Negotiation of Export Bills
    b. Documents Under Letters of Credit (Export Bills Purchased (EBP)
    c. Collection of Export Documents
    d. Advising of Export Letters of Credit
3. Outward Remittances
4. Inward Remittances
5. Domestic Remittances

Trust Products and Services

1. Custodial Services
2. Employment Benefit or Retirement Plans
3. Escrow Agency
4. Testamentary Trust
5. Life Insurance Trust
6. Personal Living Trust.
7. Stock and Transfer Agency
8. Guardianship
9. Administratorship
10. Directional Investment Management Account

Bank Offices

HEAD OFFICE

Philtrust Bank Building
United Nations Avenue Corner San Marcelino Street
Manila
Tel No. 8524-9061 Fax No. 8521-7309

METRO MANILA BRANCHES

AURORA BOULEVARD BRANCH
904 Aurora Blvd. cor. Harvard St.,
Cubao, Quezon City
Tel. Nos. 8911-1539; 8911-3367; 8911-3082
8421-6599, 8911-0917 (Fax)

AYALA AVENUE BRANCH
G/F Unit 121 Shangrila Arcade *
Ayala Ave. cor. West Street
Makati City
Tel. Nos. 8810-0516; 8810-0529; 8810-0521
***Current location as of January 20, 2021**

BAMBANG BRANCH
Philtrust Building
No. 1499 G. Masangkay St.
corner Bambang Street
Tondo, Manila
Tel. Nos. 8244-9229; 8243-5540; 8244-9230

BINONDO BRANCH
Philtrust Building
Quintin Paredes corner
Dasmariñas and Plaza Cervantes
Binondo, Manila
Tel. Nos. 8241-6101 to 07; 8241-2584

CALOOCAN BRANCH
Philtrust Building
Samson Road, Caloocan City
Tel. Nos. 8362-3651 to 52; 8364-4522

DIVISORIA BRANCH
Philtrust Building
C.M. Recto Avenue corner Carmen Planas St.
Tondo, Manila
Tel. Nos. 8241-8030; 8241-8092; 8241-8051

EDSA MUÑOZ BRANCH
EDSA cor. Roosevelt Avenue
Quezon City
8376-7363, 8376-7364,3410-1047, 3410-1057

ELCANO BRANCH
Philtrust Building
Elcano cor. Lavezares St.,Binondo, Manila
Tel Nos. 8242-3363; 8242-3375; 8242-3369

ERMITA BRANCH
Philtrust Building
1111 A. Mabini corner U.N. Avenue
Manila
Tel. Nos. 8708-9640 to 43

ESCOLTA BRANCH
Philtrust Building
277 Escolta St.
Binondo, Manila
Tel. Nos. 8245-7722; 8245-7724; 8245-7734

GRACE PARK BRANCH
225 Rizal Avenue Extn. Grace Park
Caloocan City
Tel Nos. 8364-1571, 8363-8188, 8363-8185
8363-8177, 8364-1571 to 72, 8361-9529,
8361-9234, 8362-0111

GREENHILLS BRANCH
Metrosquare Building
224 Ortigas Avenue
North Greenhills, San Juan City
Tel Nos. 8724-5731; 8531-4297

JUAN LUNA BRANCH
Philtrust Building
Juan Luna corner San Fernando St.
Binondo, Manila
Tel. Nos. 8245-4081 to 85

LIBERTAD BRANCH
Philtrust Building
A. Arnaiz Avenue corner Taft Avenue
Pasay City
Tel. Nos. 8833-0554; 8833-0556 to 58

MAKATI-TORDESILLAS BRANCH
101 Le Metropole Condominium
G. Puyat Avenue corner Tordesillas St.
Makati City
Tel. Nos. 8813-4955; 8892-0131; 7753-3538 to 39

MALATE BRANCH
Philtrust Building
Remedios corner M.H. del Pilar St.
Manila
Tel. Nos. 8523-4914; 8524-9350; 8525-6737

MARIKINA CITY
Philtrust Building
Sumulong Highway corner P. Burgos St.
Sto. Niño, Marikina City
Tel Nos. 8997-9300; 8631-4447

MORAYTA BRANCH
Philtrust Building
Dr. Nicanor Reyes St., corner
R. Papa St., Sampaloc, Manila
Tel. Nos. 8733-9711; 8735-4529; 8733-5512

ONGPIN BRANCH
800 Ongpin corner S. Padilla Sts.
Binondo, Manila
Tel. Nos. 8733-1405; 8733-7754; 8733-7745

ORTIGAS BRANCH
Unit B1 OMM-CITRA Condominium
San Miguel Avenue, Ortigas Center
Pasig City
Tel Nos. 8635-4069; 8638-4145; 8638-4132

LAS PIÑAS BRANCH
Philtrust Building
Alabang - Zapote Road
Almanza Uno, Las Piñas City
Tel Nos.7738-1058; 8801-8975

MAKATI BRANCH
835 Liberty Building
A. Arnaiz Avenue, Makati City
Tel. Nos. 8893-6432; 8893-6333; 8892-6706 to 07

MALABON CITY BRANCH
Rizal Avenue corner. Leoño St.
Tañong, Malabon City
Tel Nos. 8376-2157; 8921-0075

MANDALUYONG BRANCH
Philtrust Bldg.
Shaw Blvd. cor. Kalentong St.,
Mandaluyong City
Tel. No. 8531-4950,8534-6095 to 98

MAYPAJO BRANCH
Philtrust Building
A. Mabini corner L. Lupa Sts.
Maypajo, Caloocan City
Tel Nos. 8990-7594; 8921-8198

NAIA 1 BRANCH
Departure Level, NAIA 1
Parañaque City
Tel. Nos. 8831-4944; 8851-5553
NAIA 3 EXTENSION OFFICE
Arrival Level, NAIA Terminal 3
Pasay City
Tel. Nos. 8831-5481; 8552-8174

PACO BRANCH
Simplicia Building
Pedro Gil corner Angel Linao Sts.
Paco, Manila
Tel. Nos. 8521-0283 to 86

PADRE RADA BRANCH
948 Padre Rada corner Ilaya Sts.
Tondo, Manila
Tel. Nos. 8243-6067 to 70

PASIG BRANCH
Philtrust Building
Dr. Sixto Antonio Avenue, Pasig City
Tel. Nos. 8641-5365; 8628-1447

PUYAT AVENUE BRANCH
Philtrust Building
259 Gil Puyat Avenue
Makati City
Tel. Nos. 8843-3901; 8843-3902; 8843-3911

QUEZON AVE. BRANCH
101 Quezon Avenue corner
Sto. Domingo St., Quezon City
Tel. Nos. 8712-2748; 8732-5076; 8711-8326

QUIAPO BRANCH
F and C Tower, Plaza Miranda
R. Hidalgo cor. Villalobos Sts.,
Quiapo, Manila
Tel. Nos. 8733-5511; 8733-5513

REINA REGENTE BRANCH
Philtrust Building
948 Reina Regente corner Soler Sts.
Binondo, Manila
Tel Nos. 8245-4413; 8245-4328; 8245-4415

STA CRUZ BRANCH
Philtrust Bldg.
Plaza Lacson cor. Rizal Avenue,
Sta. Cruz, Manila
8733-0528, 8733-0351 to 52, 8733-0348
8733-0525, 8733-0353

SUCAT BRANCH
Philtrust Building
Dr. A. Santos Avenue corner Sta. Rita St.
Parañaque City
Tel. Nos. 8820-7381 to 85

TABORA BRANCH
Philtrust Building
Tabora corner M. De Santos Sts.
San Nicolas, Manila
Tel Nos. 8354-8679 to 80

TAFT AVENUE BRANCH
1844 Taft Avenue
Pasay City
Tel. Nos. 8536-0011; 8526-0653 ; 8536-5051

TAGUIG CITY BRANCH
Unit-101 A, One Global Place
5th Avenue corner 25th St.
Bonifacio Global City, Taguig
Tel Nos. 8519-6112; 8519-5035; 8519-5244

VALENZUELA BRANCH
Philtrust Building
MacArthur Highway (in front of Valenzuela
City Hall) Malinta, Valenzuela City
Tel. Nos. 8294-0671 to 72; 8292-0177

PROVINCIAL BRANCHES

ANGELES CITY BRANCH
Philtrust Building
Mc Arthur Highway
corner B. Aquino St., Angeles City
Pampanga
Tel Nos. (045) 625-3617; 625-3616

BACOLOD BRANCH
Philtrust Building
Gatuslao corner Cuadra Sts.
Bacolod City
Tel Nos. (034) 432-1715; 432-1714; 708-0538

BATANGAS BRANCH
Rizal Avenue cor. P. Gomez St.
Batangas City, Batangas
Tel Nos. (043) 702-6286; 7026732

BULACAN BRANCH
Philtrust Building
Paseo del Congreso St., San Gabriel
Malolos City, Bulacan
Tel. Nos. (044) 931-3255; 931-2037

CAGAYAN DE ORO BRANCH
Philtrust Building
S. Osmeña St., corner J. Ramonal St.
Cogon District, Cagayan de Oro City
Misamis Oriental
Tel Nos. (088) 231-6694; 880-7234

CABANATUAN CITY BRANCH
Philtrust Building
Burgos Avenue, corner Beedle St.
Cabanatuan City
Tel Nos. (044) 940-8752; 951-0421

CAVITE BRANCH
Philtrust Building
Km. 41 E. Aguinaldo Highway
Silang, Cavite
Tel. Nos. (046) 414-3136; 865-3490; 865-3491

CEBU MAGALLANES BRANCH
Philtrust Building
Magallanes corner F. Gonzales Sts.
Cebu City
Tel Nos. (032) 254-9892; 416-9045; 256-1298

CEBU FUENTE OSMEÑA BRANCH
Osmeña Boulevard corner J. Llorente St.
Cebu City
Tel Nos. (032) 255-5199; 254-5139

CECU COLON BRANCH
Philtrust Building
Colon cor. D. Jakosalem Sts.
Cebu City
Tel Nos. (032) 253-3054; 254-7306; 414-9292

DAVAO RECTO BRANCH
Caritas Building
Claro M. Recto St., San Pedro
Davao City
Tel Nos. (082) 227-7001; 227-6231; 305-9339

DAVAO STA. ANA BRANCH
Philtrust Building
Monteverde Ave. corner F. Bangoy St.
Davao City
Tel Nos. (082) 221-0755; 305-7280; 305-7172

DUMAGUETE CITY BRANCH
Philtrust Building
Silliman Avenue corner Real St.
Dumaguete City, Negros Oriental
Tel Nos. (035) 522-3234; 522-3556

ILOILO CITY BRANCH
Philtrust Building
Quezon St. corner Delgado St.
Iloilo City
Tel Nos. (033) 336-8772; 338-2615

LA UNION BRANCH
Diocesan Center
11 P. Gomez St.
San Fernando City, La Union
Tel No. (072) 242-2307; 700-3144

LIMAY BRANCH
Philtrust Building
Bgy. Luz, National Road
Limay, Bataan
Tel Nos. (047) 244-5728; 633-0098

LUCENA CITY BRANCH
Quezon Ave. corner Don Queblar St.
Lucena City, Quezon
Tel Nos. (042) 710-9071 to 72; 3229787

NAGA CITY BRANCH
Philtrust Building
Caceres corner Elias Angeles Sts.
Naga City, Camarines Sur
Tel Nos. (054) 472-3491; 811-8651

ROXAS CITY BRANCH
Philtrust Building
Roxas Ave. corner Primero de Mayo St.
Roxas City, Capiz
Tel Nos. (036) 621-3062; 621-7648

SANTIAGO CITY BRANCH
Philtrust Building
Maharlika Highway corner Abauag St.
Malvar, Santiago City, Isabela
Tel Nos. (078) 305-2692; 305-2891

URDANETA CITY BRANCH
Philtrust Building
MacArthur Highway corner Ambrosio St.
Urdaneta City, Pangasinan
Tel Nos. (075) 522-3721; 540-2065

OPENING SOON

ALABANG BRANCH
GENERAL SANTOS CITY BRANCH
KALIBO CITY BRANCH
LAOAG CITY BRANCH
MANDAUE CITY BRANCH
OZAMIZ CITY BRANCH
TARLAC CITY BRANCH
TUGUEGARAO CITY BRANCH

Bank website

For more information about the Bank, its products and services, please visit www.philtrustbank.com

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

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	**JAIME C. LAYA**	**LUISA A. LUCIN**
Chairman of the Board	President	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	TIN 132-309-833
Jaime C. Laya	TIN 103-175-586
Luisa A. Lucin	TIN 109-213-381

Doc. No. 429
Page No. 93
Book No. II
Series of 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

April 27, 2021

Philippine Trust Company (Philtrust Bank)

Financial Statements
December 31, 2020, 2019 and 2018

With professional report provided by

REYES TACANDONG & CO.
FIRM PRINCIPLES. WISE SOLUTIONS.

BOA/PRC Accreditation No. 4782
October 4, 2018, valid until August 15, 2021
SEC Accreditation No. 0207-FR-3 (Group A)
August 29, 2019, valid until August 28, 2022

BDO Towers Valero (formerly Citibank Tower)
8741 Paseo de Roxas
Makati City 1226 Philippines
Phone : +632 8 982 9100
Fax : +632 8 982 9111
Website : www.reyestacandong.com

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

Report on the Financial Statements

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.

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.

Report on the Supplementary Information Required under the Bangko Sentral ng Pilipinas (BSP) Circular No. 1074, Series of 2020, *Amendments to Regulations on Financial Audit of Banks*

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on Note 30 to the financial statements is presented for purposes of filing with the BSP and is not a required part of the basic financial statements. Such supplementary information is the responsibility of the management of Philippine Trust Company (Philtrust Bank). The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

REYES TACANDONG & CO.

Haydee M. Reyes

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

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

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

See accompanying Notes to Financial Statements.

PHILIPPINE TRUST COMPANY (PHILTRUST BANK)

STATEMENTS OF COMPREHENSIVE INCOME

Amounts in Thousands

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

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

See accompanying Notes to Financial Statements.

PHILIPPINE TRUST COMPANY (PHILTRUST BANK)

STATEMENTS OF CASH FLOWS

Amounts in Thousands

	Note	Years Ended December 31 **2020**	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES				
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)
CASH FLOWS FROM INVESTING ACTIVITIES				
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)

	Note	Years Ended December 31 **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)
CASH FLOWS FROM FINANCING ACTIVITY				
Payment of lease liabilities	24	**(69,964)**	(46,131)	–
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(93,832)**	(20,777)	(80,286)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**15,249,595**	5,532,200	(3,469,674)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
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
CASH AND CASH EQUIVALENTS AT END OF YEAR				
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
OPERATING CASH FLOWS FROM INTEREST				
Interest received		**₱5,613,534**	₱6,673,855	₱5,669,635
Interest paid		**3,336,536**	4,087,531	3,200,293
NONCASH INFORMATION				
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.

NOTES TO FINANCIAL STATEMENTS

(Amounts in Thousands)

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.

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 fist 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 lest 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

RBU. 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 (₱17.5 million), ₱7.6 million and (₱4.5 million), respectively (see Note 13).

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

	Note	**2020**	2019
Gross amount		**₱24,223,200**	₱35,226,942
Allowance for impairment losses	13	**(26,616)**	(44,095)
Carrying amount	8	**₱24,196,584**	₱35,182,847

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 (₱23.7 million), ₱2.2 million and ₱8.3 million, respectively (see Note 13).

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

	Note	**2020**	2019
Gross amount		**₱44,270,291**	₱41,439,535
Allowance for impairment losses	13	**(19,108)**	(42,834)
Carrying amount	8	**₱44,251,183**	₱41,396,701

Loans and Receivables

Accordingly, the provision impairment losses on loans and receivables amounted to ₱199.1 million, ₱21.6 million and ₱435.7 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	**₱27,142,899**	₱26,583,602
Allowance for credit and impairment losses	13	**(4,201,515)**	(4,002,432)
Carrying amount	9	**₱22,941,384**	₱22,581,170

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 RCOCI (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	**₱891,026**	₱877,016
Investment properties*	11	**206,406**	157,673
Computer software	12	**15,292**	10,816
		₱1,112,724	₱1,045,505

**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	**₱2,900,675**	₱2,886,665
Investment properties	11	**1,659,589**	1,518,949
Computer software	12	**15,292**	10,816
		₱4,575,556	₱4,416,430

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.

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 in 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 placed 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	**₱53,609,068**	₱30,355,961
Due from other banks	6	**2,056,689**	2,631,549
Securities purchased under resale agreement	7	**12,759,152**	20,336,561
Investment securities*	8	**68,447,767**	76,579,548
Loans and receivables	9	**22,941,384**	22,581,170
		₱159,814,060	₱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	**₱1,138,264**	₱998,832
Unused commercial letters of credit	**209,594**	327,524
Outward bills for collection	**12,966**	24,532
Inward bills for collection	**8,706**	8,303
Items held as collateral	**34**	17
Late deposits/payments received	**–**	10,968
	₱1,369,564	₱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:

Risk Rating	**Classification**	**Credit Quality**
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**
Financial assets at amortized cost				
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**
Other assets*				
High grade	**44,180**	**–**	**–**	**44,180**
Financial assets at FVOCI				
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 RCOCI under "Other Assets".*

	2019			
	Stage 1	Stage 2	Stage 3	Total
Financial assets at amortized cost				
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
Other assets*				
High grade	50,265	–	–	50,265
Financial assets at FVOCI				
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[1]**	**Others[2]**	**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[1]**	**Others[2]**	**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**
Allowance for credit and impairment losses	**(4,123,313)**	**(45,724)**	**–**	**(4,169,037)**
	₱22,125,425	**₱68,421,151**	**₱68,492,512**	**₱159,039,088**

[1]*Comprised of financial assets at FVOCI and amortized cost (excluding equity securities).*
[2]*Comprised of due from BSP, due from other banks, securities purchased under resale agreement, refundable deposits, other investments, and RCOCI.*

	2019			
	Loans Receivables from Customers	Investment Securities[1]	Others[2]	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
Allowance for credit and impairment losses	(3,911,215)	(86,929)	–	(3,998,144)
	₱21,516,570	₱76,579,548	₱53,403,844	₱151,499,962

[1]*Comprised of financial assets at FVOCI and amortized cost (excluding equity securities).*
[2]*Comprised of due from BSP, due from other banks, securities purchased under resale agreement, refundable deposits, other investments, and RCOCI.*

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 on 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				
	On Demand	**Less than One Year**	**One to Five Years**	**Over Five Years**	**Total**
Financial Assets					
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**
	80,307	**23,764**	**25,878**	**57,039**	**186,988**
Financial Liabilities					
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**
	₱80,307	**(₱106,064)**	**₱23,760**	**₱47,441**	**₱45,444**

	2019				
	On Demand	Less than One Year	One to Five Years	Over Five Years	Total
Financial Assets					
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
	58,570	27,091	37,566	70,188	193,415

(Forward)

	2019				
	On Demand	Less than One Year	One to Five Years	Over Five Years	Total
Financial Liabilities					
Deposit liabilities	₱–	₱122,902	₱5,893	₱5,551	₱134,346
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
	₱58,570	(₱96,414)	₱31,571	₱64,607	₱58,334

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	**₱142,711**	₱135,358
Required stable funding	**37,106**	37,172
NSFR	**3.85**	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				
	Less than One Year	**One to Five Years**	**Over Five Years**	**Non-Repricing**	**Total**
Financial Assets					
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	**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**
Financial Liabilities					
Deposit liabilities	**129,273**	**1,978**	**9,577**	**–**	**140,828**
Lease liabilities	**43**	**121**	**19**	**–**	**183**
	129,316	**2,099**	**9,596**	**–**	**141,011**
Total Interest Gap	**(₱101,727)**	**₱15,691**	**₱36,414**	**₱68,425**	**₱18,803**

	2019				
	Repricing				
	Less than One Year	One to Five Years	Over Five Years	Non-Repricing	Total
Financial Assets					
Due from BSP	₱–	₱–	₱–	₱30,356	₱30,356
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
Financial Liabilities					
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
Total Interest Gap	(₱10,218)	₱18,517	₱45,670	₱35,981	₱17,965

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
Peso-denominated				
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%)
Foreign-denominated				
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)	**(₱136.17)**	**(11.77%)**	(₱144.53)	(18.52%)
100 bps increase in USD interest rates (in Php)	**(272.35)**	**(23.55%)**	(289.06)	(37.04%)
Peso-denominated				
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%
Foreign-denominated				
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**
Peso-denominated:					
Less than one year	**₱1,005,035**	**₱1,091**	**₱2,181**	**(₱1,091)**	**(₱2,181)**
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)**
Foreign-denominated:					
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)	**₱24,196,584**	**₱1,245,474**	**₱2,490,949**	**(₱1,245,474)**	**(₱2,490,949)**
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
Peso-denominated:					
Less than one year	₱1,598,439	₱2,867	₱5,735	(₱2,867)	(₱5,735)
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	₱–	₱–	₱–	₱–	₱–
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)	₱35,182,847	₱1,485,837	₱2,971,674	(₱1,485,837)	(₱2,971,674)
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**	**₱219,666**
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**	**₱3,965,058**

	2019	
	USD	In Peso
Financial Assets:		
Cash and other cash items	$5,697	₱288,463
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):

	2020				
		Fair Value			
	Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets					
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**
Liabilities					
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 RCOCI under "Other Assets".*

	2019				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Assets					
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

	2019				
		Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Liabilities					
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	**₱27,211**	₱21,115
Tier 2 capital	**50**	242
Gross qualifying capital	**27,261**	21,357
Less: regulatory adjustments/ required deductions	**2,805**	–
Total qualifying capital	**24,456**	21,357
Risk weighted assets	**48,199**	46,883
CAR (%)	**50.74%**	45.55%
Common Equity Tier 1 (%)	**50.64%**	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	**₱24,406**	₱21,115
Total exposure measure	**166,039**	157,743
BLR	**14.70%**	13.39%

BLR is computed based on RAP.

6. Cash and Cash Equivalents

This account consists of:

	2020	2019
Cash and other cash items	**₱1,053,253**	₱904,496
Due from BSP	**53,609,068**	30,355,961
Due from other banks	**2,056,689**	2,631,549
	₱56,719,010	₱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.

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		
		Financial Assets at		
	Note	**Amortized Cost**	**FVOCI**	**Total**
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		
		Financial Assets at		
	Note	Amortized Cost	FVOCI	Total
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	**₱23,474,603**	₱34,404,840
Corporate bonds	**721,981**	778,007
	24,196,584	35,182,847
Equity securities:		
Quoted	**2,141,145**	1,795,192
Unquoted	**168**	168
	2,141,313	1,795,360
	₱26,337,897	₱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	**₱2,481,386**	(₱1,304,399)
Net unrealized gains	**358,189**	3,785,785
Balance at end of year	**₱2,839,575**	₱2,481,386

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

	2020	2019	2018
Peso-denominated	**3.50% to 5.75%**	3.38% to 6.50%	3.38% to 6.50%
Foreign-denominated	**1.65% to7.39%**	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	**₱21,193,749**	₱6,231,907	₱8,023,293
Carrying amount	**19,479,012**	5,555,028	6,940,309
Gain on sale	**₱1,714,737**	₱676,879	₱1,082,984

Interest income on investment securities consists of:

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

9. Loans and Receivables

This account consists of:

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

Loans receivable from customers consists of:

	2020	2019
Bills discounted loans	**₱14,525,661**	₱13,166,083
Term loans	**8,470,227**	8,796,685
Agrarian reform	**2,269,606**	1,798,007
Trust receipts	**983,243**	1,667,010
	₱26,248,737	₱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	**1.75% to 13.25%**	1.25% to 13.25%	2.00% to 10.00%
Individual loans	**1.25% to 16.85%**	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	**₱1,274,638**	₱2,051,465	₱1,441,838
Sales contract receivables	**2,207**	1,676	1,532
	₱1,276,845	₱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
Cost						
Balance at beginning of year	₱2,009,649	₱1,184,481	₱541,784	₱62,682	₱170,421	₱3,969,017
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	2,009,649	1,202,291	529,491	65,134	263,069	4,069,634
(Forward)						

	2020					
	Land	**Buildings and Improvements**	**Furniture, Fixtures and Equipment**	**Transportation Equipment**	**ROU Assets**	**Total**
Accumulated Depreciation and Amortization						
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**
Carrying Amount	**₱2,009,649**	**₱672,310**	**₱43,817**	**₱9,669**	**₱165,230**	**₱2,900,675**

	2019					
	Land	Buildings and Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	ROU Assets	Total
Cost						
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
Accumulated Depreciation and Amortization						
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
Carrying Amount	₱2,009,649	₱663,292	₱47,463	₱36,420	₱129,841	₱2,886,665

Details of depreciation and amortization are as follows:

	Note	**2020**	2019	2018
Property and equipment		**₱135,882**	₱111,604	₱67,917
Investment properties	11	**22,735**	7,776	2,866
Computer software	12	**4,609**	4,760	4,009
	22	**₱163,226**	₱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		**₱8,372**	₱11,819	₱15,857
Carrying amount		**241**	48	15,714
Gain on sale	20	**₱8,131**	₱11,771	₱143

11. Investment Properties

Details and movements of this account are as follows:

		2020		
	Note	**Land**	**Buildings and Improvements**	**Total**
Cost				
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**
Accumulated Depreciation and Amortization				
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**
Accumulated Impairment Losses				
Balance at beginning and end of year		**31,181**	**1,031**	**32,212**
Carrying Amount		**₱1,453,183**	**₱206,406**	**₱1,659,589**

		2019		
	Note	Land	Buildings and Improvements	Total
Cost				
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
Accumulated Depreciation and Amortization				
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
Accumulated Impairment Losses				
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
Carrying Amount		₱1,361,276	₱157,673	₱1,518,949

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
	₱202,961	₱240,038

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
Cost			
Balance at beginning of year		**₱55,725**	₱56,925
Additions		**9,085**	594
Disposal		**–**	(1,794)
Balance at end of year		**64,810**	55,725
Amortization			
Balance at beginning of year		**44,909**	41,883
Amortization	10	**4,609**	4,760
Disposal		**–**	(1,734)
Balance at end of year		**49,518**	44,909
Amount		**₱15,292**	₱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	**₱42,834**	**₱44,095**	**₱4,002,432**	**₱19,435**	**₱4,108,796**
Provision	**–**	**–**	**419,098**	**–**	**419,098**
Reversal	**(23,726)**	**(17,479)**	**(220,015)**	**(5,178)**	**(266,398)**
Balances at end of year	**₱19,108**	**₱26,616**	**₱4,201,515**	**₱14,257**	**₱4,261,496**

	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	₱42,834	₱44,095	₱4,002,432	₱19,435	₱4,108,796

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	**₱4,123,312**	₱3,911,215
Accrued interest	**74,490**	87,504
Others	**3,713**	3,713
	₱4,201,515	₱4,002,432

Below is the analysis of movements of corporate accounts:

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

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

Below is the analysis of movements of individual accounts:

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross Carrying Amount				
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**
Allowance for impairment and credit losses				
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**
Carrying Amount	**₱3,880,204**	**₱130,247**	**₱522,036**	**₱4,532,487**

	2019			
	Stage 1	Stage 2	Stage 3	Total
Gross Carrying Amount				
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
Allowance for Impairment and Credit Losses				
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
Carrying Amount	₱2,870,107	₱792,398	₱1,052,230	₱4,714,735

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
	₱140,827,581	₱134,346,168

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	**₱1,053,253**	₱904,496
Due from BSP	**53,609,068**	30,355,961
	₱54,662,321	₱31,260,457

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	**₱2,447,770**	₱2,933,485	₱2,141,320
Time deposits	**847,816**	1,147,414	1,079,271
	₱3,295,586	₱4,080,899	₱3,220,591

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

This account consists of:

	2020	2019
Accrued expenses and other taxes	**₱184,895**	₱134,372
Accrued interest	**44,340**	78,658
Others	**–**	10,306
	₱229,235	₱223,336

16. **Other Liabilities**

This account consists of:

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

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		
	Note	**Within One Year**	**Over One Year**	**Total**	Within One Year	Over One Year	Total
Financial Assets							
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
Nonfinancial Assets							
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
Financial Liabilities							
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
	₱72,320

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	**₱948,538**	₱780,430	₱823,762
Weighted average of outstanding common shares	**1,000,000**	1,000,000	1,000,000
	₱0.95	₱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		**₱46,047**	₱76,832	₱52,131
Dividend income		**27,845**	29,073	23,506
Gain on sale of investment properties	11	**10,295**	99,728	45,672
Gain on sale of property and equipment	10	**8,131**	11,771	143
Income from trust operations		**2,838**	2,492	1,659
Gain on sale of computer software	12	**–**	1,526	–
Others		**(45,655)**	22,734	21,877
		₱49,501	₱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	**₱829,904**	₱773,596	₱791,780
Retirement benefits	**52,675**	43,514	48,760
Statutory benefits	**20,612**	18,288	15,483
Dental, medical and hospitalization	**19,045**	17,407	15,511
	₱922,236	₱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	**₱1,324**	₱6,875
Interest expense	**53**	70
Current service cost	**34**	27
Remeasurement loss (gain) arising from:		
Experience adjustments	**(472)**	90
Changes in financial assumptions	**8**	90
Adjustments	**–**	(5,828)
Balance at end of year	**₱947**	₱1,324

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

	2020	2019	2018
Interest expense	**₱53**	₱70	₱81
Current service cost	**34**	27	34
Adjustments	**–**	(5,828)	–
Retirement benefits (income) recognized	**87**	(5,731)	115
Retirement benefits on DC plan (contributions during the year)	**52,588**	49,245	48,645
	₱52,675	₱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	**₱11,243**	**(₱3,373)**	**₱7,870**
Remeasurement gain	**464**	**(139)**	**325**
Balance at end of year	**₱11,707**	**(₱3,512)**	**₱8,195**

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

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	**₱163,226**	₱124,140	₱74,792
Rent	24	**6,520**	26,539	70,934
		₱169,746	₱150,679	₱145,726

23. Other Operating Expenses

This account consists of:

	Note	2020	2019	2018
Taxes and licenses		**₱373,262**	₱303,011	₱274,687
Insurance		**279,074**	273,147	271,575
Security, messengerial and janitorial		**158,593**	158,127	148,791
Supervision and examination fees		**50,875**	73,203	71,541
Communications, light and water		**47,146**	53,204	53,126
Information technology		**31,074**	31,110	30,991
Litigation expense		**27,202**	20,943	23,598
Documentary stamp tax		**18,093**	38,893	42,198
Professional fees		**17,880**	14,996	8,662
Promotions and business development		**17,676**	26,901	96,014
Repairs and maintenance		**14,160**	12,732	12,101
Interest expense on lease liabilities	24	**10,211**	10,470	–
Supplies expense		**7,667**	7,667	7,388
Transportation and travel		**5,350**	6,570	5,626
Others		**55,580**	70,781	67,803
		₱1,113,843	₱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	**₱144,866**	₱180,527
Additions	**102,976**	–
Payments	**(69,964)**	(46,131)
Interest expense	**10,211**	10,470
Pre-termination	**(4,919)**	–
	183,170	144,866
Current portion	**42,802**	36,548
Noncurrent portion	**₱140,368**	₱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	**₱63,161**	₱40,580	₱–
Interest on lease liabilities		**10,211**	10,470	–
Rent expense	22	**6,520**	26,539	70,934
		₱79,892	₱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	**₱48,491**	₱42,481
Later than one year but not more than five years	**140,274**	102,076
Later than five years	**20,686**	29,698
	₱209,451	₱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:

	2020		2019	
Nature of Transactions	**Transactions during the Year**	**Outstanding Balances**	Transactions during the Year	Outstanding Balances
Entities under Common Management				
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	–
Stockholders				
Loans and receivables	**–**	**725,000**	100,000	725,000
Interest income	**27,262**	**–**	46,781	–
Related Interests				
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
	₱159,743	₱157,715	₱166,739

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	**₱737,314**	₱606,018	₱515,057
Deferred income tax	**263,004**	103,366	(53,375)
	₱1,000,318	₱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	**₱584,657**	₱446,944	₱385,633
Tax effects of:			
Nontaxable income	**(1,072,759)**	(672,184)	(802,060)
Changes in unrecognized deferred tax assets	**961,676**	611,689	466,319
Nondeductible expenses	**454,803**	465,517	572,015
Interest income subjected to final tax	**(60,451)**	(308,765)	(266,097)
Expiration of NOLCO and MCIT	**132,392**	166,183	105,872
	₱1,000,318	₱709,384	₱461,682

Deferred tax expense (benefit) is recognized as follows:

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

Deferred tax assets arise from the following:

	2020	2019
Deferred tax assets on:		
Allowance for credit and impairment losses	**₱762,083**	₱997,687
Excess of lease liabilities over ROU assets	**5,382**	–
Retirement liability	**284**	397
MCIT	**–**	4,126
	767,749	1,002,210
Deferred tax liabilities on:		
Unrealized gain on foreclosure of investment properties	**(64,711)**	(12,622)
Rent receivable	**(5,044)**	(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	**(11)**	(11)
	(69,766)	(41,084)
	₱697,983	₱961,126

Net deferred tax assets are recognized as follows:

	2020	2019
Through:		
Profit or loss	**₱709,690**	₱972,369
Other comprehensive income	**(11,707)**	(11,243)
	₱697,983	₱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	**₱1,669,891**	₱1,238,841
Allowance for impairment losses on financial assets	**516,365**	234,951
	₱2,186,256	₱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	**₱1,138,264**	₱998,832
Unused commercial letters of credit	**209,594**	327,524
Outward bills for collection	**12,966**	24,532
Inward bills for collection	**8,706**	8,303
Items held as collateral	**34**	17
Late deposits/payments received	**–**	10,968
	₱1,369,564	₱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**
Segment Revenue			
Interest income from lending operations	**₱–**	**₱1,276,845**	**₱1,276,845**
Interest income from treasury operations	**4,094,162**	**–**	**4,094,162**
Other income	**2,231,960**	**–**	**2,231,960**
Interest expense	**(3,295,586)**	**–**	**(3,295,586)**
Provision for credit and impairment losses	**(46,383)**	**199,083**	**152,700**
	2,984,153	**1,475,928**	**4,460,081**

(Forward)

	2020		
	Treasury Group	**Lending Group**	**Total**
Compensation and employee benefits	**(₱922,236)**	**₱–**	**(₱922,236)**
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)**
Segment Operating Profit (Loss)	**(₱221,990)**	**₱1,475,928**	**₱1,253,938**
Segment Assets	**₱140,067,242**	**₱22,941,384**	**₱163,008,626**

	2019		
	Treasury Group	Lending Group	Total
Segment Revenue			
Interest income from lending operations	₱–	₱2,053,141	₱2,053,141
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)
Segment Operating Profit (Loss)	(₱1,251,084)	₱2,031,514	₱780,430
Segment Assets	₱135,730,178	₱25,061,245	₱160,791,423

	2018		
	Treasury Group	Lending Group	Total
Segment Revenue			
Interest income from lending operations	₱–	₱1,443,370	₱1,443,370
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)
Segment Operating Profit (Loss)	(₱170,453)	₱994,215	₱823,762
Segment Assets	₱124,663,683	₱28,346,863	₱153,010,546

30. **Supplementary Information Required under the BSP Circular No. 1074, Series of 2020, *Amendments to Regulations on Financial Audit of Banks***

The following supplementary information is required by Appendix 55 – Disclosure Requirements to the Audited Financial Statements to Section 174 of the MORB of the BSP, issued through the BSP Circular No. 1074.

A. Financial Performance Indicators

The following basic ratios measure the financial performance of the Bank:

Ratio	**Formula**	**2020**	2019
Return on average equity	Net income	**₱948,538**	₱780,430
	Divided by: average equity	**26,633,052**	23,423,234
	Return on equity	**0.036:1**	0.033:1
Return on average assets	Net income	**948,538**	₱780,430
	Divided by: average assets	**163,800,184**	156,900,985
	Return on assets	**0.006:1**	0.005:1
Net interest margin	Net interest income	**2,075,421**	₱2,567,936
	Divided by: average interest earning assets	**160,104,302**	153,237,935
	Net profit margin	**0.013**	0.017

B. Description of Capital Instruments Issued

As at December 31, 2020 and 2019, the Bank has only one class of capital stock, which is common shares.

C. Significant Credit Exposures as to Industry Sector

As at December 31, 2020 and 2019, information on the concentration of loans and receivables from customers (at gross amounts in thousands) as to industry follows:

	2020		2019	
	Amount	**Percentage**	Amount	Percentage
Wholesale and retail trade	**₱6,105,368**	**23.26%**	₱6,412,791	25.22%
Real estate, renting and business activities	**6,062,227**	**23.10%**	5,318,139	20.91%
Manufacturing	**2,935,362**	**11.18%**	2,949,807	11.60%
Accommodation and food service activities	**2,227,552**	**8.49%**	1,630,799	6.41%
Agriculture	**1,967,559**	**7.50%**	1,978,946	7.78%
Construction	**1,198,651**	**4.57%**	1,161,549	4.57%
Information and communication	**1,055,038**	**4.02%**	1,055,070	4.15%
Financial intermediaries	**831,096**	**3.17%**	1,239,769	4.88%
Education	**725,128**	**2.76%**	716,749	2.82%
Transportation, storage and communication	**406,700**	**1.55%**	376,519	1.48%

(Forward)

	2020		2019	
	Amount	**Percentage**	Amount	Percentage
Health and social work	**₱334,975**	**1.28%**	₱353,969	1.39%
Arts, entertainment and recreation	**268,326**	**1.02%**	312,536	1.23%
Administrative and support service activities	**127,840**	**0.49%**	102,927	0.40%
Professional, scientific and technical activities	**49,149**	**0.19%**	59,731	0.23%
Private households with employed persons	**12,965**	**0.05%**	12,155	0.05%
Mining and quarrying	**4,336**	**0.02%**	3,036	0.01%
Water Supply, Sewerage, Waste Management	**2,566**	**0.01%**	–	0.00%
Other service activities	**1,933,900**	**7.37%**	1,743,293	6.86%
	₱26,248,738	**100.00%**	₱25,427,785	100.00%

D. Breakdown of Total Loans Receivables from Customers

As to Security

The following table presents the breakdown of loans receivable from customers by type of security:

	2020		2019	
	Amount	**Percentage**	Amount	Percentage
Secured:				
Real estate mortgage	**₱9,796,718**	**37.32%**	₱5,100,769	20.06%
Hold-out	**2,617,618**	**9.97%**	1,174,130	4.62%
Shares of stock	**1,698,747**	**6.47%**	729,757	2.87%
Chattel mortgage	**814,036**	**3.10%**	17,196	0.07%
Others	**102,772**	**0.39%**	7,917,486	31.13%
	15,029,891	**57.26%**	14,939,338	58.75%
Unsecured	**11,218,847**	**42.74%**	10,488,447	41.25%
	₱26,248,738	**100.00%**	₱25,427,785	100.00%

As to Status

The following table presents the breakdown of loans receivable from customers as to the status - performing or non-performing loans (NPL):

	2020	2019
Performing		
Bills discounted loans	**₱13,359,338**	₱12,985,617
Agrarian reform	**2,178,033**	2,229,639
Term loans	**6,367,479**	1,945,697
Trust receipts	**983,243**	1,090,043
	22,888,093	18,250,996
Non-performing		
Term loans	**₱2,222,718**	₱5,548,126
Bills discounted loans	**1,029,812**	1,222,954
Agrarian reform	**91,572**	155,813
Trust receipts	**16,543**	249,896
	3,360,645	7,176,789
	₱26,248,738	₱25,427,785

Loans and receivables are considered non-performing, even without any missed contractual payments, when considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any.

All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

Microfinance and other small loans with similar credit characteristics are considered NPL after contractual due date or after they have become past due. Restructured loans are considered NPL. However, if prior to restructuring, the loans were categorized as performing, such classification is retained.

NPLs remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interest is probable and payments of interest and/or principal are received for at least six months or (b) written-off.

Gross NPL ratio of the Bank (including securities purchased under resale agreement in the total loan portfolio) as at December 31, 2020 and 2019 is 8.42% and 15.30%, respectively. Net NPL ratio of the Bank (including securities purchased under resale agreement in the total loan portfolio) as at December 31, 2020 and 2019 is 2.61% and 7.12%, respectively.

Gross NPL ratio of the Bank (excluding securities purchased under resale agreement in the total loan portfolio) as at December 31, 2020 and 2019 is 12.38% and 27.00%, respectively. Net NPL ratio of the Bank (excluding securities purchased under resale agreement in the total loan portfolio) as at December 31, 2020 and 2019 is 4.06% and 12.57%, respectively.

E. Information on Related Party Loans

In the ordinary course of business, the Bank has loans and other transactions 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% must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Bank.

In the aggregate, DOSRI loans should not exceed the Bank’s equity or 15% of the Bank’s total loan portfolio, whichever is lower. As at December 31, 2020 and 2019, the Bank is in compliance with the regulations.

The following table shows information relating to DOSRI accounts of the Bank:

	DOSRI		Related Parties	
	2020	2019	**2020**	2019
Total outstanding DOSRI/related party loans	**₱1,880,300**	₱1,890,000	**₱799,002**	₱2,659,002
Percent of DOSRI/related party loans to total loan portfolio	**7.16%**	7.43%	**3.04%**	10.46%
Percent of unsecured DOSRI/related party loans to total DOSRI/related party loans	**12.76%**	12.70%	**0.91%**	0.94%
Percent of past due DOSRI/related party loans to total DOSRI/related party loans	**–**	–	**–**	–
Percent of non-performing DOSRI/related party loans to total DOSRI/related party loans	**–**	–	**–**	–

Based on the requirements of the BSP, the total outstanding loans, credit accommodations and guarantees to each of the bank's subsidiaries and affiliates should not exceed 10% of the bank's net worth, the unsecured portion should not exceed 5% of such net worth. Further, the total outstanding exposures should not exceed 20% of the net worth of the lending bank.

Total interest income on DOSRI accounts amounted to ₱95.3 million and ₱116.5 million in 2020 and 2019, respectively.

The effects of the foregoing transactions are shown under the appropriate accounts in the financial statements.

F. Aggregate Amount of Secured Liabilities and Assets Pledged as Security

No asset is pledged by the Bank to secure outstanding liabilities as at December 31, 2020 and 2019.

G. Contingencies and Commitments Arising from Off-Balance Sheet Items

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

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