INDEX TO FINANCIAL STATEMENTS

BANK OF COMMERCE

FINANCIAL STATEMENTS
As of December 31, 2020 and 2019 and
For the Period Ended December 31, 2020, 2019 and 2018

With Independent Auditors' Report

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Bank of Commerce** (the "**Bank**") is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, as of December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for 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 to do so.

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

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

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

JOSE T. PRADO
Chairman of the Board

MICHELANGELO R. AGUILAR
President and Chief Executive Officer

ANTONIO S. LAQUINDANUM
Senior Vice President and Chief Financial Officer

Signed this 25th day of January 2022.

SUBSCRIBED AND SWORN to before me this 0 3 FEB 2022 PASIG CITY, affiants exhibiting their Passport ID as follows:

Names	**Passport No.**	**Place of Issue**	**Valid Until**
Jose T. Pardo	P0859171B	DFA NCR South	February 27, 2029
Michelangelo R. Aguilar	P8692960A	DFA NCR East	September 9, 2028
Antonio S. Laquindanum	P7572781B	DFA Manila	September 9, 2031

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Book No. IV
Series of 2022

ATTY. CHERRYLYN C. NAVARRA
NOTARY PUBLIC FOR PASIG CITY
Appointment No. 75 (2021-2022) until 31 December 2022
PTR No. 4868147; 01-03-2022; Mandaluyong City
IBP No. 169709 (for MD 2022); 12-06-2021; Makati City
Roll No. 62588
MCLE Compliance No. VI-0021425
valid until 14 April 2022
Satori Residences, F. Pasco Avenue
Pasig, 1800 Metro Manila
Mobile No. 09171087188
Email: ccnavarra@gmail.com

R.G. Manabat & Co.
The KPMG Center, 6/F
6787 Ayala Avenue, Makati City
Philippines 1209
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Internet www.home.kpmg/ph
Email ph-inquiry@kpmg.com

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and the Stockholders
Bank of Commerce
San Miguel Properties Centre
No. 7, St. Francis Street
Mandaluyong City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bank of Commerce (the "Bank"), which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2020, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Firm Regulatory Registration & Accreditation:
PRC-BOA Registration No. 0003, valid until November 21, 2023
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)

Emphasis of Matter

We draw attention to Note 2 to the financial statements which discussed that in addition to the Bank's financial statements for the period ended December 31, 2020 issued on March 8, 2021, for which we expressed an unmodified opinion on the same date, the Bank issues these financial statements to present a three-year comparative information of the Bank's statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2018, December 31, 2019 and December 31, 2020, and related notes, and disclosures on earnings per share and segment reporting to comply with the requirements under Part II of the Revised SRC Rule 68 in relation to the Bank's registration of securities for public offering. Our opinion is not modified in respect of this matter.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 38 and Revenue Regulations 15-2010 in Note 39 to the financial statements is presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of the Bank. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.

SHEILA RICCA G. DIOSO
Partner
CPA License No. 0115382
BSP Accreditation No. 115382-BSP, Group A, valid for five (5) years
covering the audit of 2019 to 2023 financial statements
SEC Accreditation No. 115382-SEC, Group A, valid for five (5) years
covering the audit of 2019 to 2023 financial statements
Tax Identification No. 229-233-163
BIR Accreditation No. 08-001987-047-2019
Issued December 26, 2019; valid until December 25, 2022
PTR No. MKT 8854064
Issued January 3, 2022 at Makati City

January 25, 2022
Makati City, Metro Manila

R.G. Manabat & Co.
The KPMG Center, 6/F
6787 Ayala Avenue, Makati City
Philippines 1209
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Internet www.home.kpmg/ph
Email ph-inquiry@kpmg.com

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

The Board of Directors and the Stockholders
Bank of Commerce
San Miguel Properties Centre
No. 7, St. Francis Street
Mandaluyong City

We have audited the accompanying financial statements of Bank of Commerce (the "Bank") as at and for the year ended December 31, 2020, on which we have rendered our report dated January 25, 2022.

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

R.G. MANABAT & CO.

SHEILA RICCA G. DIOSO
Partner
CPA License No. 0115382
BSP Accreditation No. 115382-BSP, Group A, valid for five (5) years
covering the audit of 2019 to 2023 financial statements
SEC Accreditation No. 115382-SEC, Group A, valid for five (5) years
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Tax Identification No. 229-233-163
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Issued January 3, 2022 at Makati City

January 25, 2022
Makati City, Metro Manila

BANK OF COMMERCE
STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	**2020**	2019
ASSETS			
Cash and Other Cash Items		**P2,420,504,742**	P1,776,398,932
Due from Bangko Sentral ng Pilipinas	*18, 19*	**39,547,210,722**	21,955,496,031
Due from Other Banks	*18*	**1,023,255,562**	670,481,616
Interbank Loans Receivable and Securities Purchased under Resale Agreements	*8, 18*	**22,055,827,932**	13,429,279,503
Financial Assets at Fair Value through Profit or Loss	*9*	**1,265,419,468**	1,053,759,876
Financial Assets at Fair Value through Other Comprehensive Income	*10, 18 33*	**15,424,248,009**	1,389,857,145
Investment Securities at Amortized Cost	*11, 18, 33*	**9,146,277,511**	22,547,832,753
Loans and Receivables	*12, 18, 33*	**71,628,349,480**	73,742,261,809
Non-current Assets Held for Sale	*13*	**-**	48,121,557
Investment in an Associate	*14, 18, 33*	**40,687,406**	41,443,508
Property and Equipment	*15, 18*	**1,659,401,337**	1,741,075,195
Investment Properties	*16, 18*	**3,624,986,606**	3,729,769,193
Deferred Tax Assets	*32*	**955,379,983**	880,301,277
Other Assets	*17, 18*	**2,129,132,566**	2,027,207,272
		P170,920,681,324	P145,033,285,667
LIABILITIES AND EQUITY			
Deposit Liabilities	*19, 33*		
Demand		**P39,659,286,077**	P34,158,477,979
Savings		**83,743,820,681**	72,016,565,174
Time		**20,673,084,328**	17,681,144,917
Long-Term Negotiable Certificates		**5,029,420,000**	-
		149,105,611,086	123,856,188,070
Bills Payable	*20*	**18,675**	105,095
Manager's Checks		**870,079,608**	923,459,741
Accrued Interest, Taxes and Other Expenses	*21, 33*	**892,463,477**	815,034,803
Other Liabilities	*22, 33*	**3,286,045,837**	3,343,506,476
Total Liabilities		**154,154,218,683**	128,938,294,185
Equity			
Capital Stock	*24*	**11,224,111,200**	11,224,111,200
Paid-in Surplus	*24*	**5,594,079,646**	5,594,079,646
Surplus Reserves	*25*	**395,602,340**	399,262,743
Deficit	*37*	**(51,156,715)**	(839,250,906)
Remeasurement Losses on Retirement Liability	*29*	**(449,088,000)**	(319,998,451)
Net Unrealized Gains on Financial Assets at Fair Value through Other Comprehensive Income	*10*	**69,657,563**	36,108,673
Cumulative Translation Adjustment		**(15,404,017)**	2,014,880
Share in Other Comprehensive Loss of an Associate	*14*	**(1,339,376)**	(1,336,303)
Total Equity		**16,766,462,641**	16,094,991,482
		P170,920,681,324	P145,033,285,667

See Notes to the Financial Statements.

BANK OF COMMERCE
STATEMENTS OF INCOME

	Note	**2020**	2019	2018
		Period Ended December 31		
INTEREST INCOME				
Interest income calculated using the effective interest method:				
Loans and receivables	*12, 33*	**P4,840,143,949**	P4,920,061,099	P3,668,711,226
Investment securities at fair value through other comprehensive income and at amortized cost	*26, 33*	**919,374,469**	1,117,092,275	1,123,886,031
Due from Bangko Sentral ng Pilipinas and other banks	*19*	**265,527,722**	163,456,630	96,860,198
Interbank loans receivable and securities purchased under resale agreements	*8*	**238,044,191**	315,569,692	266,130,424
Other interest income:				
Financial assets at fair value through profit or loss	*26*	**16,991,151**	16,058,663	62,668,042
		6,280,081,482	6,532,238,359	5,218,255,921
INTEREST EXPENSE				
Deposit liabilities	*19, 33*	**1,127,728,480**	2,346,266,843	1,508,936,521
Lease liabilities	*30*	**42,921,243**	45,360,536	-
Bills payable and others	*20*	**1,105,699**	4,855,994	10,024,024
		1,171,755,422	2,396,483,373	1,518,960,545
NET INTEREST INCOME		**5,108,326,060**	4,135,754,986	3,699,295,376
OTHER INCOME				
Trading and investment securities gains (losses) - net	*28*	**1,147,573,753**	355,688,714	(109,414,653)
Service charges, fees and commissions	*27, 33*	**444,637,070**	477,274,280	391,812,899
Gains on foreclosure and sale of property and equipment and foreclosed assets - net	*15, 16, 17, 33*	**58,764,927**	336,288,436	207,379,779
Foreign exchange gains - net		**48,875,995**	67,994,272	58,755,372
Miscellaneous	*31, 33*	**65,417,725**	459,861,228	95,334,833
		1,765,269,470	1,697,106,930	643,868,230
OTHER EXPENSES				
Compensation and fringe benefits	*29, 33*	**1,819,392,253**	1,684,538,431	1,557,771,075
Provision for (reversal of) credit and impairment losses	*18*	**962,509,599**	52,095,015	(181,117,605)
Taxes and licenses	*16*	**830,158,438**	773,892,173	702,953,640
Depreciation and amortization	*15, 16, 17*	**567,850,860**	480,444,851	259,041,669
Rent and utilities	*30*	**476,343,471**	505,773,088	683,570,750
Insurance		**280,637,960**	245,450,542	229,304,192
Service fees and commissions		**183,373,509**	278,525,116	140,647,623
Entertainment and recreation		**107,304,726**	123,335,716	142,179,776
Subscription fees		**96,595,420**	69,302,963	1,703,304
Management and professional fees	*33*	**79,453,000**	65,801,182	89,015,345
Amortization of software costs	*17*	**45,907,917**	34,144,155	57,381,716
Miscellaneous	*31*	**381,759,150**	399,784,678	420,006,412
		5,831,286,303	4,713,087,910	4,102,457,897

Forward

		Period Ended December 31		
	Note	**2020**	2019	2018
INCOME BEFORE SHARE IN NET LOSS OF AN ASSOCIATE AND INCOME TAX EXPENSE		**P1,042,309,227**	P1,119,774,006	P240,705,709
SHARE IN NET LOSS OF AN ASSOCIATE	*14, 33*	**753,029**	2,865,073	1,844,496
INCOME BEFORE INCOME TAX EXPENSE		**1,041,556,198**	1,116,908,933	238,861,213
INCOME TAX EXPENSE	*32*	**257,122,410**	464,186,399	255,405,981
NET INCOME (LOSS)		**784,433,788**	652,722,534	(16,544,768)
Basic/Diluted Earnings (Loss) Per Share Attributable to Equity Holders of the Bank	*36*	**P6.99**	P5.82	(P0.15)

See Notes to the Financial Statements.

BANK OF COMMERCE

STATEMENTS OF COMPREHENSIVE INCOME

		Period Ended December 31		
	Note	**2020**	2019	2018
NET INCOME (LOSS)		**P784,433,788**	P652,722,534	(P16,544,768)
OTHER COMPREHENSIVE (LOSS) INCOME				
Items that may not be reclassified to profit or loss				
Net change in remeasurement losses on retirement liability	*29*	**(129,089,549)**	(224,686,360)	81,431,435
Net change in fair value of equity securities at fair value through other comprehensive income (FVOCI)	*10*	**(412,381)**	5,229,000	28,445,940
		(129,501,930)	(219,457,360)	109,877,375
Items that may be reclassified to profit or loss				
Net change in fair value of debt securities at FVOCI	*10*	**314,704,714**	359,733,308	(161,614,821)
Net change in fair value of debt securities at FVOCI taken to profit or loss	*10*	**(280,743,443)**	(198,827,405)	164,734
Net movement in cumulative translation adjustment		**(17,418,897)**	(10,624,175)	21,805,665
Share in other comprehensive (loss) income of an associate	*14*	**(3,073)**	4,326,471	(4,323,059)
		16,539,301	154,608,199	(143,967,481)
		(112,962,629)	(64,849,161)	(34,090,106)
TOTAL COMPREHENSIVE INCOME (LOSS)		**P671,471,159**	P587,873,373	(P50,634,874)

See Notes to the Financial Statements.

BANK OF COMMERCE
STATEMENTS OF CHANGES IN EQUITY

	Note	Capital Stock (Note 24)	Paid-in Surplus (Note 24)	Surplus Reserves (Note 25)	Deficit (Note 37)	Remeasurement Losses on Retirement Liability (Note 29)	Net Unrealized Gains on Financial Assets at FVOCI (Note 10)	Cumulative Translation Adjustment	Share in Other Comprehensive Loss of an Associate (Note 14)	Total Equity
Balance as at December 31, 2019		P11,224,111,200	P5,594,079,646	P399,262,743	(P839,250,906)	(P319,998,451)	P36,108,673	P2,014,880	(P1,336,303)	P16,094,991,482
Net income for the year		-	-	-	784,433,788	-	-	-	-	784,433,788
Other comprehensive income (loss) for the year:										
Items that may not be reclassified to profit or loss:										
Net change in remeasurement losses on retirement liability		-	-	-	-	(129,089,549)	-	-	-	(129,089,549)
Net change in fair value of equity securities at FVOCI		-	-	-	-	-	(412,381)	-	-	(412,381)
Items that may be reclassified to profit or loss:										
Net change in fair value of debt securities at FVOCI		-	-	-	-	-	314,704,714	-	-	314,704,714
Net change in fair value of debt securities at FVOCI taken to profit or loss		-	-	-	-	-	(280,743,443)	-	-	(280,743,443)
Net movement in cumulative translation adjustment		-	-	-	-	-	-	(17,418,897)	-	(17,418,897)
Share in other comprehensive loss of associate		-	-	-	-	-	-	-	(3,073)	(3,073)
Total comprehensive income for the year		-	-	-	784,433,788	(129,089,549)	33,548,890	(17,418,897)	(3,073)	671,471,159
Transactions within equity:										
Transfer from surplus reserves	*25*	-	-	(3,660,403)	3,660,403	-	-	-	-	-
Transfer of gain on equity securities at FVOCI realized through disposal	*10*	-	-	-	-	-	-	-	-	-
		-	-	(3,660,403)	3,660,403	-	-	-	-	-
Balance as at December 31, 2020		P11,224,111,200	P5,594,079,646	P395,602,340	(P51,156,715)	(P449,088,000)	P69,657,563	(P15,404,017)	(P1,339,376)	P16,766,462,641

Forward

	Note	Capital Stock (Note 24)	Paid-in Surplus (Note 24)	Surplus Reserves (Note 25)	Deficit (Note 37)	Remeasurement Losses on Retirement Liability (Note 29)	Net Unrealized Gains on Financial Assets at FVOCI (Note 10)	Cumulative Translation Adjustment	Share in Other Comprehensive Loss of an Associate (Note 14)	Total Equity
Balance as at December 31, 2018		P11,224,111,200	P5,594,079,646	P454,994,785	(P1,547,973,982)	(P95,312,091)	(P129,757,730)	P12,639,055	(P5,662,774)	P15,507,118,109
Net income for the year		-	-	-	652,722,534	-	-	-	-	652,722,534
Other comprehensive income (loss) for the year:										
Items that may not be reclassified to profit or loss:										
Net change in remeasurement losses on retirement liability		-	-	-	-	(224,686,360)	-	-	-	(224,686,360)
Net change in fair value of equity securities at FVOCI		-	-	-	-	-	5,229,000	-	-	5,229,000
Items that may be reclassified to profit or loss:										
Net change in fair value of debt securities at FVOCI		-	-	-	-	-	359,733,308	-	-	359,733,308
Net change in fair value of debt securities at FVOCI taken to profit or loss		-	-	-	-	-	(198,827,405)	-	-	(198,827,405)
Net movement in cumulative translation adjustment		-	-	-	-	-	-	(10,624,175)	-	(10,624,175)
Share in other comprehensive income of associate		-	-	-	-	-	-	-	4,326,471	4,326,471
Total comprehensive income for the year		-	-	-	652,722,534	(224,686,360)	166,134,903	(10,624,175)	4,326,471	587,873,373
Transactions within equity:										
Transfer from surplus reserves	*25*	-	-	(55,732,042)	55,732,042	-	-	-	-	-
Transfer of gain on equity securities at FVOCI realized through disposal	*10*	-	-	-	268,500	-	(268,500)	-	-	-
		-	-	(55,732,042)	56,000,542	-	(268,500)	-	-	-
Balance as at December 31, 2019		P11,224,111,200	P5,594,079,646	P399,262,743	(P839,250,906)	(P319,998,451)	P36,108,673	P2,014,880	(P1,336,303)	P16,094,991,482

Forward

	Note	Capital Stock (Note 24)	Paid-in Surplus (Note 24)	Surplus Reserves (Note 25)	Deficit (Note 37)	Remeasurement Losses on Retirement Liability (Note 29)	Net Unrealized Gains on Financial Assets at FVOCI (Note 10)	Cumulative Translation Adjustment	Share in Other Comprehensive Loss of an Associate (Note 14)	Total Equity
Balance as at December 31, 2017		P11,224,111,200	P5,594,079,646	P159,442,049	(P1,241,176,478)	(P176,743,526)	P8,546,417	(P9,166,610)	(P1,339,715)	P15,557,752,983
Net loss for the year	36	-	-	-	(16,544,768)	-	-	-	-	(16,544,768)
Other comprehensive income (loss) for the year:										
Items that may not be reclassified to profit or loss:										
Net change in remeasurement losses on retirement liability		-	-	-	-	81,431,435	-	-	-	81,431,435
Net change in fair value of equity securities at FVOCI		-	-	-	-	-	28,445,940	-	-	28,445,940
Items that may be reclassified to profit or loss:										
Net change in fair value of debt securities at FVOCI		-	-	-	-	-	(161,614,821)	-	-	(161,614,821)
Net change in fair value of debt securities at FVOCI taken to profit or loss		-	-	-	-	-	164,734	-	-	164,734
Net movement in cumulative translation adjustment		-	-	-	-	-	-	21,805,665	-	21,805,665
Share in other comprehensive loss of associate		-	-	-	-	-	-	-	(4,323,059)	(4,323,059)
Total comprehensive loss for the year		-	-	-	(16,544,768)	81,431,435	(133,004,147)	21,805,665	(4,323,059)	(50,634,874)
Transactions within equity:										
Transfer to surplus reserves	25	-	-	295,552,736	(295,552,736)	-	-	-	-	-
Transfer of gain on equity securities at FVOCI realized through disposal	10	-	-	-	5,300,000	-	(5,300,000)	-	-	-
		-	-	295,552,736	(290,252,736)	-	(5,300,000)	-	-	-
Balance as at December 31, 2018		P11,224,111,200	P5,594,079,646	P454,994,785	(P1,547,973,982)	(P95,312,091)	(P129,757,730)	P12,639,055	(P5,662,774)	P15,507,118,109

See Notes to the Financial Statements.

BANK OF COMMERCE
STATEMENTS OF CASH FLOWS

		Period Ended December 31		
	Note	**2020**	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax expense		**P1,041,556,198**	P1,116,908,933	P238,861,213
Adjustments for:				
Provision for (reversal of) credit and impairment losses	*18*	**958,875,752**	52,225,704	(181,359,387)
Gain on sale of investment securities at amortized cost	*28*	**(767,033,010)**	-	-
Depreciation and amortization	*15, 16, 17*	**567,850,860**	480,444,851	259,041,669
Loss (gain) on sale of financial assets at fair value through other comprehensive income (FVOCI)	*28*	**(280,743,443)**	(198,827,405)	164,734
Unrealized loss (gains) on financial assets at fair value through profit or loss (FVPL)	*28*	**(69,731,751)**	(135,535,224)	19,715,698
Gain on foreclosure and sale of property and equipment and foreclosed assets - net	*15, 16, 17, 33*	**(58,764,927)**	(336,288,436)	(207,379,779)
Amortization of software costs	*17*	**45,907,917**	34,144,155	57,381,716
Miscellaneous income	*16, 31*	**(6,595,120)**	(363,450,000)	-
Share in net loss of associate	*14*	**753,029**	2,865,073	1,844,496
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Interbank loans receivables	*8*	**4,382,274**	(110,883,214)	-
Financial assets at FVPL		**(141,927,841)**	918,184,476	(779,760,163)
Loans and receivables		**1,142,980,036**	(1,643,739,447)	(8,850,870,950)
Other assets		**(184,442,772)**	(202,644,680)	(164,372,519)
Increase (decrease) in:				
Deposit liabilities		**25,249,423,016**	(7,322,035,294)	12,410,172,147
Manager's checks		**(53,380,133)**	307,963,803	55,199,732
Accrued interest, taxes and other expenses		**97,234,086**	(100,619,502)	55,739,221
Other liabilities		**(207,066,635)**	(117,129,826)	203,355,747
Net cash generated from (absorbed by) operations		**27,339,277,536**	(7,618,416,033)	3,117,733,575
Income taxes paid		**(355,090,693)**	(338,334,083)	(331,533,051)
Net cash provided by (used in) operating activities		**26,984,186,843**	(7,956,750,116)	2,786,200,524

Forward

		Period Ended December 31		
	Note	**2020**	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale or redemption of:				
Investment securities at amortized cost		**P20,043,309,156**	P1,557,000,000	P2,901,000,000
Financial assets at FVOCI		**16,022,194,922**	10,024,308,116	17,541,055,971
Investment properties		**50,090,800**	94,051,694	209,927,628
Property and equipment		**45,448,780**	49,150,059	51,904,711
Additions to:				
Financial assets at FVOCI		**(29,740,895,892)**	(3,071,058,659)	(19,971,400,609)
Investment securities at amortized cost		**(5,873,014,288)**	(893,626,163)	(1,476,768,927)
Property and equipment	*15*	**(98,228,754)**	(207,302,263)	(179,307,960)
Software costs	*17*	**(16,158,782)**	(131,596,152)	(24,575,595)
Investment properties		**(2,095,772)**	(21,242,574)	(9,746,082)
Net cash provided by (used in) investing activities		**430,650,170**	7,399,684,058	(957,910,863)
CASH FLOWS FROM FINANCING ACTIVITIES				
Payment of lease liability		**(177,806,359)**	(148,056,647)	-
Settlement of bills payable		**(86,420)**	(557,366,520)	(87,508)
Availment of bills payable		**-**	-	557,291,915
Net cash provided by (used in) financing activities	*35*	**(177,892,779)**	(705,423,167)	557,204,407
EFFECT OF EXCHANGE RATE DIFFERENCES ON CASH AND CASH EQUIVALENTS		**(17,418,897)**	(10,624,175)	21,805,665
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**27,219,525,337**	(1,273,113,400)	2,407,299,733
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
Cash and other cash items		**1,776,398,932**	1,748,070,945	1,384,981,849
Due from Bangko Sentral ng Pilipinas		**21,955,496,031**	21,424,140,231	25,700,741,783
Due from other banks		**670,481,616**	3,838,048,357	3,185,565,713
Interbank loans receivable and securities purchased under resale agreements		**13,318,396,289**	11,983,626,735	6,315,297,190
		37,720,772,868	38,993,886,268	36,586,586,535
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and other cash items		**2,420,504,742**	1,776,398,932	1,748,070,945
Due from Bangko Sentral ng Pilipinas		**39,547,210,722**	21,955,496,031	21,424,140,231
Due from other banks		**1,023,255,562**	670,481,616	3,838,048,357
Interbank loans receivable and securities purchased under resale agreements	*35*	**21,949,327,179**	13,318,396,289	11,983,626,735
		P64,940,298,205	P37,720,772,868	P38,993,886,268

Forward

		Period Ended December 31		
	Note	**2020**	2019	2018
CASH FLOWS FROM INTEREST AND DIVIDENDS				
Operating Activities				
Interest received		**P5,183,736,446**	P5,602,826,464	P3,861,686,762
Interest paid		**1,226,602,056**	2,496,181,179	1,408,579,113
Investing Activities				
Interest received		**1,049,252,946**	1,185,867,090	1,090,477,674
Dividends received		**12,228,425**	8,201,707	13,065,426
Financing Activities				
Interest paid		**44,027,424**	55,071,532	5,170,863

See Notes to the Financial Statements.

BANK OF COMMERCE
NOTES TO THE FINANCIAL STATEMENTS

1. Reporting Entity

Bank of Commerce (the "Bank") is a domestic corporation registered with the Philippine Securities and Exchange Commission (SEC) on December 16, 1963. It provides commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, foreign exchange, and trust services. The Bank's principal place of business is at San Miguel Properties Centre, No.7 St. Francis Street, Mandaluyong City. The Bank has a total of 140 branches nationwide as at December 31, 2020 and 2019 and 139 branches as at December 31, 2018.

San Miguel Properties, Inc. (SMPI) and San Miguel Corporation Retirement Plan (SMCRP) hold 39.89% and 39.94% ownership of the Bank's issued common shares, respectively, as at December 31, 2020 and 2019, with each having significant influence over the Bank.

The Bank's original authority for its banking license was approved under Monetary Board (MB) Resolution No. 1045 dated October 4, 1963 as *The Overseas Bank of Manila*. The Bank received its Foreign Currency Deposit Unit (the "FCDU") license and launched its FCDU operations on September 23, 1983. The Bank received its Expanded FCDU license on March 10, 2010. The Bank was renamed Commercial Bank of Manila, Inc. on October 20, 1980, further renamed Boston Bank of the Philippines on July 27, 1988, and finally, Bank of Commerce on November 28, 1991.

On January 16, 2013, the SEC approved the Amended Articles of Incorporation to extend the corporate life of the Bank for another 50 years or up to December 16, 2063. Under Section 11, *Corporate Term* of the Revised Corporation Code issued on February 23, 2019, a corporation shall have perpetual existence unless its articles of incorporation provides otherwise. On January 30, 2020, the Board of Directors (BOD) approved the Amended Articles of Incorporation to reflect that the Bank's term of existence shall be perpetual. The said amendment was approved by the SEC on June 9, 2020.

The accompanying financial statements of the Bank were approved and authorized for issue by the BOD on January 25, 2022.

2. Basis of Preparation

Statement of Compliance

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

In addition to the financial statements previously issued on March 8, 2021, the Bank issues these financial statements to comply with the requirements of the SEC for the filing of registration statements in relation to the Bank's planned listing of equity securities in the Philippine Stock Exchange (see Note 37). For this particular purpose and in accordance with the Revised Securities Regulation Code Rule 68 Part II, the statements of income, statements of comprehensive income, statements of changes in equity, statements of cash flows and corresponding notes to the financial statements are updated to present three-year comparatives for the years ended December 31, 2020, 2019 and 2018. Earnings per share and segment reporting are also presented following the prescribed format.

Basis of Measurement

The financial statements of the Bank have been prepared on a historical cost basis, except for the following items:

Items	Measurement Bases
Financial assets and liabilities at fair value through profit or loss (FVPL)	Fair value
Financial assets at fair value through other comprehensive income (FVOCI)	Fair value
Lease liability	Present value of remaining lease payments, discounted using the Bank's incremental borrowing rate
Net retirement liability	Present value of the defined benefit obligation less fair value of plan assets

Functional and Presentation Currency

The accompanying financial statements include accounts maintained in the Regular Banking Unit (the "RBU") and the FCDU. The functional currency of the RBU and the FCDU is Philippine Peso (PHP) and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated to their equivalents in PHP. The financial statements individually prepared for these units are combined after eliminating inter-unit accounts.

All values are rounded to the nearest peso unless otherwise stated.

Presentation of Financial Statements

The Bank presents its statements of financial position broadly in the order of liquidity.

An analysis regarding recovery of assets or settlement of liabilities within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 23.

3. Summary of Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements, except for the changes in accounting policies as explained below and the new disclosures on segment reporting and earning per share. The policies on segment reporting and earnings per share are adopted by the Bank in relation to the Bank's planned capital market issuance and its listing in the Philippine Stock Exchange (see Notes 19 and 37).

Adoption of New or Revised Standard, Amendments to Standards and Interpretation
The Bank has adopted the following new standards, amendments to standards and interpretation starting January 1, 2020 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these new and amended standards and interpretation did not have any significant impact on the Bank's financial statements.

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

  - a new chapter on measurement;

  - guidance on reporting financial performance;

  - improved definitions of an asset and a liability, and guidance supporting these definitions; and

  - clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

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

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

  - raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence';

  - including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition;

  - clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;

  - clarifying the explanatory paragraphs accompanying the definition; and

  - aligning the wording of the definition of material across PFRS Standards and other publications.

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

- *Coronavirus Disease 2019 (COVID-19) Related Rent Concessions (Amendment to PFRS 16, Leases).* The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The practical expedient applies if:

  - the revised consideration is substantially the same or less than the original consideration;

  - the reduction in lease payments relates to the payments due on or before June 30, 2021; and

  - no other substantive changes have been made to the terms of the lease.

  No practical expedient is provided for lessors.

  The amendment is effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted. A lessee applies the amendments retrospectively, recognizing the cumulative effect of the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate.

  The Bank adopted the amendment to PFRS 16 on January 1, 2020 and has applied the practical expedient consistently to all eligible rent concessions relating to long-term lease agreements for the premises it uses for its operations. For the year ended December 31, 2020, the Bank recognized a reduction to Lease liability under “Other Liabilities” account in the statement of financial position and a gain due to rent concession under “Miscellaneous Income” account in the statement of income amounting to P6.5 million. This reflects the changes in lease payments (i.e. rent forgiveness/reduction) arising from the application of the practical expedient.

Segment Reporting

The Bank’s operating businesses are organized and managed separately according to nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. If the Bank changes the structure of its internal organization in a manner that causes composition of its reportable segment to change, the corresponding information for earlier periods, including interim periods, shall be restated unless the information is not available and the cost to develop it would be excessive. Financial information on business segments is presented in Note 7.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. The General Ledger system of the Bank captures the transactions of a segment level, and segment performance is evaluated based on net income before taxes.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing the net income for the year attributable to equity holders of the Bank, after deducting dividends declared to preferred shareholders, by the weighted average number of common shares outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any.

Diluted EPS is calculated by dividing the net income attributable to common shareholders by the weighted average number of common shares outstanding for the year adjusted for the effects of any dilutive potential common shares.

Foreign Currency Transactions and Translation

Foreign exchange differences arising from foreign currency transactions and revaluation and translation of foreign currency-denominated assets and liabilities to functional currency are credited to or charged as part of "Foreign exchange gains - net" account in the statements of income, except for differences arising from the re-translations of equity securities at FVOCI which are recognized directly in "Net change in fair value on equity securities at FVOCI" in other comprehensive income (OCI).

The books of accounts of the FCDU of the Bank are maintained in USD with various transactions in foreign currencies. The foreign currency-denominated income and expenses in the books of accounts are translated into their USD equivalent based on the exchange rates prevailing at the time of transaction. The foreign currency-denominated assets and liabilities at the reporting dates are translated into USD using the Banking Association of the Philippines (BAP) closing rate prevailing at the reporting date.

The foreign currency-denominated monetary assets and liabilities in the RBU are translated to PHP based on the BAP closing rate prevailing at the end of the year. Foreign currency-denominated income and expenses are translated to PHP at the exchange rates prevailing at transaction dates. 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.

For reporting purposes, the FCDU income and expenses are translated to their equivalent in PHP based on the BAP weighted average rate (WAR) for the year. The assets and liabilities of the FCDU at the reporting date are translated into PHP using BAP closing rate at the reporting date. The exchange differences arising from translation (i.e. BAP WAR and BAP closing rate) of FCDU accounts to PHP as presentation currency are taken directly to OCI under "Net movement in cumulative translation adjustment" in the statements of comprehensive income. Upon disposal of the FCDU or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.

Financial Instruments - Initial Recognition

- *Date of Recognition*
  Regular way purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date. Settlement date accounting refers to: (a) the recognition of an asset on the day it is received by the Bank, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Bank. Deposit liabilities, bills payable, and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.

Derivatives are recognized on trade date basis. Trade date is the date when an entity commits itself to purchase or sell an asset. Trade date accounting refers to: (a) the recognition of an asset to be received or the liability to be paid on the trade date, and (b) the derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on trade date.

- *Initial Recognition of Financial Instruments*
  All financial instruments, whether financial assets or liabilities, are initially measured at fair value. Except for financial assets and liabilities valued at FVPL, initial measurement includes transaction costs.

<u>Financial Instruments - Classification and Subsequent Measurement</u>
Financial Assets
Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVOCI and FVPL. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Bank's business model for managing them.

The Bank's business model for managing financial assets refers to how it manages its financials assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are for sole payment of principal and interest (SPPI). This assessment is referred to as the SPPI test and is performed at an instrument level.

Business Model Assessment
The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level, not on an instrument-by-instrument basis, because this best reflects the way the business is managed and information is provided to management. The information considered includes:

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

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed;

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

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

The business model assessment is based on reasonably expected scenarios without taking ‘worst case’ or ‘stress case’ scenarios into account. If the cash flows after initial recognition are realized in a way that is different from the Bank’s original expectations, the Bank does not change the classification of the remaining financial asset held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

SPPI Test
As part of the Bank’s classification process, the Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

For purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition and may change over the life of the financial asset (e.g., if there are repayments of principal or amortization of the premium or discount). ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g., liquidity risk and administrative costs), as well as profit margin.

To make the SPPI assessment, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a “more than de minimis” exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

The Bank’s measurement categories for financial assets are described below:

(i) Financial Assets at FVPL
Financial assets at FVPL include financial assets held for trading purposes, financial assets designated upon initial recognition at FVPL or financial assets mandatorily required to be measured at fair value. Equity securities are classified as financial assets at FVPL, unless the Bank designates an equity security that is not held for trading as at FVOCI at initial recognition.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or

- on initial recognition, it is part of a portfolio of identified financial instruments that the Bank manages together and has evidence of a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Financial assets with cash flows that are not SPPI 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, as described in succeeding sections, 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 initially recognized and subsequently measured at fair value in the statements of financial position, with transaction costs recognized in the statements of income. Gains and losses arising from changes in the fair value of financial assets at FVPL and gains and losses arising from disposals of these securities are recognized under “Trading and investment securities gains - net” account in the statements of income. Interest earned or incurred is recorded as interest income or interest expense, respectively, while dividend income is recorded under “Miscellaneous income” account in the statements of income when the right to receive payment has been established.

Financial assets at FVPL include government and private debt securities held for trading, derivative instruments and debt securities that do not meet the SPPI test. Most of the Bank’s derivative trading activities relate to deals with customers that are normally offset by transactions with other counterparties. The Bank may also take positions with the expectation of profiting from favorable movements in prices, rates or indices. The Bank is a counterparty to derivative contracts, such as currency forwards and warrants.

(ii) Financial Assets at Amortized Cost

The Bank measures debt financial assets at amortized cost if both of the following conditions are met:

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

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included under “Interest income” in the statements of income. Gains and losses are recognized in the statements of income when the financial asset is derecognized, modified or impaired, as well as through the amortization process. The losses arising from expected credit losses (ECL) is recognized under “Provision for credit and impairment losses” account, while reversals of ECL are recognized under “Reversal of credit and impairment losses” account. The two accounts are netted off in the statements of income. The effects of revaluation on foreign-currency denominated financial assets are recognized under “Foreign exchange gains - net” account in the statements of income.

The Bank’s financial assets at amortized cost include cash and other cash items (COCI), exclusive of cash on hand, amounts due from Bangko Sentral ng Pilipinas (BSP) and other banks, interbank loans receivable and securities purchased under resale agreements (SPURA), investment securities at amortized cost, loans and receivables from customers, sales contract receivables, unquoted debt securities, accrued interest receivable, accounts receivable and other receivables.

The Bank may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. As at December 31, 2020 and 2019, the Bank has not made such designation.

(iii) Financial Assets at FVOCI

- *Debt Securities*

  The Bank measures debt securities at FVOCI if both of the following conditions are met:

  - the financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and

  - the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

  Debt securities at FVOCI are subsequently measured at fair value with unrealized gains and losses arising from fair valuation recognized in OCI under the 'Net unrealized gains on financial assets at FVOCI' account in the equity section of the statements of financial position. Interest income and foreign exchange gains and losses are recognized in the statements of income in the same manner as for financial assets measured at amortized cost. The ECL arising from impairment of such investments are recognized in the statements of income with a corresponding charge to "Provision for credit and impairment losses" account if the resulting ECL is impairment losses and to "Reversal of credit and impairment losses" if the resulting ECL is reversal of impairment. Other fair value changes to measure the instrument at fair value is recognized in OCI.

  Upon derecognition, the cumulative gains or losses previously recognized in OCI are recognized under "Trading and investment securities gains - net" account in the statements of income.

- *Equity Securities*

  At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity securities as at FVOCI. Designation as at FVOCI is not permitted if the equity security is held for trading.

  Equity securities designated at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value are recognized in OCI under "Net unrealized gains on financial assets at FVOCI" account in the equity section of the statements of financial position. Dividends earned on holding equity securities designated at FVOCI are recognized in the statements of income as "Miscellaneous income" when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument. Gains and losses on disposal of these equity securities are never recycled to profit or loss, but the cumulative gain or loss previously recognized in OCI is reclassified to "Deficit" account in the equity section of the statements of financial position. Equity securities designated at FVOCI are not subject to impairment assessment.

  The Bank designated all equity securities that are not held for trading as at FVOCI on initial application of PFRS 9, *Financial Instruments*.

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

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

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

The Bank's financial liabilities at amortized cost include deposit liabilities, bills payable, manager's checks, accrued interest and other expenses (except accrued employee and other benefits and accrued taxes payable) and other liabilities (except withholding tax payable, retirement liability and ECL on off-balance sheet exposures).

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

Reclassification of Financial Assets and Liabilities
The Bank can reclassify financial assets if the objective of its business model for managing the financial asset changes. Reclassification of financial assets designated at FVPL or equity securities at FVOCI at initial recognition is not permitted.

A change in the objective of the Bank's business model will be effected only at the beginning of the next reporting period following the change in the business model.

Financial liabilities are not reclassified.

<u>Modifications of Financial Assets and Financial Liabilities</u>
Financial Assets
If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

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

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

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

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

To determine whether a modification of a financial asset is substantial or non-substantial, the guidance set out in this policy should be applied. Where it is not clear whether a "substantial modification" has occurred based on the application of this guidance, a 10.0% net present value change (equivalent to the PFRS 9 - test for financial liabilities) should be applied as a backstop.

In some cases, whether or not a modification is substantial will be clear with little or no analysis while in others a high degree of judgment may be required.

The modification of a financial asset could involve one or both of the following:

a. Changes in contractual terms that have a direct impact on the contractual cash flows. For example: changes to limit, tenor (maturity), interest rate, currency, or introduction or removal of features that give rise to cash flows other than payments of principal and interest on the principal amount outstanding;

b. Changes in contractual terms that do not have a direct impact on the contractual cash flows. For example: changes in security, collateral or other credit enhancements that change the credit risk associated with the loan.

Based on the Bank's policy, the delineation between substantial and non-substantial modifications should focus on category (a) modifications, specifically changes in credit limit, tenor, currency or SPPI characteristics.

If the modification of a financial asset measured at amortized cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original EIR of the asset and recognizes the resulting adjustment as a modification gain or loss in statement of income.

For floating-rate financial assets, the original EIR used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

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

Financial Liabilities

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

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

Derecognition of Financial Assets and Financial Liabilities

Financial Assets

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

- the rights to receive cash flows from the asset have expired;
- the Bank retains the right to receive cash flows from the 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 rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of ownership of the asset; or (b) has neither transferred nor retained the risks and rewards of ownership of the asset but has transferred the control of the asset.

Where the Bank has transferred its rights to receive cash flows from an 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 asset nor transferred control of the asset, the asset is recognized to the extent of the Bank’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another financial liability 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. The difference in the respective carrying amounts is recognized in the statements of income.

Impairment of Financial Assets

The Bank recognizes ECL for loan and other debt financial assets at amortized cost and at FVOCI, together with loans commitments and financial guarantee contracts. No impairment loss is recognized on equity securities.

Expected Credit Loss Methodology

The Bank measures ECL in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. PFRS 9 requires a loss allowance to be recognized at an amount equal to either the 12-month ECL or lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within 12 months after the reporting date.

Staging Assessment

For non-impaired financial instruments:

- Stage 1: Comprised of performing financial instruments which have not experienced SICR since initial recognition or have low credit risk as of reporting date. This stage recognizes a 12-month ECL for the financial instruments categorized under this group.

- Stage 2: Comprised of under-performing financial instruments which have experienced a SICR since initial recognition, but do not have objective evidence of impairment. This stage recognizes a lifetime ECL for the financial instruments categorized under this group.

  For credit-impaired financial instruments:

- Stage 3: Comprised of non-performing financial instruments with one or more loss events occurring since the original recognition or assets with objective evidence of impairment at reporting date. Financial instruments falling within this stage have objective evidence of impairment thus requiring the recognition of lifetime ECL.

Definition of “Default” and “Cure”

The Bank generally classifies a financial instrument as in default when it is credit impaired, or becomes past due on its contractual payments for more than 90 days, considered non-performing, under litigation or is classified as doubtful or loss. In assessing whether a borrower is in default, the Bank considers indicators that are qualitative (i.e. breach of covenant) and quantitative (i.e. overdue status and non-payment on another obligation of the same borrower/issuer to the Bank). An instrument is considered to be no longer in default (i.e. to have cured) when there is sufficient evidence to support that full collection of principal and interests is probable and payments are received for at least six (6) months. This definition is consistent with the definition of non-performing loans (NPL) under Section 304 of Manual of Regulations for Banks (MORB), *Past Due Accounts and Non-Performing Loans*.

Credit Risk at Initial Recognition
The Bank makes full use of its Internal Credit Risk Rating System (ICRRS) to determine the credit risk of exposures at initial recognition. The ICRRS is devised to assess the level of risk associated with each borrower using a combination of both quantitative and qualitative factors. Subsequent credit assessments and approvals are also considered in determining the credit risk.

Significant Increase in Credit Risk
The definition of a SICR varies by portfolio where the determination of the change in credit risk includes both the quantitative and qualitative factors.

The Bank applies the movement in its Corporate Loan account's credit risk rating and assessment of breach in watchlist triggers to indicate a possible significant credit downgrade or upgrade through a risk rating matrix. For the remaining portfolios, the Bank considers that a SICR occurs no later than when an asset is more than 30 days past due. The total number of days past due is determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Furthermore, the Bank's internal credit assessment may consider a counterparty to have a SICR since initial recognition if it is identified to have well-defined credit weaknesses. These may include adverse changes in the financial, managerial, economic and/or political nature of a business. Credit weakness can be established by an unsatisfactory track record that merits close monitoring and attention from management.

If there is evidence that there is no longer a SICR relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. For unrated financial instruments, the SICR is measured using the number of days past due which is also consistent with the staging criteria presented above.

ECL Parameters and Methodologies
ECL is a function of the following credit risk parameters:

(a) Probability of Default (PD)

The PD is the measure of likelihood that a borrower will be unable to settle his obligation/s on time and in full. The Bank uses its ICRRS to segment exposures with homogenous risk characteristics. PD estimate, being one of the fundamental basis for credit risk modelling, plays a vital role in the estimation of ECL for the Bank.

The Bank uses the Point-in-Time (PiT) PD in calculating expected credit loss. The Bank starts with an empirical 12-month Through-the-Cycle (TtC) PD for each product type calculated per rating grade.

The observed default rate, calculated as the number of defaults relative to in-force population, is regressed on the economic input to determine how changes in the economic input impact the default rate.

The variation between the log-odds of these forecasted default rate is then used to transform the 12-month TtC PD to 12-month PiT PD. The lifetime PDs and conditional PDs are calculated for stage 2 and stage 3 ECLs using the 12-month PiT PD.

(b) Loss Given Default (LGD)
LGD measures the percentage amount of credit losses incurred and not recovered at the time of default. LGD estimation is based on historical cash flow recoveries. Calculation of the LGD is adjusted for some assets to consider cashflow recoveries on collateral. For some financial assets, the Bank supplemented internal assessments with regulatory thresholds to arrive at the LGD assumption.

(c) Exposure at Default (EAD).
EAD is defined as the outstanding amount of credit exposure at the time of default. EAD is estimated by modelling the historical data on both the actual drawn and undrawn amounts for each credit facility. This provides a more robust estimate of the total amount the Bank is exposed to.

Forward-looking Information
The Bank incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since its initial recognition and its measurement of ECL.

The observed Default Rate (DR), calculated as the number of defaults relative to in-forces population, is regressed on the gross domestic product (GDP) growth rate (constant 2000 prices) to determine how changes in the GDP growth rate impact the DR. For the base scenario, the GDP growth rate (based on quarterly data from 1998 to 2019 published by Philippine Statistics Authority) is forecasted and is used to forecast expected DR. For the optimistic and pessimistic scenarios, the Bank assumed a certain level of GDP growth (positive and negative GDP growth rates for optimistic and pessimistic scenarios, respectively). The forecasted GDP growth rates, for both optimistic and pessimistic scenarios, are used to forecast expected DR under different scenarios. The difference between the log-odds of these forecasted DR is called the “Variation”. The “Variation” is used to transform the 12-month TtC PD to 12-month PiT PD.

A broad range of forward-looking information are assessed as economic inputs, such as growth of the gross domestic product, inflation rates, unemployment rates, foreign exchange rates, property prices and other economic factors. The key forward-looking economic variable used in each of the economic scenarios for the ECL calculations in 2020 and 2019 is the GDP growth. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Restructured Loans
Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and the future payments are likely to occur. When the loan has been restructured but not derecognized, the Bank also reassesses whether there has been a SICR and considers whether the assets should be classified as Stage 3. If the restructuring terms are substantially different, the loan is derecognized and a new ‘asset’ is recognized at fair value using the revised EIR.

Write-offs
Financial assets are written off either partially or in full when there is no reasonable expectation of recovering a 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.

Recoveries of amounts previously written off are included under “Miscellaneous income” in the statements of income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank’s procedures for recovery of amounts due.

<u>‘Day 1’ Difference</u>
Where the transaction price 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 markets, the Bank recognizes the difference between the transaction price and fair value (a ‘Day 1’ difference) as part of current operations in the period when the asset is acquired or the liability is incurred. In cases where the transaction price used is based on inputs which are not observable, the difference between the transaction price and model value is only recognized as part of current operations in the period 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 amount.

<u>Offsetting</u>
Financial assets and liabilities are offset with the net amount reported in the statements of financial position, if and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an 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, as the related assets and liabilities are presented gross in the statements of financial position.

As at December 31, 2020 and 2019, the Bank did not have any financial instrument that qualified for offsetting.

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

<u>Cash and Cash Equivalents</u>
For purposes of reporting cash flows, cash and cash equivalents include COCI, amounts due from BSP and other banks and interbank loans receivable and SPURA with original maturities of three months or less from dates of placement and that are subject to insignificant risk of changes in value.

COCI consist of cash on hand and checks and other cash items. Cash on hand refers to the total amount of cash in the Bank’s vault in the form of notes and coins under the custody of the cashier/cash custodian or treasurer, including notes in the possession of tellers and those kept in automated teller machines (ATMs).

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

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

Financial Guarantees and Undrawn Loan Commitments
Undrawn loan commitments and letters of credit are commitments under which over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. The nominal contractual values of undrawn loan commitments, where the loans agreed to be provided are on market terms, are not recorded in the statements of financial position. These contracts are in the scope of the ECL requirements where the Bank estimates the expected portion of the undrawn loan commitments that will be drawn over their expected life. The ECL related to loan commitments is recognized under "Other liabilities" in the statements of financial position.

In the ordinary course of business, the Bank issues financial guarantees in favor of other parties. Financial guarantees are initially recognized in the financial statements at fair value, and the initial fair value is amortized over the life of the financial guarantee in accordance with PFRS 15. The financial guarantee is subsequently carried at the higher of the amount of loss allowance determined in accordance with the ECL model and the amount initially recognized, less when appropriate, the cumulative amount of income recognized in accordance with PFRS 15.

Non-current Assets Held for Sale
Non-current assets held for sale include assets with or without improvements that are to be recovered principally through a sale transaction rather than through continuing use, available for immediate distribution in their present condition, highly probable to be sold within one year, and are included in the sales auction program for the year. Assets held for sale are stated at the lower of its carrying amount and fair value less costs to sell.

The Bank measures a non-current asset that ceases to be classified as held for sale at the lower of:

- the carrying amount before the non-current asset was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the non-current asset not been classified as held for sale; and

- the recoverable amount at the date of the subsequent decision not to sell.

The Bank includes any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale in income from continuing operations in the year in which the asset ceases to be held for sale.

Investment in an Associate

An associate is an entity over which the Bank has significant influence but no control. This is a rebuttable presumption in case the equity interest of the Bank in an entity is between 20.0% and 50.0%. The Bank's equity investment in BIC Management and Consultancy, Inc. (formerly Bancommerce Investment Corporation) (BIC) represents 24.26% of BIC's capital stock. Accordingly, the Bank's equity investment in BIC is treated as an investment in an associate accounted for under the equity method of accounting since there is no indication of control.

Under the equity method, an investment in an associate is carried in the statements of financial position at cost plus post-acquisition changes in the Bank's share in the net assets of the associate. The Bank's share in an associate's post-acquisition profits or losses is recognized in the statements of income, and its share of post-acquisition movements in the associate's equity reserves is recognized directly in equity.

When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Profits and losses resulting from transactions between the Bank and an associate are eliminated to the extent of the Bank's interest in the associate.

The reporting period of BIC is on a calendar year basis. BIC's accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

Property and Equipment

Land is stated at cost less any impairment in value. Depreciable properties including buildings, furniture, fixtures and equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization, and any impairment in value.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes after deducting trade discounts and rebates, and any costs that are directly attributable to bringing the property and equipment to its location and condition necessary for it to be capable of operating in the manner intended by management. Expenditures incurred after the property and equipment have been put to operation, such as repairs and maintenance, are normally charged against operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in the increase in the future economic benefits to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful life of the depreciable assets. Leasehold improvements are amortized over the estimated useful life of the improvements or the terms of the related lease, whichever is shorter.

Estimated useful lives of property and equipment are as follows:

	Years
Building	50
Furniture, fixtures and equipment	3 - 7
Leasehold improvements	5 - 15

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

The asset's residual values, useful lives and method of depreciation and amortization are reviewed, and adjusted if appropriate, at each reporting date.

Investment Properties

Investment properties are composed of assets acquired from foreclosure or *dacion en pago* and land and building that are vacant and no longer used for administrative purposes (previously owner-occupied property), and are initially measured at cost including transaction costs. An investment property acquired through an exchange transaction is initially recognized at the fair value of the asset acquired unless the fair value of each asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of the asset given up. The difference between the fair value of the asset received and the carrying amount of the asset given up is recorded as "Gain on foreclosure" under "Gain on foreclosure and sale of property and equipment and foreclosed assets - net" in the statement of income. Foreclosed properties are classified under "Investment properties" upon:

- entry of judgment in case of judicial foreclosure;
- execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
- notarization of the Deed of Dacion in case of payment in kind (dacion en pago).

The Bank applies the cost model in subsequently measuring its investment properties. Land is carried at cost less any impairment in value and depreciable properties acquired are carried at cost. Cost is the fair value of the asset at acquisition date, less any accumulated depreciation and any impairment in value. Transaction costs, which include non-refundable capital gains tax and documentary stamp tax, incurred in connection with foreclosure are capitalized as part of cost of the investment properties.

Depreciation is computed on a straight-line basis over the estimated useful life of the depreciable asset or 10 years, whichever is lower. The estimated useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties.

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

Repairs and maintenance costs relating to investment properties are normally charged to statements of income in the period in which the costs are incurred.

An investment property is derecognized when it has either been disposed of or when it is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on derecognition of an investment property is recognized in the statements of income under "Gains on foreclosure and sale of property and equipment and foreclosed assets - net" account in the period of derecognition.

Other Properties Acquired

Other properties acquired, included under “Other assets” account in the statements of financial position, include chattel mortgage properties foreclosed in settlement of loan receivables. The Bank applies the cost model of accounting for these assets. Under the cost model, these assets are carried at cost, which is the fair value at acquisition date, less accumulated depreciation and any impairment in value.

Depreciation is computed on a straight-line basis over the estimated useful life of the depreciable asset or three years, whichever is lower. The estimated useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of other properties acquired.

The carrying values of the other properties acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts (see accounting policy on Impairment of Non-financial Assets).

An item of other properties acquired is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the statements of income under “Gains on foreclosure and sale of property and equipment and foreclosed assets - net” account in the period of derecognition.

Intangible Assets

Intangible assets consist of software costs and branch licenses. Intangible assets acquired separately, included under “Other assets” account in the statements of financial position, are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and impairment losses. Internally generated intangible assets are not capitalized but recognized in the statements of income in the period when the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the economic useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least each reporting date. 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 treated as changes in accounting estimates.

The amortization expense on intangible assets with finite lives is recognized in the statements of income under the expense category consistent with the function of the intangible asset. Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statements of income in the period when the asset is derecognized.

Branch Licenses
Branch licenses are granted by the BSP and capitalized on the basis of the costs incurred to acquire and bring to use in operation. Branch licenses are determined to have indefinite useful lives and are tested for impairment annually.

Software Costs
Software costs include costs incurred relative to the purchase of the Bank's software and are amortized on a straight-line basis over 5 years. Software costs are carried at cost less accumulated amortization and any impairment in value.

Impairment of Investment in an Associate and Non-financial Assets
Investment in an Associate, Non-current Assets Held for Sale, Property and Equipment, Investment Properties, Other Properties Acquired and Intangible Assets under "Other Assets"

At each reporting date, the Bank assesses whether there is any indication of impairment on investment in an associate, non-current assets held for sale, property and equipment, investment properties, other properties acquired and intangible assets, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of the net recoverable amount.

The net recoverable amount is the higher of an asset's (or cash-generating unit's) 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 net recoverable amount is assessed as part of the cash-generating unit to which it belongs. Value in use is the present value of future cash flows expected to be derived from an asset or cash-generating unit while fair value less cost to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable and willing parties less any costs of disposal. Where the carrying amount of an asset (or cash-generating unit) exceeds its net 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 assessments of the time value of money and the risks specific to the asset (or cash-generating unit).

An impairment loss is charged against operations in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that the previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the net 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 net recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its net 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 a reversal is recognized in the statements of income.

After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Fair Value Measurement

The Bank measures financial instruments, such as, financial assets and liabilities at FVPL, financial assets at FVOCI and net retirement liability which is measured at present value of the defined benefit obligation less fair value of plan assets, at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost and investment properties are disclosed in Note 6.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or

- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Bank.

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

The fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Fair Value Hierarchy

The majority of valuation models deploy only observable market data as inputs. This has not changed as a result of COVID-19, however the Bank has considered the impact of related economic and market disruptions on fair value measurement assumptions and the appropriateness of valuation inputs, notably valuation adjustments, as well as the impact of COVID-19 on the classification of exposures in the fair value hierarchy.

The Bank evaluates the material accuracy of the valuations incorporated in the financial statements as they can involve a high degree of judgement and estimation in determining the carrying values of financial assets and financial liabilities at the reporting date.

For certain financial instruments, the Bank may use data that is not readily observable in current markets. If the Bank uses unobservable market data, then the Bank needs to exercise more judgement to determine fair value depending on the significance of the unobservable input to the overall valuation. Generally, the Bank derives unobservable inputs from other relevant market data and compares them to observed transaction prices where available.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - quoted (unadjusted) market prices in active markets for identical assets or liabilities.

- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

External appraisers are involved for valuation of significant assets such as investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained in Note 6.

<u>Revenue Recognition</u>
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the income can be reliably measured. Revenue is measured at the fair value of the consideration received/receivable.

Determining whether the Bank is acting as a Principal or an Agent
The Bank assesses its revenue arrangements against the following indicators to determine whether it is acting as a principal or an agent:

- whether the Bank has primary responsibility for providing the services;
- whether the Bank has discretion in establishing prices; and
- whether the Bank has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer.

The Bank has determined that it is acting as a principal in its revenue arrangements except for activities where the Bank acts in a fiduciary or custodian capacity such as nominee, trustee, or agent. The Bank recognizes income from fiduciary and custodianship activities under “Service charges, fees and commission” account in the statements of income.

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

Revenues within the Scope of PFRS 15:
The Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognized at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract.

Service Charges and Penalties
Service charges and penalties are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectability. This arises from deposit-related processing transactions and charges from late payments on loans and drawing against insufficient funds of depositors.

Fees and Commissions

(i) Fee Income Earned from Services that are Provided over a Certain Period of Time
Fees earned for the provision of services over a period of time are accrued over that period. These include guarantee fees, credit related fees, investment fund fees, custodian fees, fiduciary fees, portfolio and other management fees. Commitment fees for facilities where a drawdown is not generally expected must be recognized over the facility period. If a drawdown was expected and the commitment expires without the Bank making the loan, the commitment fees are recognized as fee income on expiry of the scheduled drawdown.

(ii) Fee Income Earned from Providing Transaction Services
Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as brokerage fees for the arrangement of the acquisition of shares or other securities are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance obligation are recognized after fulfilling the corresponding criteria. Loan syndication fees are recognized in the statements of income when the syndication has been completed and the Bank retains no part of the loans for itself or retains a part of the loan at the same EIR as for the other participants.

Discounts Earned and Awards Revenue on Credit Cards
Discounts received are taken up as income upon receipt from member establishments of charges arising from credit availments by the Bank's cardholders. These discounts are computed based on certain agreed rates and are deducted from the amounts remitted to the member establishments. These also include interchange income from transactions processed by Mastercard, a card network, and fees from cash advance transactions of cardholders.

The amount allocated to the loyalty programmes is deferred and recognized as revenue when the award credits expire or the likelihood of the customer redeeming the loyalty points becomes remote. Award credits under customer loyalty programmes are accounted for as a separately identifiable component of the transaction in which they are granted. The fair value of the consideration received in respect of the initial sale is allocated based on the estimated stand-alone selling prices. Income generated from customer loyalty programmes is recognized in 'Service charges, fees and commissions' in the statements of income.

Other Income
Income from the sale of services is recognized upon completion of the service. Income from sale of properties is recognized when control over properties transfers to the recipients, measured as the difference between the transaction price and the properties' carrying amounts and presented under "Gains on foreclosure and sale of property and equipment and foreclosed assets - net" in the statements of income.

Revenues Outside the Scope of PFRS 15

Interest Income
Interest income is recognized in the statements of income for all financial assets measured at amortized cost and debt securities at FVOCI as they accrue, using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all the contractual terms of the financial instruments including any fees or incremental costs that are directly attributable to the instrument and are integral part of the EIR, but not future credit losses. The EIR is established on initial recognition of the financial asset and liability and is not revised subsequently, except for repricing loans. The carrying amount of the financial asset or liability is adjusted if the Bank revises its estimates of payments or receipts. The change in carrying amount is recognized in statements of income as interest income or expense.

Interest on interest-bearing financial assets at FVPL is recognized based on the contractual rate.

When a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3 (as discussed in "Impairment of Financial Assets" above), the Bank calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

Purchases by credit cardholders, collectible on an installment basis, are recorded at the cost of the items purchased plus a certain percentage of cost. The excess over cost is credited to 'Unearned discount' and is shown as a deduction from 'Loans and receivables' in the statements of financial position. The unearned discount is taken up to interest income over the installment term and is computed using the effective interest method.

Trading and Investment Securities Gains or Losses
Trading and investment securities gains or losses represent results arising from disposal of debt securities at FVOCI and trading activities (realized gains and losses) and from the changes in fair value of financial assets and liabilities at FVPL (unrealized gains or losses).

Dividends
Dividends are recognized when received or when the Bank's right to receive the dividends is established.

Rental Income
Payments received under operating lease arrangements are recognized in the statements of income on a straight-line basis over the term of the lease.

Recovery on Charged-off Assets
Income arising from collections on accounts or recoveries from impairment of items previously written off is recognized in the statement of income in the year of recovery.

<u>Expense Recognition</u>
Expense is recognized when a decrease in future economic benefit related to a decrease in an asset or an increase in liability has arisen to the Bank and can be measured reliably.

Interest Expense
Interest expense for all interest-bearing financial liabilities is recognized in “Interest expense” in the statements of income using the EIR of the financial liabilities to which they relate.

Other Expenses
Other expenses include losses and expenses that arise in the ordinary course of business of the Bank and are recognized when incurred.

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

Retirement Benefits
The Bank has a funded, noncontributory defined benefit plan administered by a trustee. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive upon retirement, usually dependent on one or more factors such as age, years of service and compensation. The retirement cost is generally funded through payments to a trustee-administered fund, determined by annual actuarial calculations.

The retirement benefits liability recognized in the statements of financial position in respect of the defined benefits retirement plan is the present value of the defined benefits obligation at the valuation date less the fair value of plan assets. The defined benefits obligation is calculated annually by an independent actuary using the projected unit credit method. When the calculation results in a potential asset for the Bank, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

The present value of the defined benefits obligation is determined by discounting the estimated future cash outflows using interest rate on high quality government bonds 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 liability.

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

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in the statements of income. The Bank recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Equity

"Capital Stock" is recorded at par for all shares issued and outstanding.

"Paid-in Surplus" represents the proceeds in excess of par value. Incremental costs incurred which are directly attributable to the issuance of new shares are charged to "Paid-in surplus".

"Deficit" represents the accumulated losses of the Bank.

"Surplus Reserves" represent the appropriation of retained earnings in relation to allowance for credit losses which are less than the 1.0% general provision prescribed by the BSP for regulatory purposes, 10.0% of the Bank's profit from trust business, and self-insurance of the Bank.

Leases

The Bank has applied PFRS 16 using the modified retrospective approach and therefore the 2018 comparative information has not been restated and continues to be reported under PAS 17 and IFRIC 4. The details of accounting policies under PAS 17 and IFRIC 4 are disclosed separately.

Applicable from January 1, 2019

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

Bank as Lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of branches and office premises, the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Bank recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less accumulated depreciation and any impairment losses, adjusted for certain remeasurements of the lease liability. Cost comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct cost incurred and an estimate of costs to dismantle and remove any improvements made. The right-of-use asset is subsequently depreciated using straight-line method from the commencement date to the end of the lease term.

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

The Bank determines its incremental borrowing rate by analyzing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

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

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

The lease liability is measured at amortized cost using the effective interest method. It is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index rate, change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase, extension or termination option is reasonably certain not to be exercised or if there is a revised in-substance fixed lease payment.

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

The Bank presents right-of-use assets in "Property and equipment" and lease liabilities in "Other liabilities" in the statements of financial position.

Short-term Leases and Leases of Low-value Assets
The Bank has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Bank recognizes the lease payments associated with these leases as a rent expense on a straight-line basis over the lease term.

Bank as a Lessor
At inception or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Bank acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease. To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Bank is a party to operating leases as a lessor. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and amortized over the lease term on the same basis as the rental income. Contingent rentals are recognized as income in the period in which they are earned.

Impact on Transition
On transition to PFRS 16, the Bank adopted PFRS 16 using the modified retrospective approach. Under this approach, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. For leases classified as operating leases under PAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

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

- Applied PFRS 16 only to contracts that were previously identified as leases applying PAS 17 at the date of initial application.
- Applied the exemption not to recognize right-of-use assets and lease liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

The accounting policies applicable to the Bank as a lessor are not different from those under PAS 17. As such, PFRS 16 has no impact for leases where the Bank acts as a lessor. However, the Bank has applied PFRS 15, *Revenue from Contracts with Customers* to allocate consideration in the contract to each lease and non-lease components.

The impact on transition (increase/(decrease)) is summarized below:

In millions of Peso	*Note*	January 1, 2019
Lease liabilities	*30*	P587.8
Right-of-use assets	*15, 30*	550.5
Accrued rent	*21*	(47.1)
Prepaid rent	*17*	(9.8)

Applicable before 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 and 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 that 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 a 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) above, and at the date of renewal or extension period for scenario (b).

Bank as a Lessee
Leases where the lessor 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 in the statements of income on a straight-line basis over the lease term.

Bank as a Lessor
The Bank is also a party to operating leases as a lessor. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and amortized over the lease term on the same basis as the rental income. Contingent rentals are recognized as income in the period in which they are earned.

<u>Income Tax Expense</u>
Current Tax
Current income tax is the expected tax payable on the taxable income for the year using the tax rates enacted at the reporting date. The amount of current tax payable is the best estimate of the tax amount expected to be paid that reflects uncertainty related to income taxes, if any.

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from the excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carry-over (NOLCO) to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits 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 income nor taxable income.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized.

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

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

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and 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 charged to current operations, 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 interest expense.

Contingent Assets and Liabilities

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

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control 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. Related parties may be individual or corporate entities.

Events After the Reporting Date

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

Fiduciary Activities

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

Amendments to Standards Issued but Not Yet Adopted

A number of amendments to standards are effective for annual periods beginning after January 1, 2020. However, the Bank has not early adopted the following new or amended standards in preparing these financial statements. Unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements.

Effective April 1, 2021

- *COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to PFRS 16 Leases)*. The amendment extends the practical expedient introduced in the 2020 amendment which simplified how a lessee accounts for rent concessions that are a direct consequence of COVID-19, permitting lessees to apply the practical expedient to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2022.

The amendment is effective for annual reporting periods beginning on or after April 1, 2021. Earlier application is permitted. A lessee applies the amendments retrospectively, recognizing the cumulative effect of the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate. The adoption is mandatory for lessees that chose to apply the practical expedient introduced by the 2020 amendments and may result in reversal of lease modifications that was ineligible for the practical expedient under the 2020 amendments, but becomes eligible as a result of the extension.

Effective January 1, 2022

- *Property, Plant and Equipment - Proceeds before Intended Use (Amendments to* PAS 16*, Property, Plant and Equipment).* The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before that asset is available for use. The proceeds before intended use should be recognized in profit or loss, together with the costs of producing those items which are identified and measured in accordance with PAS 2, *Inventories*.

  The amendments also clarify that testing whether an item of property, plant and equipment is functioning properly means assessing its technical and physical performance rather than assessing its financial performance.

  For the sale of items that are not part of a company's ordinary activities, the amendments require the company to disclose separately the sales proceeds and related production cost recognized in profit or loss and specify the line items in which such proceeds and costs are included in the statement of comprehensive income. This disclosure is not required if such proceeds and cost are presented separately in the statement of comprehensive income.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The amendments apply retrospectively, but only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the company first applies the amendments.

- *Onerous Contracts - Cost of Fulfilling a Contract (Amendment to PAS 37, Provisions, Contingent Liabilities and Contingent Assets).* The amendments clarify that the cost of fulfilling a contract when assessing whether a contract is onerous includes all costs that relate directly to a contract - i.e., it comprises both incremental costs and an allocation of other direct costs.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated. Earlier application is permitted.

- *Annual Improvements to PFRS Standards 2018-2020.*

  - *Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendment to PFRS 9).* The amendment clarifies that for the purpose of performing the '10 per cent' test for derecognition of financial liabilities, the fees paid net of fees received included in the discounted cash flows include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

- *Lease Incentives (Amendment to Illustrative Examples Accompanying PFRS 16 Leases).* The amendment deletes from the Illustrative Example 13 the reimbursement relating to leasehold improvements to remove the potential for confusion because the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in PFRS 16.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted.

Effective January 1, 2023

▪ *Classification of Liabilities as Current or Non-current (Amendments to PAS 1 Presentation of Financial Statements).* To promote consistency in application and clarify the requirements on determining whether a liability is current or non-current, the amendments:

  - removed the requirement for a right to defer settlement of a liability for at least twelve months after the reporting period to be unconditional and instead requires that the right must have substance and exist at the end of the reporting period;

  - clarified that a right to defer settlement exists only if the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date; and

  - clarified that settlement of a liability includes transferring a company's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or non-current.

  The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

  In November 2021, the International Accounting Standards Board issued the Exposure Draft, Non-Current Liabilities with Covenants after considering stakeholder feedback on the December 2020 tentative agenda decision issued by the IFRS Interpretations Committee about the amendments. The exposure draft proposes to again amend IAS 1 as follows:

  - Conditions which the entity must comply within twelve months after the reporting period will have no effect on the classification as current or non-current.

  - Additional disclosure requirements will apply to non-current liabilities subject to such conditions to enable the assessment of the risk that the liability could become repayable within twelve months.

  - Separate presentation in the statement of financial position will be required for non-current liabilities for which the right to defer settlement is subject to conditions within 12 months after the reporting period.

  - The effective date of the amendments will be deferred to no earlier than January 1, 2024.

- *Definition of Accounting Estimates (Amendments to PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors).* To clarify the distinction between changes in accounting policies and changes in accounting estimates, the amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an accounting estimate is developed to achieve the objective set out by an accounting policy. Developing an accounting estimate includes both selecting a measurement technique and choosing the inputs to be used when applying the chosen measurement technique. The effects of changes in such inputs or measurement techniques are changes in accounting estimates. The definition of accounting policies remain unchanged. The amendments also provide examples on the application of the new definition.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted, and will apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the amendments are applied.

- *Disclosure of Accounting Policies (Amendments to PAS 1 Presentation of Financial Statements and PFRS Practice Statement 2 Making Materiality Judgements).* The amendments are intended to help companies provide useful accounting policy disclosures. The key amendments to PAS 1 include:

  - requiring companies to disclose their material accounting policies rather than their significant accounting policies;

  - clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and

  - clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company’s financial statements.

  The amendments to PFRS Practice Statement 2 includes guidance and additional examples on the application of materiality to accounting policy disclosures.

  The amendments are effective from January 1, 2023. Earlier application is permitted.

- *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to PAS 12 Income Taxes).* The amendments clarify that that the initial recognition exemption does not apply to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning obligations. The amendments apply for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities will be recognized from the beginning of the earliest comparative period presented, with any cumulative effect recognized as an adjustment to retained earnings or other appropriate component of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

4. Critical Judgments and Estimates

The preparation of financial statements in conformity with PFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses, and disclosures of contingent assets and contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

Applicable from January 1, 2019

a) *Leases*

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

The Bank recognizes right-of-use assets and lease liabilities for most leases - on-balance sheet leases. However, the Bank has elected not to recognize right-of-use assets and lease liabilities for leases involving assets of low value. The same policy is likewise applied for short-term leases. The Bank recognizes the lease payments associated with these leases as an expense on a straight- line basis over the lease term.

Significant judgment was exercised by the Bank in determining the discount rate to be used in calculating the present value of right-of-use assets and lease liabilities. The discount rate is represented by the incremental borrowing rate which is Bloomberg Valuation (BVAL) rate and credit spread as determined by the Bank.

The carrying amounts of right-of-use assets and lease liabilities are disclosed in Notes 15 and 22, respectively.

Applicable to 2020, 2019 and 2018

Bank as Lessor
The Bank has entered into commercial property lease agreements for its property and equipment, and investment properties. The Bank has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out under operating lease agreements.

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

b) *Business Model Assessment*

The Bank manages its financial assets based on the business models that maintain adequate level of financial assets to match its expected cash outflows, largely arising from customers' withdrawals and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for investing and trading activities consistent with its risk appetite.

The Bank developed business models which reflect how it manages its portfolio of financial instruments. The Bank's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e. group of financial instruments that are managed together by the Bank) and not on an instrument-by-instrument basis (i.e. not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under PFRS 9, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belong to, taking into consideration the objectives of each business model established by the Bank. The level of aggregation at which the business model is applied is based on the specific activities being undertaken by each business unit of the Bank to achieve its stated objectives and other relevant factors such as risks affecting the business model, key performance indicators in evaluating the business model, and how managers of the business are compensated.

The Bank assesses the performance of each business model by considering the activities undertaken by the business models, placing the appropriate key performance indicators and monitoring the frequency of sales activities. PFRS 9 emphasizes that if more than an infrequent and more than an insignificant sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Bank considers facts and circumstances present to assess whether an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a hold-to-collect business model and whether the Bank can explain the reasons for those sales and why those sales do not reflect a change in the Bank's objective for the business model.

In September and October 2020, the Bank sold government securities classified as Investment securities at amortized cost and was assessed as consistent with the hold-to-collect business model since the sale was not more than infrequent (see Note 11). The sale was deemed to be not more than infrequent since it was approved only once during the year and transpired within the approved time period.

c) *Testing the Cash Flow Characteristics of Financial Assets*

In determining the classification of financial assets under PFRS 9, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk), i.e. cash flows that are non-SPPI, does not meet the amortized cost and FVOCI criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

d) *Functional Currency*

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

- the currency that mainly influences sales prices for financial instruments and services;

- 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 economic substance of the underlying circumstance relevant to the Bank, the functional currency of the Bank's RBU book of accounts and FCDU book of accounts have been determined to be PHP and USD, respectively.

PHP and USD are the currencies of the primary economic environment in which the Bank operates. These are the currencies that mainly influence the income and costs arising from the Bank operations.

e) *Provisions and Contingencies*

The Bank, in the ordinary course of business, sets up appropriate provisions for its present legal or constructive obligations in accordance with its policies on provisions and contingencies. Judgment is exercised by management to distinguish between provisions and contingencies (see Note 38).

Applicable before January 1, 2019

(a) *Operating Leases - Bank as Lessee*

The Bank has entered into operating lease agreements for the premises it uses for its operations. The Bank has determined that all significant risks and rewards of ownership of the properties it leases on operating lease arrangements are retained by the lessor.

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

<u>Estimates</u>
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below:

(i) *Expected Credit Losses on Financial Assets, Loan Commitments and Financial Guarantees*

The Bank reviews its financial assets at amortized cost and debt securities at FVOCI, loan commitments and financial guarantees to assess the amount of credit losses to be recognized in the statements of financial position at least on an annual basis or more frequently, as deemed necessary. The measurement of ECL under PFRS 9 requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining ECL and the assessment of a SICR. These estimates are driven by a number of factors, changes to which can result in different levels of allowances.

Considering the COVID-19 pandemic that started in 2020, the Bank needed to apply certain adjustments on the estimation of parameters and assumptions in order to account for the impact of this unforeseen event. The general methodology for the ECL calculation remains the same. However, the projection of the forward-looking components was updated. The Bank used the most recent supportable and available information to establish the probable effects of the pandemic to the performance of the Bank's exposures. Furthermore, the scenario weights were also adjusted giving a bigger probability to the pessimistic scenario to account for the uncertainties brought by the pandemic. The Bank also identified accounts that are vulnerable to the impact of COVID-19 and these were subjected to individual impairment assessment. These accounts are closely monitored paying more attention to their actual performance during the year.

Refer to Notes 3 and 5 for the detailed discussions of the inputs, assumptions and estimation uncertainty used in measuring ECL under PFRS 9. The related allowance for credit losses subject to ECL are disclosed in Note 18 *(ii) Fair Value of Financial Instruments*

Where the fair values of financial assets and liabilities (including derivatives) recognized in the statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. These estimates may include consideration of liquidity, volatility and correlation. Changes in assumptions about these factors could affect the reported fair values of financial instruments.

(iii) Impairment of Investment in an Associate and Non-Financial Assets

<u>Investment in an Associate, Non-current Assets Held for Sale, Property and Equipment, Investment Properties, Other Properties Acquired, and Intangible Assets under "Other Assets"</u>

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:

a) significant underperformance relative to expected historical or projected future operating results;

b) significant changes in the manner of use of the acquired assets or the strategy for overall business; and

c) significant negative industry or economic trends.

The Bank recognizes an impairment loss whenever the carrying amount of an asset exceeds its net recoverable amount. Net recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

The carrying values of non-current assets held for sale, investment in an associate, property and equipment, investment properties, other properties acquired and intangible assets under "Other Assets" are disclosed in Notes 13, 14, 15, 16 and 17, respectively.

(iv) Estimated Useful Lives of Property and Equipment, Investment Properties, Other Properties Acquired and Software Costs

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

The estimated useful lives of property and equipment, investment properties, other properties acquired and software costs are disclosed in Note 3.

(v) Recognition of Deferred Tax Assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that sufficient taxable income will be available against which the related tax benefits can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the forecasted timing and amount of future taxable income together with future tax planning strategies.

The estimates of future taxable income indicate that certain temporary differences will be realized in the future. The recognized and the unrecognized deferred tax assets are disclosed in Note 32.

(vi) Present Value of Retirement Benefit Obligation

The cost of retirement benefits and other post-employment benefits are determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality rates. Due to the long-term nature of the plan, such estimates are subject to significant uncertainty.

The assumed discount rates were determined using the prevailing market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as at reporting date. The present value of the Bank's retirement obligation and the fair value of plan assets are disclosed in Note 29.

(vii) 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 by management, in consultation with the legal counsels handling the Bank's legal defense in these matters, and is based upon an analysis of potential results. Management currently does not believe that these proceedings will have a material adverse effect on the Bank's 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 (see Note 37).

5. Financial Risk Management Objectives and Policies

Introduction

The business of banking involves financial risks which must be measured, monitored and managed by an effective risk management system embedded throughout the whole organization. Effective risk management ensures that financial risks are properly identified, assessed, measured and managed. The diligent monitoring and management of all financial risks, notably credit, interest rate risk in the banking book (IRRBB), market and liquidity risk require the development of a risk-conscious culture that will influence daily business activities and decision-making.

The Bank believes that effective risk management will not only minimize potential or actual losses but will also optimize earnings by correctly pricing its products and services commensurate to the risks taken. Its risk mission and objectives are to consistently and accurately measure risks, to always consider risk and return in evaluating transactions and exposures while preserving and maintaining adequate risk-based capital and to ensure adequate returns on such capital. Risk mitigation strategies form an integral part of risk management activities.

Risk Management Structure

The BOD is ultimately responsible for identifying and controlling risks. However, there are separate independent units at the BOD and management levels, which are responsible for managing and monitoring financial risk.

Board of Directors

The BOD is primarily responsible for the sound governance of the Bank, promotion of the highest standards of ethics and integrity. It approves and oversees the implementation of the Bank's strategic objectives and establishes and maintains sound risk management system for the whole institution. The BOD approves and reviews the institutional tolerance for risks, business strategies and risk philosophy.

Corporate Governance Committee

The Corporate Governance Committee is tasked to assist the BOD in fulfilling its corporate governance responsibilities and in providing oversight in the implementation of the Bank's Compliance System. It is responsible for ensuring due observance of corporate governance principles and guidelines across the Bank.

Related Party Transactions Committee (RPTCom)

The RPTCom assists the BOD in fulfilling its responsibility of ensuring that transactions with related parties are arm's length. It covers proper identification of related parties, recording and vetting of transactions with them including disclosures in financial reports, which must be consistent with relevant legal and regulatory requirements, and Bank policies.

Audit Committee

The Audit Committee represents and assists the BOD in its general oversight of the Bank's financial reporting policies, practices and control and internal and external audit functions. It oversees the relationship with the independent external auditors, receives information and provides advice, counsel and general direction, as it deems appropriate, to management and the auditors, taking into account the information it receives, discussions with the auditors, and the experience of the Committee's members in business, financial and accounting matters.

Board Risk Oversight Committee (BROC)

The BROC, a sub-committee of the BOD, oversees the Bank's risk management system. It has the power to approve procedures for implementing risk and capital management policies. The BROC shall assist the BOD with its oversight function to identify and evaluate risk exposures, develop risk management strategies, implement and periodically review the risk management framework and promote a risk management culture in the Bank.

Risk Management Division (RSK)

The RSK is responsible for the creation and oversight of the Bank's corporate risk policy. It is responsible for making recommendations to the BOD on corporate policies and guidelines for risk measurement, management and reporting. It also reviews the system of risk limits, compliance to said limits and validates the reports of the risk-taking personnel. The RSK reports to the BROC.

Asset Liability Management Committee (ALCO)

The ALCO is responsible for setting, developing and implementing the Bank's Asset Liability Management (ALM) and hedging policy. It also reviews the allocation of resources, pricing of products and foreign exchange position of the Bank.

Internal Capital Adequacy Assessment Process (ICAAP) Steering Committee (ICAAPcom)
The ICAAPcom is responsible for overseeing the Bank's ICAAP to ensure that mandated minimum capital requirements are met and that capital levels are sufficient to cover the Bank's risk exposures driven by its strategic plans.

Credit and Collections Committee (Crecom)
The Crecom plays a critical role in the credit approval process. It has the power to approve credit proposals of any sort, e.g. establishment, renewal, extension, increase/decrease, restructuring or settlement of a credit line or term loan (whether short or long) within its authority and to endorse those credit proposals which are beyond its authority to the Executive Committee (Excom) and/or the BOD. It has likewise the responsibility to ensure that credit accommodations to related parties falling below the materiality thresholds are granted on arms' length basis and are compliant with the set regulations. On top of these, the Crecom studies and deliberates proposals intended to adopt new credit policies or to amend existing ones or to offer new loan products or programs, prior to endorsement to the Senior Executive Team and Excom for approval.

Internal Audit Division
Internal Audit Division is an independent unit of the Bank that conducts objective assurance and consulting activities designed to add value and improve the Bank's operations. It helps the Bank accomplish its objectives by bringing a systematic, disciplined approach to examine, evaluate and improve the effectiveness of risk management, internal control and governance processes of the Bank. The Internal Audit Division reports to the Audit Committee.

Legal Services Division
The primary functions of the Bank's Legal Services Division are composed of rendering legal advice and document review to ensure that relevant laws are disseminated and complied with, the Bank's interest is duly protected, and identified risks are either eliminated or minimized and imparted to responsible units of the Bank. The Division also handles cases filed for and against the Bank.

Compliance Division
The Compliance Division is responsible for coordinating, monitoring and facilitating the Bank's compliance with regulatory requirements. It is responsible for implementing the Bank's Compliance Program and the Money Laundering and Terrorist Financing Prevention Program (MTPP).

Risk Measurement and Reporting Systems
The Bank's capital adequacy is determined by measuring credit, market and operational risk exposures using standardized or basic approaches as suggested by BSP. Risk exposures are measured both individually and in aggregate amounts.

Risk measurements are done by respective risk-taking personnel and groups but are independently validated, analyzed and reported by the RSK.

Market risks are measured by mark-to-market and Value-at-Risk (VAR) analyses on the overall exposure, on a portfolio level, and on each individual financial instrument. These exposures are also subjected to stress testing using a variety of historical and hypothetical scenarios.

Quality of credit risks are measured via risk classifications of accounts using ICRRS together with BSP risk classification of borrowing accounts. The Bank's front office recommends the credit risk rating of borrowing accounts and classifications and allowance for losses including changes thereon, when necessary. All risk information is processed, analyzed and consolidated for proper reporting to the BOD through the BROC and Audit Committee, as well as the Senior Executive Team and various management committees of the Bank.

Actual and estimated risk exposures/losses at Treasury, Corporate, Consumer Business and Credit Cards, Operations and Information Technology, Trust and Branches are consolidated for regular reporting. Reports include, among others, portfolio mix, liquidity and maturity matching, interest rate matching, trading gains and losses, sensitivity and back-testing results, top borrowers, non-performing assets and loans, industry exposures, large exposures, fines and penalties, employee fraud cases, service level of major information technology systems and ATMs.

Risk Mitigation
To mitigate market risk exposures, other financial instruments are used to manage exposures resulting from changes in foreign currency and interest rate risk. The Bank also observes limits on positions, losses, and market sensitivities to contain these risk exposures.

The Bank maintains a capital adequacy ratio (CAR) of ten percent (10.0%) or better at all times, for regulatory compliance purposes.

Risk Concentration
The Bank manages loan concentration by controlling its mix of counterparties or borrowers in accordance with conditions permitted by regulators. Borrowers that are considered large in size are regularly monitored and reported to the BROC. Also, the limits for exposure on specific economic activity groups are in place allowing the Bank to maintain a strategic breakdown of credit risk of the different segments. Having these controls in place allows the Bank to proactively monitor exposure status and act upon limit breaches whenever necessary.

Credit Risk
The Bank considers credit risk as the possibility of loss arising from the counterparty's or customer's inability or unwillingness to settle his/her obligations on time or in full as expected or previously contracted.

The Bank has in place a credit policy manual that defines all practices, policies and procedures regarding loan activities from identification of target markets, credit initiation, documentation and disbursement, loan administration, remedial management, and loan unit organization and staffing. Also, it has in place credit approval authorities and respective limits duly approved by the BOD.

The Bank's primary element of credit risk management is the detailed risk assessment of every credit exposure associated with the counterparty. Risk assessment procedures consider both the creditworthiness of the counterparty and the risks related to the specific type of underlying credit exposures as mandated by the circulars issued by BSP. The risk assessment not only affects the structuring of the transaction and the outcome of the credit decision, but also influences the monitoring procedure applied to the ongoing exposures.

There has been no material change on the Bank's exposure to credit risk or the manner in which it manages and measures the risk since prior financial year.

Derivative Financial Instruments
The Bank enters into currency forward contracts to manage its foreign exchange risks. Currency forwards are contractual agreements to buy or sell a specified currency at a specific price and date in the future. These derivatives are accounted for as non-hedges, with the fair value changes being reported in the statements of income for the period under "Foreign exchange gains - net" account. Credit risk, in respect of derivative financial instruments, is limited to those with positive fair values, which are reported as "Financial assets at FVPL" in the statements of financial position.

Credit-related Commitment Risks
The Bank makes available to its customers guarantees which may require the Bank to make payments on their behalf. Such payments are collected from customers based on the terms of the letters of credit. They expose the Bank to risks similar to loans and these are mitigated by the same control processes and policies.

Credit Risk Exposures
The table below shows the Bank's maximum exposure on receivables from customers and sales contract receivables, net of unearned interest income and allowance for credit losses, before and after collateral to credit risk as at December 31, 2020 and 2019:

	December 31, 2020		December 31, 2019	
	Maximum Exposure		Maximum Exposure	
	Before Collateral	**After Financial Effect of Collateral or Credit Enhancement**	Before Collateral	After Financial Effect of Collateral or Credit Enhancement
Receivables from customers:				
Term loans	**P55,358,855,966**	**P49,192,891,513**	P55,754,995,589	P53,995,648,310
Housing loans	**7,924,342,343**	**3,638,959,697**	8,234,227,024	4,916,701,057
Auto loans	**3,873,064,570**	**529,309,808**	4,499,246,660	1,296,506,132
Bills purchased, import bills and trust receipts	**634,184,181**	**634,184,181**	792,632,820	792,632,820
Direct advances	**428,696,320**	**29,894,682**	764,345,531	40,119,324
Agri-agra loans	**293,758,988**	**256,413,315**	313,615,889	295,694,374
Others	**1,502,363,886**	**1,490,088,834**	1,794,126,857	1,772,382,043
	70,015,266,254	**55,771,742,030**	72,153,190,370	63,109,684,060
Sales contract receivables	**398,422,865**	**53,712,557**	469,821,167	53,712,557
	P70,413,689,119	**P55,825,454,587**	P72,623,011,537	P63,163,396,617

For the other financial assets, the carrying amounts represent the maximum exposure to credit risk as at December 31, 2020 and 2019.

As at December 31, 2020 and 2019, fair value of collateral held for loans and receivables amounted to P79.0 billion and P39.4 billion, respectively.

The table below shows the Bank's maximum exposures, net of unearned interest income, relating to financial assets carried under Stage 3 as at December 31, 2020 and 2019:

	December 31, 2020			
	Maximum Exposure			
	Before Collateral	**Financial Effect of Collateral or Credit Enhancement**	**After Financial Effect of Collateral or Credit Enhancement**	**Expected Credit Loss**
Receivables from customers:				
Term loans	**P601,684,734**	**P138,889,579**	**P462,795,155**	**P593,710,939**
Housing loans	**754,847,638**	**478,482,475**	**276,365,163**	**305,219,778**
Auto loans	**494,798,184**	**470,238,412**	**24,559,772**	**252,159,442**
Bills purchased, import bills and trust receipts	**73,709,827**	**-**	**73,709,827**	**73,709,827**
Direct advances	**163,188,320**	**-**	**163,188,320**	**163,188,320**
Agri-agra loans	**17,663,370**	**14,362,060**	**3,301,310**	**17,663,370**
Others	**590,785,517**	**599,155**	**590,186,362**	**559,082,099**
	2,696,677,590	**1,102,571,681**	**1,594,105,909**	**1,964,733,775**
Sales contract receivables	**153,595,022**	**99,882,465**	**53,712,557**	**54,708,682**
	P2,850,272,612	**P1,202,454,146**	**P1,647,818,466**	**P2,019,442,457**

	December 31, 2019			
	Maximum Exposure			
	Before Collateral	Financial Effect of Collateral or Credit Enhancement	After Financial Effect of Collateral or Credit Enhancement	Expected Credit Loss
Receivables from customers:				
Term loans	P598,517,342	P108,275,966	P490,241,376	P587,503,224
Housing loans	249,628,092	151,724,004	97,904,088	88,277,621
Auto loans	199,333,248	179,790,793	19,542,455	94,418,236
Bills purchased, import bills and trust receipts	76,156,390	3,828,006	72,328,384	76,156,390
Direct advances	163,188,326	1,128,360	162,059,966	163,188,326
Agri-agra loans	17,663,370	14,362,060	3,301,310	17,663,370
Others	322,575,202	210,713	322,364,489	318,068,757
	1,627,061,970	459,319,902	1,167,742,068	1,345,275,924
Sales contract receivables	120,071,482	66,358,925	53,712,557	54,373,446
	P1,747,133,452	P525,678,827	P1,221,454,625	P1,399,649,370

For the other financial assets carried under Stage 3, the carrying amounts represent the maximum exposure to credit risk as at December 31, 2020 and 2019.

Collateral and Other Credit Enhancements

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

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions: cash or securities;
- For commercial lending: mortgages over real properties, inventory and trade receivables and chattel mortgages; and
- For retail lending: mortgages over real properties and financed vehicles.

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement, in the event that the value of the collateral depreciates due to various factors affecting the collateral.

It is the Bank's policy to dispose repossessed properties in the most expeditious manner possible. Sale is facilitated by offering incentives to the Bank's accredited brokers and/or formulating programs to attract buyers like offering fixed interest rates for an extended period of time and reduced rates for downpayment as compared to prevailing market rates, among others.

Credit Quality Per Class of Financial Assets
The credit quality of financial assets is assessed and managed by the Bank using both external and internal credit ratings. The Bank's Internal Credit Risk Rating System (ICRRS) is an established tool used to evaluate the Credit Risk associated with each borrower. The ICRRS assigns a score to each account based on a combination of quantitative and qualitative factors. The scores assigned to each obligor is equivalent to the risk associated to each individual. The scoring model is reviewed and validated by external parties regularly to ensure that the model is risk ranking properly. The risk rating is used as one of the measures of the Bank's risk appetite and as a factor in impairment calculation.

Based on the evaluation of the facility risk factor (FRF), the borrower risk rating (BRR) can be upgraded or downgraded to come up with the final credit risk rating (CRR). Such CRR is eventually used in the determination of the ECL.

BRR Disclosure
In compliance with BSP, the Bank implemented in 2007 a credit risk classification that is compliant with global rating standards. The BRR is the evaluation of the credit worthiness of an existing or prospective borrower. The account is evaluated independent of any influence from any transactional factors. The BRR measures the borrower's credit quality by looking into three major aspects, namely, financial condition, industry analysis and management quality. Each section is given the following point allocation:

Section	Maximum Points	Section Rating
Financial Condition	240	40%
Industry Analysis	210	30%
Management Quality	150	30%
TOTAL	**600**	**100%**

There are several rating factors per section which can earn points depending on the four (4) quality judgment levels as follows:

Good	- 30 points
Satisfactory	- 20 points
Still Acceptable	- 10 points
Poor	- 0 point

If there is no available information for a specific factor, a rating of "Poor" will be given.

The BRR is used to determine the credit quality of the Bank's corporate accounts. Loan accounts are classified according to a 1 -10 rating scale based on BRR results, as follows:

	Final Score	Equivalent Risk Rating	Calculated BRR
High Grade	>177	Excellent	1
	150 - 176	Strong	2
	123 - 149	Good	3
Standard Grade	96 - 122	Satisfactory	4
	68 - 95	Acceptable	5
	<68	Watchlist	6
Substandard Grade		Special Mention	7
Impaired		Substandard	8
		Doubtful	9
		Loss	10

High Grade or accounts with BRR of 1-3 are loans where the risk of the Bank are good to excellent in terms of risk quality and where the likelihood of the non-payment of obligation is less likely to happen.

Standard Grade or accounts with BRR of 4-6 are loans where the risk of the Bank ranges from satisfactory to acceptable with some form of weakness and where repayment capacity needs to be watched.

Substandard Grade or accounts with BRR of 7 are loans observed to have potential weaknesses and require a closer observation than the accounts under the Standard rating since if weaknesses are uncorrected, repayment of the loan may be affected increasing the credit risk to the Bank.

Past due but not impaired are those accounts for which contractual principal and interest payments were past due but that the Bank still believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Bank.

Impaired accounts are loans classified by the Bank as Substandard, Doubtful and Loss where there are experiences of past due accounts and there are well-defined weaknesses where collection or liquidation of obligation may be or is already jeopardized.

Unrated accounts include consumer loans portfolio, credit card receivables, benefit loans, accounts receivables, sales contract receivables and returned checks and other cash items (RCOCI). The Bank is currently building a separate credit rating system for these accounts to enhance credit evaluation parameters across different market segments and achieve a more sound and robust credit risk assessment.

The BRR can be subject to an upgrade/downgrade on the basis of the following:

Group Affiliation:

(a) When a borrower belongs to a group of companies, it can be upgraded up to the rating of the parent company provided that the parent company has a BRR of 4 or better.

(b) However, if the BRR of the subsidiary is better than the parent, a downgrade can be considered especially if the parent has a BRR of 5 or worse.

(c) If the parent has a BRR of 5 or lower and the subsidiary was also rated 5 or worse, it can retain its own rating.

(d) If there are criteria such as the medium and long-term outlook, special risks that can grievously affect the company and outweigh the other criteria, a possible downgrade can be considered.

(e) Companies with rapid expansion without a strong driving force or only on account of a single customer are also potential for downgrading.

FRF:

(a) The FRF is an adjustment in the BRR that considers the transactional influence. It takes into account the quality of each facility. It is important to note that a Borrower can have only 1 BRR but several FRF for its multiple facilities. FRF evaluates the different security arrangements; the quantity and the quality of the collateral cover for each facility.

(b) Collaterals are assessed at the net realizable value in a liquidation scenario. In evaluating the worthiness of the collateral, the quality of the documentation and the possible subordination of the Bank's claim should also be considered.

The adjustment on the BRR based on the FRF will be based on the following:

Upgrade	The facility is cash collateralized or covered by marketable securities
	Full collateralization of other assets
	3rd party guarantees in accordance with the BRR of the guarantor an upgrade should be set to the BRR of the guarantor
Downgrade	Borrower is a potential candidate for a downgrade if the facility is clean or a major part of the facilities are pledged to other creditors

The following table shows the credit quality of loans and receivables, excluding unquoted debt securities (gross of allowance for credit losses and net of unearned interest income) as at December 31, 2020 and 2019 (amounts in thousands).

	December 31, 2020										
	Term Loans	Housing Loans	Auto Loans	Bills Purchased, Import Bills and Trust Receipts	Direct Advances	Agri Agra Loans	Others*	Total Receivables from Customers	Sales Contract Receivables	Other Receivables**	Total
Stage 1											
Neither past due nor impaired:											
High grade	P10,722,487	P -	P -	P343,391	P396,810	P -	P -	P11,462,688	P -	P188,908	P11,651,596
Standard grade	44,580,817	-	6,515	298,194	2,371	278,823	-	45,166,720	-	242,354	45,409,074
Substandard grade	-	-	-	-	-	-	-	-	-	-	-
Unrated	-	6,900,837	2,912,243	-	-	-	1,416,982	11,230,062	287,217	739,428	12,256,707
	55,303,304	6,900,837	2,918,758	641,585	399,181	278,823	1,416,982	67,859,470	287,217	1,170,690	69,317,377
Stage 2											
Neither past due nor impaired:											
Standard grade	498,894	-	502	-	-	-	-	499,396	-	1,517	500,913
Substandard grade	227,928	-	-	-	-	-	-	227,928	-	1,357	229,285
Past due but not impaired	-	861,790	819,172	-	-	-	79,137	1,760,099	15,345	75,679	1,851,123
Impaired	-	-	-	-	36,954	17,785	-	54,739	-	12	54,751
	726,822	861,790	819,674	-	36,954	17,785	79,137	2,542,162	15,345	78,565	2,636,072
Stage 3											
Impaired	601,685	754,848	494,798	73,710	163,188	17,663	590,786	2,696,678	153,595	765,107	3,615,380
	601,685	754,848	494,798	73,710	163,188	17,663	590,786	2,696,678	153,595	765,107	3,615,380
	P56,631,811	P8,517,475	P4,233,230	P715,295	P599,323	P314,271	P2,086,905	P73,098,310	P456,157	P2,014,362	P75,568,829

**Comprised of benefit loans, salary loans and credit cards.*
***Comprised of accrued interest receivables, accounts receivables and RCOCI*

	December 31, 2019										
	Term Loans	Housing Loans	Auto Loans	Bills Purchased, Import Bills and Trust Receipts	Direct Advances	Agri Agra Loans	Others*	Total Receivables from Customers	Sales Contract Receivables	Other Receivables**	Total
Stage 1											
Neither past due nor impaired:											
High grade	P24,617,817	P -	P429	P686,974	P722,542	P -	P -	P26,027,762	P -	P393,711	P26,421,473
Standard grade	31,390,032	3,147	23,624	113,280	42,825	294,531	-	31,867,439	-	205,736	32,073,175
Substandard grade	-	-	-	209	-	-	-	209	-	-	209
Unrated	110,000	7,990,517	4,288,683	-	-	-	1,803,761	14,192,961	398,621	530,527	15,122,109
	56,117,849	7,993,664	4,312,736	800,463	765,367	294,531	1,803,761	72,088,371	398,621	1,129,974	73,616,966
Stage 2											
Neither past due nor impaired:											
Standard grade	61,000	-	-	-	-	-	-	61,000	-	858	61,858
Substandard grade	5,885	-	-	-	-	-	-	5,885	-	35	5,920
Past due but not impaired	7,116	251,179	180,776	-	-	-	10,283	449,354	9,585	25,099	484,038
Impaired	234,468	-	-	-	-	22,338	-	256,806	-	672	257,478
	308,469	251,179	180,776	-	-	22,338	10,283	773,045	9,585	26,664	809,294
Stage 3											
Impaired	598,518	249,628	199,333	76,156	163,188	17,664	322,575	1,627,062	120,071	751,564	2,498,697
	598,518	249,628	199,333	76,156	163,188	17,664	322,575	1,627,062	120,071	751,564	2,498,697
	P57,024,836	P8,494,471	P4,692,845	P876,619	P928,555	P334,533	P2,136,619	P74,488,478	P528,277	P1,908,202	P76,924,957

**Comprised of benefit loans, salary loans and credit cards.*
***Comprised of accrued interest receivables, accounts receivables and RCOCI*

The following table shows the credit quality of loan commitment and financial guarantee contracts as at December 31, 2020 and 2019 (amounts in thousands).

	December 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loan Commitment and Financial Guarantees				
Neither past due nor impaired:				
High grade	**P2,948,400**	**P -**	**P -**	**P2,948,400**
Standard grade	**2,574,078**	**-**	**-**	**2,574,078**
Unrated	**3,729,527**	**-**	**-**	**3,729,527**
Past due but not impaired	**-**	**-**	**-**	**-**
Impaired	**-**	**-**	**-**	**-**
	P9,252,005	**P -**	**P -**	**P9,252,005**

	December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
Loan Commitment and Financial Guarantees				
Neither past due nor impaired:				
High grade	P1,112,886	P -	P -	P1,112,886
Standard grade	4,078,152	-	-	4,078,152
Unrated	4,325,886	-	-	4,325,886
Past due but not impaired	-	-	-	-
Impaired	-	-	-	-
	P9,516,924	P -	P -	P9,516,924

Sensitivity of ECL to Future Economic Conditions

The ECL are sensitive to judgments and assumptions made regarding formulation of forward-looking scenarios and how such scenarios are incorporated into the calculations. The Bank performs a sensitivity analysis on the ECL recognized on material classes of its assets.

The table below shows the loss allowance on receivables from customers assuming the optimistic and pessimistic scenarios were weighted 100.0% instead of applying scenario probability weights. For ease of comparison, the table provides loss allowance amounts for the current and previous year using the same sensitivity analysis (amounts in thousands).

	December 31, 2020			
		ECL Allowance		
	Gross Exposure	**Optimistic**	**Pessimistic**	**Probability-weighted**
Term Loans	**P56,631,811**	**P1,271,405**	**P1,273,622**	**P1,272,955**
Housing Loans	**8,517,475**	**562,947**	**606,325**	**593,133**
Auto Loans	**4,233,230**	**358,715**	**360,809**	**360,166**
Bills Purchased, Import Bills and Trust	**-**	**-**	**-**	**-**
Receipts	**715,295**	**81,111**	**81,111**	**81,111**
Direct Advances	**599,323**	**170,626**	**170,627**	**170,627**
Agri-Agra Loans	**314,271**	**20,509**	**20,514**	**20,512**
Others*	**2,086,905**	**584,517**	**584,596**	**584,540**
	P73,098,310	**P3,049,830**	**P3,097,604**	**P3,083,044**

**Comprised of benefit loans, salary loans and credit cards.*

	December 31, 2019			
		ECL Allowance		
	Gross Exposure	Optimistic	Pessimistic	Probability-weighted
Term Loans	P57,024,836	P1,269,910	P1,269,667	P1,269,840
Housing Loans	8,494,471	259,799	266,374	260,244
Auto Loans	4,692,845	193,730	198,189	193,599
Bills Purchased, Import Bills and Trust	-	-	-	-
Receipts	876,619	83,986	83,986	83,986
Direct Advances	928,556	163,918	163,935	164,210
Agri-Agra Loans	334,532	20,943	20,943	20,917
Others*	2,136,619	342,499	343,599	342,492
	P74,488,478	P2,334,785	P2,346,693	P2,335,288

**Comprised of benefit loans, salary loans and credit cards.*

Loans with Renegotiated Terms

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. The Bank renegotiates receivable from customers in financial difficulties to maximize collection opportunities and minimize the risk of default. The carrying amounts per class of loans and receivables whose terms have been renegotiated are as follows:

	2020	2019
Term loans	**P254,866,548**	P472,254,731
Agri-Agra loans	**35,447,897**	40,001,419
Housing loans	**14,109,526**	15,526,118
Others	**-**	182,889
	P304,423,971	P527,965,157

For financial assets such as amounts due from BSP and other banks, interbank loans receivable and SPURA, financial assets at FVPL, financial assets at FVOCI, investment securities at amortized cost, and unquoted debt securities classified as loans, the credit quality is assessed using external credit rating (such as Standard & Poor's, Fitch, Moody's, etc.) of the respective counterparties considering relevant BSP mandates, as follows:

	December 31, 2020		
	AA - A	**BBB and Below or Unrated**	**Total**
Loans and advances to banks: **			
Due from BSP	**P39,552,550,316**	**P -**	**P39,552,550,316**
Due from other banks	**585,644,975**	**437,748,745**	**1,023,393,720**
Interbank loans receivable and SPURA	**22,058,805,871**	**-**	**22,058,805,871**
	62,197,001,162	**437,748,745**	**62,634,749,907**
Financial assets at FVPL:			
Government securities held-for-trading	**-**	**639,004,121**	**639,004,121**
Private debt securities	**602,403,847**	**-**	**602,403,847**
Derivative assets*	**-**	**24,011,500**	**24,011,500**
	602,403,847	**663,015,621**	**1,265,419,468**
Financial assets at FVOCI:			
Government securities**	**8,403,032,875**	**6,545,064,097**	**14,948,096,972**
Private debt securities**	**314,963,700**	**-**	**314,963,700**
Equity securities	**-**	**161,187,337**	**161,187,337**
	8,717,996,575	**6,706,251,434**	**15,424,248,009**
Investment securities at amortized cost:			
Government securities**	**-**	**5,934,456,406**	**5,934,456,406**
Private debt securities**	**2,740,704,556**	**472,348,002**	**3,213,052,558**
	2,740,704,556	**6,406,804,408**	**9,147,508,964**
Loans and receivables - gross:			
Unquoted debt securities***	**-**	**291,578,198**	**291,578,198**
	P74,258,106,140	**P14,505,398,406**	**P88,763,504,546**

**Unrated derivatives pertain to warrants*
***Accounts are neither past due nor impaired and carried at Stage 1 in 2020*
****Accounts are impaired and carried at Stage 3 in 2020*

	December 31, 2019		
	AA - A	BBB and Below or Unrated	Total
Loans and advances to banks: **			
Due from BSP	P21,958,460,423	P -	P21,958,460,423
Due from other banks	223,134,411	447,434,045	670,568,456
Interbank loans receivable and SPURA	13,431,092,701	-	13,431,092,701
	35,612,687,535	447,434,045	36,060,121,580
Financial assets at FVPL: Private debt securities	770,870,690	-	770,870,690
Government securities held-for-trading	-	257,571,686	257,571,686
Derivative assets*	-	25,317,500	25,317,500
	770,870,690	282,889186	1,053,759,876
Financial assets at FVOCI: Government securities**	-	916,898,827	916,898,827
Private debt securities**	311,358,600	-	311,358,600
Equity securities	-	161,599,718	161,599,718
	311,358,600	1,078,498,545	1,389,857,145
Investment securities at amortized cost:			
Government securities**	616,299,614	18,336,574,659	18,952,874,273
Private debt securities**	3,093,115,884	504,807,305	3,597,923,189
	3,709,415,498	18,841,381,964	22,550,797,462
Loans and receivables - gross:			
Unquoted debt securities***	-	291,578,203	291,578,203
	P40,404,332,323	P20,941,781,943	P61,346,114,266

**Unrated derivatives pertain to warrants*
***Accounts are neither past due nor impaired and carried at Stage 1 in 2019*
****Accounts are impaired and carried at Stage 3 in 2019*

Aging Analysis of Past Due but not Impaired
The table below shows the aging of past due but not impaired loans and receivables as at December 31, 2020 and 2019.

	December 31, 2020			
	1 - 30 Days	**31 - 60 Days**	**61 - 90 Days**	**Total**
Receivable from customers (gross):				
Housing loans	**P -**	**P673,551,296**	**P188,239,086**	**P861,790,382**
Auto loans	**-**	**612,973,894**	**206,198,449**	**819,172,343**
Term loans	**-**	**-**	**-**	**-**
Others	**-**	**69,893,369**	**9,243,545**	**79,136,914**
Sales contract receivables	**12,461,595**	**2,883,599**	**-**	**15,345,194**
Other receivables*	**352,305**	**50,320,326**	**25,006,068**	**75,678,699**
	P12,813,900	**P1,409,622,484**	**P428,687,148**	**P1,851,123,532**

** Comprised of accrued interest receivables, accounts receivables, and RCOCI*

	December 31, 2019			
	1-30 Days	31-60 Days	61-90 Days	Total
Receivable from customers (gross):				
Housing loans	P -	P155,665,265	P95,513,900	P251,179,165
Auto loans	-	137,250,489	43,525,160	180,775,649
Term loans	-	7,115,797	-	7,115,797
Others	-	7,152,318	3,130,651	10,282,969
Sales contract receivables	4,280,916	4,008,139	1,295,918	9,584,973
Other receivables*	46,341	18,218,691	6,833,847	25,098,879
	P4,327,257	P329,410,699	P150,299,476	P484,037,432

** Comprised of accrued interest receivables, accounts receivables, and RCOCI*

Impairment Assessment
The Bank recognizes credit losses on financial assets at amortized cost and debt securities at FVOCI based on whether it has had a significant increase in credit risk since initial recognition. ECLs are recognized in two (2) stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL).

For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

Liquidity Risk and Funding Management

Liquidity risk is the risk to the Bank's earnings and capital arising from its inability to meet funding requirements in a timely manner. To measure and monitor this risk, the Bank generates a report on future cash flows and liquidity on a daily basis. To ensure sufficient liquidity, the Bank has a set of internal limits incorporated in its annual budget that allocates a portion of its liabilities into cash, investment securities and other liquid assets. Concentration on a single funding source is also regularly monitored to control the Bank's reliance on a specific product or counterparty.

The Bank has available credit lines from various counterparties that it can utilize to meet sudden liquidity demands. It also maintains a portfolio of high quality liquid assets (HQLA) that can be converted to cash in a short period of time and with minimal loss incurred. This ensures compliance with Liquidity Coverage Ratio (LCR) as required by Basel III regulations. LCR checks if there is sufficient HQLA to offset short-term net outflows or short-term obligations under stressed conditions. The Bank also expands its sources of stable funds in order to support asset growth and meet the Net Stable Funding Ratio (NSFR) regulatory limit. NSFR ensures that the Bank is not overly reliant on short-term funding in funding its long-term assets. The Bank's liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating both to the market in general and to events specific to the Bank. A contingency funding plan, which covers quantitative and procedural measures, is in place and may be applied under different stress scenarios.

The Bank also manages its liquidity position through the monitoring of a Maximum Cumulative Outflow against a Board-approved limit. This process measures and estimates projected funding requirements that the Bank will need at specific time horizons.

There has been no material change to the Bank's exposure to liquidity and funding management risk or the manner in which it manages and measures the risk since prior financial year.

Analysis of Financial Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the Bank's financial liabilities as at December 31, 2020 and 2019 based on contractual undiscounted repayment obligations (amounts in thousands).

	December 31, 2020					
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Total**
Deposit liabilities:						
Demand	**P39,659,286**	**P -**	**P -**	**P -**	**P -**	**P39,659,286**
Savings	**33,274,332**	**48,919,548**	**1,577,378**	**-**	**-**	**83,771,258**
Time	**143,148**	**17,511,243**	**1,582,798**	**1,593,462**	**-**	**20,830,651**
Long-term negotiable certificates	**-**	**55,952**	**170,372**	**5,869,962**	**-**	**6,096,286**
Bills payable	**-**	**-**	**19**	**-**	**-**	**19**
Manager's checks	**-**	**870,080**	**-**	**-**	**-**	**870,080**
Accrued interest and other expenses*	**-**	**469,849**	**-**	**-**	**-**	**469,849**
Lease liabilities	**-**	**37,748**	**182,289**	**486,398**	**61,072**	**767,507**
Other liabilities**	**-**	**640,566**	**1,209,081**	**-**	**279,766**	**2,129,413**
Total Undiscounted Financial Liabilities	**P73,076,766**	**P68,504,986**	**P4,721,937**	**P7,949,822**	**P340,838**	**P154,594,349**

**amounts exclude accruals of employee and other benefits, taxes payable and rent*

***amounts exclude withholding tax payable, retirement liability and ECL on off-balance sheet exposures*

	December 31, 2019					
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
Deposit liabilities:						
Demand	P34,158,478	P -	P -	P -	P -	P34,158,478
Savings	24,322,480	46,041,532	1,752,385	77	-	72,116,474
Time	19,280	13,207,699	2,686,001	2,031,851	-	17,944,831
Bills payable	-	1	9	107	-	117
Manager's checks	-	923,460	-	-	-	923,460
Accrued interest and other expenses*	-	486,213	-	-	-	486,213
Lease liabilities	-	36,726	169,622	486,685	53,195	746,228
Other liabilities**	-	-	1,980,728	-	277,516	2,258,244
Total Undiscounted Financial Liabilities	P58,500,238	P60,695,631	P6,588,745	P2,518,720	P330,711	P128,634,045

** amounts exclude accruals of employee and other benefits, taxes payable and rent*
***amounts exclude withholding tax payable, retirement liability and ECL on off-balance sheet exposures*

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments (amounts in thousands):

	December 31, 2020				
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Total**
Commitments	**P3,708,362**	**P282,538**	**P516,618**	**P3,578,850**	**P8,086,368**
Contingent liabilities	**35,670,094**	**702,357**	**1,163,616**	**3,385,057**	**40,921,124**
	P39,378,456	**P984,895**	**P1,680,234**	**P6,963,907**	**P49,007,492**

	December 31, 2019				
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
Commitments	P4,114,539	P571,289	P3,134,707	P1,350	P7,821,885
Contingent liabilities	38,545,085	770,807	1,682,639	1,784,414	42,782,945
	P42,659,624	P1,342,096	P4,817,346	P1,785,764	P50,604,830

Interest Rate Risk in the Banking Book

The loans provided by the Bank to its borrowers are mostly funded by the deposits of its branch and corporate customers. The difference in the interest revenues from loans and the interest expense in servicing deposits provide the bulk of the Bank's Net Interest Income (NII). Aside from loans, interest revenue is also provided by holdings in debt securities, repurchase agreements (repo), and other interest-bearing assets. Occasionally, the Bank taps interbank loans and other sources of funding to supplement deposits, which are subject to additional interest expense.

The Bank utilizes Funds Transfer Pricing (FTP) as a mechanism to charge the asset businesses for funding (e.g., term loans, housing loans) and to compensate the units that generate funding (e.g., branch deposits). These businesses are able to evaluate profitability and returns upon deal origination given that FTP insulates them from interest rate risk. The Central Funding Unit (CFU), under the Treasury Management Group, carries the IRRBB since it is the sole borrower of funds from the deposit taking units and the sole lender of funds to the lending units. CFU is the first line of defense for both IRRBB and Liquidity Risk. While the Bank is not and does not have intentions to hedge IRRBB via interest rate swaps in the short-term, it actively manages the interest rate mismatch by growing its sources of stable funds to offset long-term assets.

The FTP policy is properly documented and is transparent to all parties. The FTP interest rates are anchored by widely-used and market-driven benchmark rates such as BVAL and BSP interest rate corridor rates for Peso; US Libor and USD-denominated bonds issued by the Philippines for USD. Trends, forecasts, and adjustments to the FTP are discussed and approved in the regular ALCO meeting.

The NII, and ultimately earnings and capital, is vulnerable to adverse fluctuations interest rates. The Bank also measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of asset-liability gap analysis on a monthly basis. This analysis focuses on the repricing profile of its rate sensitive assets and liabilities, and the impact of interest rate movements on the Bank's accrual earnings. The interest rate repricing gap report assigns all assets and liabilities into various time buckets according to the remaining days to maturity for fixed-rate items, remaining days to next re-pricing for floating-rate items, or based on behavioral assumptions, if more applicable.

The difference between the total of the repricing (interest rate-sensitive) assets and repricing (interest rate-sensitive) liabilities gives an indication of the Bank's repricing risk exposure. A positive gap means more assets mature or have to be repriced than liabilities. In this case, the Bank is said to be "asset sensitive" in that time bucket and it benefits from an increase of interest rates as the assets will be repriced faster than liabilities.

A bank with a negative gap is considered "liability sensitive" since it has more liabilities to be repriced during such period than assets. It is negatively affected by a hike in interest rates. An example would be a bank that uses short-term deposits to fund long-term loans at fixed rates. It may encounter a decline in its net interest income if the interest rates increase since the cost of funds (the deposit rates) will increase while the earnings from loans remain fixed.

RSK monitors the mismatches in the repricing of its assets and liabilities through the interest rate gap reports presented to ALCO and BROC on a monthly basis. To ensure that the Bank's net interest income is preserved, the Bank has set a limit for the maximum repricing gap, either positive or negative, for tenors up to 1 year. These limits are reviewed annually and form part of the Bank's risk appetite statements.

The Bank makes use of an internally developed Earnings-at-Risk (EAR) model for measuring IRRBB. EAR simulates the contraction of the projected NII over the next 12 months using historical changes in interest rate benchmarks such as BVAL for PHP and US Libor for USD. The balance sheet size and shape are assumed to remain static for the next 12 months. Non-maturity deposits (NMD) or current-savings accounts (CASA) are split into two classifications, core deposits and volatile deposits.

The volatile or non-core portion of the NMD/CASA is spread over short-term buckets based on behavioral average life. Core deposits are slotted in the 3 - 5 years bucket. Interest rate option risk embedded in loans and time deposits that alter the timing of balance sheet items are incorporated in the model. The model captures the possibility of borrowers prepaying their loans and time deposit customers pre-terminating their investments. The interest rate scenario simulated by the model impacts the exercise of the interest rate option. More prepayment is expected if interest rates decline while more pre-termination is expected as interest rates increase.

The table sets forth the Bank's interest rate repricing gap as at December 31, 2020 and 2019.

	December 31, 2020								
In Millions	Up to 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 5 Years	Beyond 5 Years	Non-rate Sensitive	Total
Resources									
Cash and COCI	P -	P -	P -	P -	P -	P -	P -	P2,421	P2,421
Due from BSP	24,857	-	-	-	-	-	-	14,691	39,548
Due from other banks	-	-	-	-	-	-	-	7,049	7,049
Interbank loans receivable	15,819	-	107	-	-	-	-	(2)	15,924
Financial assets at FVPL	-	-	-	-	-	-	-	1,265	1,265
Financial assets at FVOCI	2,385	2,624	6,718	1,945	1,543	-	-	48	15,263
Investment securities at AC	177	1,139	1,467	1,411	4,375	886	25	(331)	9,149
Loans - net	17,924	17,162	6,808	5,091	6,332	11,776	2,326	2,683	70,102
Other resources	279	1	-	-	-	-	-	9,243	9,523
	P61,441	P20,926	P15,100	P8,447	P12,250	P12,662	P2,351	P37,067	P170,244
Liabilities and Equity									
Deposit liabilities:	P56,180	P31,044	P2,970	P1,355	P955	P56,601	P -	P -	P149,105
Demand deposits	5,767	4,575	348	-	-	28,969	-	-	39,659
Savings deposits	5,582	4,249	968	307	-	22,147	-	-	33,253
Time deposits	44,831	22,220	1,654	1,048	955	456	-	-	71,164
Long-term negotiable certificates	-	-	-	-	-	5,029	-	-	5,029
Other liabilities	-	-	-	-	-	-	-	4,853	4,853
	56,180	31,044	2,970	1,355	955	56,601	-	4,853	153,958
Capital funds	-	-	-	-	-	-	-	16,286	16,286
	P56,180	P31,044	P2,970	P1,355	P955	P56,601	P -	P21,139	P170,244
Total periodic gap	P5,261	(P10,118)	P12,130	P7,092	P11,295	(P43,939)	P2,351	P15,928	P -

	December 31, 2019								
In Millions	Up to 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 5 Years	Beyond 5 Years	Non-rate Sensitive	Total
Resources									
Cash and COCI	P -	P -	P -	P -	P -	P -	P -	P1,776	P1,776
Due from BSP	6,750	-	-	-	-	-	-	15,205	21,955
Due from other banks	-	-	-	-	-	-	-	4,590	4,590
Interbank loans receivable	9,400	-	-	-	-	-	-	-	9,400
Financial assets at FVPL	-	-	-	-	-	-	-	1,054	1,054
Financial assets at FVOCI	36	32	129	236	688	-	78	29	1,228
Investment securities at AC	102	1,087	35	1,745	4,361	7,239	8,364	(335)	22,598
Loans - net	10,408	12,605	4,004	4,781	11,012	17,164	10,095	2,131	72,200
Other resources	375	16	-	-	-	-	-	9,613	10,004
	P27,071	P13,740	P4,168	P6,762	P16,061	P24,403	P18,537	P34,063	P144,805
Liabilities and Equity									
Deposit liabilities:	P43,745	P15,973	P1,980	P2,038	P1,038	P607	P -	P58,475	P123,856
Demand deposits	-	-	-	-	-	-	-	34,158	34,158
Savings deposits	-	-	-	-	-	-	-	24,317	24,317
Time deposits	43,745	15,973	1,980	2,038	1,038	607	-	-	65,381
Other liabilities	-	-	-	-	-	-	-	4,906	4,906
	43,745	15,973	1,980	2,038	1,038	607	-	63,381	128,762
Capital funds	-	-	-	-	-	-	-	16,043	16,043
	P43,745	P15,973	P1,980	P2,038	P1,038	P607	P -	P79,424	P144,805
Total periodic gap	(P16,674)	(P2,233)	P2,188	P4,724	P15,023	P23,796	P18,537	(P45,361)	P -

The Bank manages interest rate risk separately for its RBU and FCDU books. The interest rate risk of the RBU of the Bank from its accounts is managed in PHP while the FCDU of the Bank, regardless of original currency is managed in USD. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's results of operations and OCI:

	December 31, 2020			
Currency	**Changes in Interest Rates (In Basis Points)**	**Sensitivity of Net Interest Income (In Millions)**	**Sensitivity of Trading Gains - net on FA at FVPL (In Millions)**	**Sensitivity Of OCI (In Millions)**
PHP	**+200**	**(P55.88)**	**(P43.71)**	**(P354.54)**
USD	**+100**	**2.97**	**(29.49)**	**(25.23)**
PHP	**-200**	**55.88**	**43.71**	**354.54**
USD	**-100**	**(2.97)**	**29.49**	**25.23**

	December 31, 2019			
Currency	Changes in Interest Rates (In Basis Points)	Sensitivity of Net Interest Income (In Millions)	Sensitivity of Trading Gains - net on FA at FVPL (In Millions)	Sensitivity Of OCI (In Millions)
PHP	+200	(P81.19)	(P17.24)	(P20.44)
USD	+100	3.38	(25.29)	(7.75)
PHP	-200	81.19	17.24	20.44
USD	-100	(3.38)	25.29	7.75

The sensitivity of the results of operations is measured as the effect of the assumed changes in interest rates on the net interest income for one year based on the floating rate of financial assets and liabilities held as at December 31, 2020 and 2019.

The sensitivity of "Trading and investment securities gains - net" and OCI is calculated by revaluing fixed-rate financial assets at FVPL and debt securities at FVOCI, respectively, as at December 31, 2020 and 2019. The total sensitivity of OCI is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

Market Risk

Market risk arises from the potential decline in earnings and capital due to adverse changes in market conditions and the underlying risk factors, which in turn affect the value and future cash flows of financial instruments, products, and transactions. The Bank is primarily exposed to two sources of market risk, namely: 1) market price risk in the trading book; and 2) foreign exchange risk from open foreign currency exposures. The Bank also has equity-related holdings which is a source of equity price risk, although deemed as minimal compared to the first two.

There has been no material change to the Bank's exposure to market risk or the manner in which it manages and measures the risk since prior financial year.

Market Price Risk in the Trading Book

The market price of financial instruments and transactions in the trading book may change unfavorably as a result of movements in interest rates, foreign exchange rates, credit spreads, and other risk factors. The Bank employs an internally developed VAR model, along with other sensitivity metrics, to measure and monitor the probable deterioration in the market value of its trading portfolio. The Bank's RSK simulates the trading book's VAR on a daily basis and the results are compared against Board-approved limits. In addition to the limit on VAR, the trading portfolio is also subject to limits on aggregate exposures, sensitivity metrics, monthly and yearly losses.

Value-at-Risk Methodology

VAR serves as the Bank's key metric in the measurement of risk arising from market price changes of financial assets and foreign currency exposures. Given data for the market risk factors over a 1-year period (260 business days), VAR is the maximum probable loss that may be incurred from positions exposed to market risk. The maximum probable loss is calculated from simulations of daily profit and losses assuming that historical movements in market risk factors will recur, subject to a 99% confidence level and a 1-day holding period.

The Bank's VAR methodology is based on the widely used historical simulation method but with a modification on the usual assumption of equal probabilities in the simulation data points. Profit and loss simulations derived from older data are given less importance by assigning them with progressively lower probabilities of occurrence when used in the calculation of the maximum probable loss.

The table below summarizes the results of the Bank's VAR calculations as at December 31, 2020 and 2019.

	FX Exposures	HFT Securities	FVOCI Securities	Aggregate VAR
2020				
As at December 31, 2020	**P1,726,310**	**P4,018,818**	**P15,499,166**	**P18,371,364**
Average	**1,430,556**	**4,250,037**	**31,705,591**	**36,000,815**
Highest	**3,916,042**	**16,499,017**	**81,809,349**	**92,052,475**
Lowest	**535,935**	**384,686**	**1,718,683**	**4,051,594**
2019				
As at December 31, 2019	P1,948,258	P1,126,875	P4,935,389	P5,167,226
Average	1,616,678	4,152,198	17,740,607	21,346,876
Highest	5,121,637	22,581,724	54,493,190	74,012,971
Lowest	448,676	52,909	966,445	1,460,171

Currency Risk

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 based on its assets and liabilities is within conservative limits for a financial institution engaged in a type of business similar to that of the Bank.

Foreign currency deposits are generally used to fund the foreign currency-denominated loan and investment portfolios in the FCDU. Banks are required by BSP to match the foreign currency liabilities held in the FCDU with foreign currency assets. In addition, BSP requires a 30.0% liquidity reserve on all foreign currency liabilities held in the FCDU.

Similar to market price risk in the trading book, the Bank employs limits and a VAR model to manage the risk that possible interest or currency movements pose. Such limits are prudently set and the position status is monitored on a daily basis.

The table below summarizes the Bank's exposure to foreign exchange risk as at December 31, 2020 and 2019. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by currency (based on USD equivalents in thousands):

	December 31, 2020			
	USD	**Euro**	**Others**	**Total**
Assets				
Due from other banks	**$686**	**$750**	**$391**	**$1,827**
Interbank loans	**3,100**	**-**	**-**	**3,100**
Loans and receivables	**856**	**-**	**-**	**856**
Total assets	**4,642**	**750**	**391**	**5,783**
Liabilities				
Deposit liabilities	**-**	**742**	**-**	**742**
Other liabilities	**122**	**54**	**3**	**179**
Total liabilities	**122**	**796**	**3**	**921**
Net Exposure	**$4,520**	**($46)**	**$388**	**$4,862**
Amount in PHP	**P217,064**	**(P2,209)**	**P18,633**	**P233,488**

	December 31, 2019			
	USD	Euro	Others	Total
Assets				
Due from other banks	$804	$660	$383	$1,847
Interbank loans	3,150	-	-	3,150
Loans and receivables	2,807	-	-	2,807
Total assets	6,761	660	383	7,804
Liabilities				
Deposit liabilities	-	718	-	718
Other liabilities	97	114	17	228
Total liabilities	97	832	17	946
Net Exposure	$6,664	($172)	$366	$6,858
Amount in PHP	P337,432	(P8,709)	P18,532	P347,255

The table below indicates the currencies which the Bank has significant exposure to as at December 31, 2020 and 2019 based on its foreign currency-denominated assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement of other currency rates against the PHP, with all other variables held constant on the results of operations (due to the fair value of currency sensitive monetary assets and liabilities) and OCI. A negative amount in the table reflects a potential net reduction of net income or OCI while positive amount reflects a net potential increase. Change in currency rates are based on the historical movements of each currency for the same period:

	Philippine Peso Appreciates by	**Effect on Profit before Tax (In Millions)**	**Philippine Peso Depreciates by**	**Effect on Profit before Tax (In Millions)**
December 31, 2020				
Currency				
USD	**P1.00**	**(P4.52)**	**(P1.00)**	**P4.52**
Euro	**0.50**	**0.02**	**(0.50)**	**(0.02)**
Others	**0.40**	**(0.16)**	**(0.40)**	**0.16**

	Philippine Peso Appreciates by	Effect on Profit before Tax (In Millions)	Philippine Peso Depreciates by	Effect on Profit before Tax (In Millions)
December 31, 2019				
Currency				
USD	P1.00	(P6.66)	(P1.00)	P6.66
Euro	0.50	0.09	(0.50)	(0.09)
Others	0.40	(0.15)	(0.40)	0.15

Given the nature and amount of the Bank’s equity investments portfolio in 2020 and 2019, management believes the Bank’s exposure to currency risk is considered minimal.

Equity Price Risk

Given the nature and amount of the Bank’s equity investments portfolio in 2020 and 2019, management believes the Bank’s exposure to equity price risk is considered minimal.

6. Categories and Fair Value Measurement

The methods and assumptions used by the Bank in estimating the fair values of financial and non-financial assets and liabilities are as follows:

COCI, Due from BSP and Other Banks and Interbank Loans Receivable and SPURA - Fair values approximate carrying amounts given the short-term nature of the instruments.

Debt Securities (Financial Assets at FVPL, Financial Assets at FVOCI, and Investment Securities at Amortized Cost) - Fair values are generally based on quoted market prices. If 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 discounted cash flow methodology.

Equity Securities (Financial Assets at FVOCI) - Fair values are determined based on market prices quoted in an established exchange, or on published quotes by accredited brokers.

Derivative Instruments (Financial Assets at FVPL) - Fair values are determined based on published quotes or price valuations provided by counterparties or calculations using market-accepted valuation techniques.

Loans and Receivables - The estimated fair values of long-term receivables from customers and sales contract receivables are equal to the estimated future cash flows expected to be received which are discounted using current market rates (i.e. BVAL and Libor). Fair value of short-term receivable from customers, sales contract receivables, accounts receivables, accrued interest receivables, and RCOCI approximates carrying amounts given the short-term nature of the accounts.

Investment Properties - Fair value is determined based on valuations performed by external and in-house appraisers using the market data approach. Valuations are 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 and comparability of similar properties sold with the property being valued. Significant unobservable inputs in determining the fair values include the following:

Location	Location of comparative properties whether on a main road or secondary road. Road width could also be a consideration if data is available. As a rule, properties along a main road are superior to properties along a secondary road.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable confirms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.

Forward

Time Element	An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investor's perceptions of the market over time, in which case, the current date is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.

Deposit Liabilities - Fair values of long-term time deposits are estimated using the discounted cash flow methodology, where future cash flows are discounted using the current market rate (i.e. BVAL and Libor) and with maturities consistent with those remaining for the liability being valued. Carrying amounts of short-term time deposits approximate fair value. For demand and savings deposits, carrying amounts approximate fair values considering that these are currently due and demandable.

Bills Payable - For long-term bills payable, fair values are estimated using the discounted cash flow methodology, where future cash flows are discounted using the current market rate and with maturities consistent with those remaining for the liability being valued. Carrying amounts of short-term bills payable approximate fair value.

Manager's Checks, Accrued Interest and Other Expenses and Other Liabilities (excluding non-financial liabilities) - Carrying amounts approximate fair values due to the short-term nature of the accounts. Due to preferred shareholders is determined to be long term in nature due to a pending dispute which affects maturity. Fair value cannot be estimated reliably due to lack of supportable data available.

The following table provides the fair value hierarchy of the Bank's assets and liabilities measured at fair value and those for which fair values should be disclosed (amounts in thousands):

	December 31, 2020				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVPL:					
Government securities held for trading	**P639,004**	**P558,716**	**P80,288**	**P -**	**P639,004**
Private debt securities	**602,404**	**-**	**602,404**	**-**	**602,404**
Derivative assets	**24,011**	**-**	**24,011**	**-**	**24,011**
Financial assets at FVOCI:					
Government securities	**14,948,097**	**12,363,794**	**2,584,303**	**-**	**14,948,097**
Private debt securities	**314,964**	**314,964**	**-**	**-**	**314,964**
Equity securities	**161,187**	**123,560**	**-**	**37,627**	**161,187**
	P16,689,667	**P13,361,034**	**P3,291,006**	**P37,627**	**P16,689,667**
Assets for which Fair Values are Disclosed					
Financial Assets					
Investment securities at amortized cost:					
Government securities	**P5,933,637**	**P3,751,321**	**P2,314,803**	**P -**	**P6,066,124**
Private debt securities	**3,212,641**	**2,758,716**	**483,296**	**-**	**3,242,012**
Loans and receivables:					
Receivables from customers	**70,038,051**	**-**	**-**	**81,238,432**	**81,238,432**
Less unearned interest	**22,784**	**-**	**-**	**22,784**	**22,784**

Forward

	December 31, 2020				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
	P70,015,267	**P -**	**P -**	**P81,215,648**	**P81,215,648**
Sales contract receivables	**398,423**	**-**	**-**	**493,875**	**493,875**
	79,559,968	**6,510,037**	**2,798,099**	**81,709,523**	**91,017,659**
Non-financial Assets					
Investment properties	**3,624,987**	**-**	**-**	**8,135,990**	**8,135,990**
	P83,184,955	**P6,510,037**	**P2,798,099**	**P89,845,513**	**P99,153,649**
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Deposit liabilities:					
Time	**P20,673,084**	**P -**	**P20,727,448**	**P -**	**P20,727,448**
Long-term negotiable certificates	**5,029,420**	**-**	**5,425,681**	**-**	**5,425,681**
Bills payable	**19**	**-**	**19**	**-**	**19**
	P25,702,523	**P -**	**P26,153,148**	**P -**	**P26,153,148**

	December 31, 2019				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVPL:					
Private debt securities	P770,871	P -	P770,871	P -	P770,871
Government securities held for trading	257,572	173,419	84,153	-	257,572
Derivative assets	25,318	-	25,318	-	25,318
Financial assets at FVOCI:					
Government securities	916,899	187,661	729,238	-	916,899
Private debt securities	311,359	311,359	-	-	311,359
Equity securities	161,600	124,691	-	36,909	161,600
	P2,443,619	P797,130	P1,609,580	P36,909	P2,443,619
Assets for which Fair Values are Disclosed					
Financial Assets					
Investment securities at amortized cost:					
Government securities	P18,950,382	P8,896,466	P10,269,387	P -	P19,165,853
Private debt securities	3,597,450	3,102,744	505,738	-	3,608,482
Loans and receivables:					
Receivables from customers	72,176,104	-	-	76,769,861	76,769,861
Less unearned interest	22,914	-	-	22,914	22,914
	72,153,190	-	-	76,746,947	76,746,947
Sales contract receivables	469,821	-	-	553,092	553,092
	95,170,843	11,999,210	10,775,125	77,300,039	100,074,374
Non-financial Assets					
Investment properties	3,729,769	-	-	7,173,335	7,173,335
	P98,900,612	P11,999,210	P10,775,125	P84,473,374	P107,247,709
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Time deposit liabilities	P17,681,145	P -	P17,689,214	P -	P17,689,214
Bills payable	105	-	112	-	112
	P17,681,250	P -	P17,689,326	P -	P17,689,326

In 2020 and 2019, due to changes in market conditions for certain government securities measured at FVPL and FVOCI, quoted prices in active markets were no longer available for these securities. However, there was sufficient information available to measure the fair values of these securities based on observable market inputs. Therefore, these securities at FVPL and at FVOCI, with carrying amounts of P12.6 million and P441.8 million, respectively, in 2020, and P3.6 million and P360.4 million, respectively, in 2019, were transferred from Level 1 to Level 2 of the fair value hierarchy.

For 2020 and 2019, there have been no transfers into and out of Level 3 of the fair value hierarchy.

An instrument in its entirety is classified as Level 3 if a significant portion of the instrument's fair value is driven by unobservable inputs. Unobservable in this context means that there is little or no current market data available from which the price at which an arm's length transaction would be likely to occur can be derived. The fair value of the Level 3 instruments is based on cost which approximates its fair value.

The Bank reclassified the fair value level of its loans and receivables and investment properties presented as at December 31, 2019 to Level 3.

As at December 31, 2020 and 2019, the carrying values of the Bank's financial assets and liabilities, not included in the table above, as reflected in the statements of financial position and related notes approximate their respective fair values.

7. Segment Reporting

The Bank's operating businesses are recognized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit. Operating segments are reported in accordance with internal reporting to Senior Management who is responsible for allocating resources to the segments and assessing their performance. The Bank's business segments follow:

Treasury Management Group - principally provides money market, trading and treasury services, as well as management of the Bank's funding operations by use of treasury bills, government securities and placements and acceptances with other banks.

Corporate Banking Group - principally handles loans and other credit facilities for corporate institutional, and middle market clients.

Branch Banking Group - principally supervises customers' deposits and offers standard customer transactional services through the branch network.

Consumer Group - principally manages home, automobile, and salary loans for individual customers.

Others - includes but not limited to Credit Cards, Transaction Banking, Trust, and Acquired Assets. Other operations of the Bank also include operations and financial control groups.

Segment assets and liabilities comprise operating assets and liabilities, including borrowings. Revenues and expenses that are directly attributable to a particular business segment and the relevant portions of the Bank's revenues and expenses that can be allocated to that business segment are accordingly reflected as revenues and expenses of that business segment. Transactions between the business segments are carried out at arm's length. The Bank uses an Internal Funds Transfer Pricing rate to allocate the cost of funds or to recognize internal revenue for deposit takers. The Bank has no significant customers which contributes 10.00% or more of the Bank's revenue net of interest expense. Internal charges and transfer pricing adjustments have been reflected in the performance of each business.

The segment information of the Bank for the year ended December 31, 2020, 2019 and 2018 for statement of income items, and as at December 31, 2020 and December 31, 2019 for statement of financial position items follow (amounts in millions):

	December 31, 2020					
	Treasury Management Group	**Corporate Banking Group**	**Branch Banking Group**	**Consumer Group**	**Others**	**Total**
Statement of Income						
Net interest income:						
Third party	**P1,173**	**P3,677**	**(P1,023)**	**P1,013**	**P268**	**P5,108**
Intersegment	**(1,416)**	**(2,019)**	**4,840**	**(716)**	**(689)**	**-**
Net interest income	**(243)**	**1,658**	**3,817**	**297**	**(421)**	**5,108**
Non-interest income	**1,204**	**78**	**86**	**10**	**387**	**1,765**
Total revenues	**961**	**1,736**	**3,903**	**307**	**(34)**	**6,873**
Other expenses	**308**	**219**	**1,736**	**153**	**2,452**	**4,868**
Income (losses) before provision for credit losses and income tax expense	**P653**	**P1,517**	**P2,167**	**P154**	**(P2,486)**	**P2,005**
Provision for credit and impairment losses						**P963**
Share in net loss of an associate						**1**
Income tax expense						**257**
Net income						**P784**
Other Segment Information						
Capital expenditures	**P3**	**P2**	**P34**	**P4**	**P44**	**P87**
Depreciation and amortization	**P4**	**P3**	**P256**	**P7**	**P298**	**P568**

	December 31, 2020					
	Treasury Management Group	**Corporate Banking Group**	**Branch Banking Group**	**Consumer Group**	**Others**	**Total**
Statement of Financial Position						
Total assets	**P71,291**	**P60,263**	**P18,595**	**P12,811**	**P7,961**	**P170,921**
Total Liabilities	**9,118**	**3**	**141,729**	**111**	**3,193**	**154,154**

	December 31, 2019					
	Treasury Management Group	Corporate Banking Group	Branch Banking Group	Consumer Group	Others	Total
Statement of Income						
Net interest income						
Third party	P1,029	P3,173	(P1,150)	P927	P157	P4,136
Intersegment	(481)	(1,993)	3,469	(670)	(325)	-
Net interest income	548	1,180	2,319	257	(168)	4,136
Non-interest income	437	287	124	74	775	1,697
Total revenues	985	1,467	2,443	331	607	5,833
Other expenses	213	400	1,661	157	2,230	4,661
Income (losses) before provision for credit losses and income tax expense	P772	P1,067	P782	P174	(P1,623)	P1,172
Provision for credit and impairment losses						P52
Share in net loss of an associate						3
Income tax expense						464
Net income						P653
Other Segment Information						
Capital expenditures	P4	P -	P49	P7	P129	P189
Depreciation and amortization	P4	P3	P74	P7	P392	P480

	December 31, 2019					
	Treasury Management Group	Corporate Banking Group	Branch Banking Group	Consumer Group	Others	Total
Statement of Financial Position						
Total assets	P43,769	P66,391	P14,244	P13,496	P7,133	P145,033
Total Liabilities	7,199	30,774	87,717	95	3,153	128,938

	December 31, 2018					
	Treasury Management Group	Corporate Banking Group	Branch Banking Group	Consumer Group	Others	Total
Statement of Income						
Net interest income						
Third party	P1,540	P2,756	(P1,481)	P737	P147	P3,699
Intersegment	(882)	(2,009)	3,704	(423)	(390)	-
Net interest income	658	747	2,223	314	(243)	3,699
Non-interest income	(44)	115	89	38	446	644
Total revenues	614	862	2,312	352	203	4,343
Other expenses	285	266	1,635	143	1,954	4,283
Income (losses) before provision for credit losses and income tax expense	P329	P596	P677	P209	(P1,751)	P60
Reversal for credit and impairment losses						(P181)
Share in net loss of an associate						2
Income tax expense						255
Net loss						(P16)
Other Segment Information						
Capital expenditures	P6	P7	P61	P6	P61	P141
Depreciation and amortization	P3	P3	P85	P7	P161	P259

Non-Interest income consists of trading and investment securities gains (losses), service charges, fees and commissions, foreign exchange gains, gain on foreclosure, and sale of property and equipment and foreclosed assets and miscellaneous income.

Other expenses consist of compensation and fringe benefits, taxes and licenses, rent and utilities, depreciation and amortization, insurance, service fees and commissions, subscription fees, entertainment and recreation, management and professional fees, amortization of software costs, share in net loss of associate and miscellaneous expense.

8. Interbank Loans Receivable and Securities Purchased under Resale Agreements

This account consists of:

	Note	**2020**	2019
SPURA		**P15,819,273,408**	P9,290,661,215
Interbank loans receivable		**6,239,532,463**	4,140,431,486
		22,058,805,871	13,431,092,701
Less allowance for credit losses	*18*	**2,977,939**	1,813,198
		P22,055,827,932	P13,429,279,503

Interbank loans receivable consists of short-term loans granted to other banks.

SPURA represents overnight lending placements with the BSP where the underlying securities cannot be sold or re-pledged to parties other than the BSP.

Interest income on SPURA and interbank loans receivable follows:

	2020	2019	2018
SPURA	**P234,610,084**	P272,552,691	P253,783,499
Interbank loans receivable	**3,434,107**	43,017,001	12,346,925
	P238,044,191	P315,569,692	P266,130,424

Peso-denominated interbank loans receivable bear interest rates ranging from 3.5% to 3.9%, from 4.0% to 5.3% and from 4.0% to 5.3% in 2020, 2019 and 2018, respectively. Dollar-denominated interbank loans receivable bear interest rates ranging from 0.1% to 1.7%, from 1.6% to 2.3% and from 0.6% to 1.9% in 2020, 2019 and 2018, respectively.

SPURA bears interest rates ranging from 2.0% to 4.0%, from 4.0% to 4.8% and from 3.0% to 4.8% in 2020, 2019 and 2018, respectively.

9. Financial Assets at Fair Value through Profit or Loss

Financial assets at FVPL consist of:

	2020	2019
Government securities held-for-trading	**P639,004,121**	P257,571,686
Private debt securities	**602,403,847**	770,870,690
Derivative assets	**24,011,500**	25,317,500
	P1,265,419,468	P1,053,759,876

Private debt securities pertain to investment in MRT III bonds that does not qualify as SPPI, thus, mandatorily classified and measured as financial assets at FVPL.

As at December 31, 2020, 2019 and 2018, financial assets at FVPL are adjusted for unrealized gain of P69.7 million and P135.5 million, and unrealized loss of P19.7 million respectively (see Note 28).

<u>Derivative Financial Instruments</u>
This includes warrants amounting to $50 thousand acquired by the Bank in June 2008. The warrants give the Bank the option or right to exchange its holding of certain Republic of the Philippines Global Bonds into peso-denominated government securities upon occurrence of a predetermined credit event. The warrants will mature in November 2032.

The table below shows the fair values of derivative financial instruments entered into by the Bank, recorded as derivative assets or derivative liabilities, together with the notional amount and leverage exposure. The leverage exposure is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The leverage exposure indicates the volume of transactions outstanding as at December 31, 2020 and 2019and is not indicative of either market risk or credit risk.

	December 31, 2020			December 31, 2019		
	Derivative Assets	**Notional Amount**	**Leverage Exposure**	Derivative Assets	Notional Amount	Leverage Exposure
Freestanding derivatives:						
Warrants	**P24,011,500**	**$50,000**	**$ -**	P25,317,500	$50,000	$ -

10. Financial Assets at Fair Value through Other Comprehensive Income

This account consists of:

	Note	**2020**	2019
Government securities	*20, 38*	**P14,948,096,972**	P916,898,827
Private debt securities	*33*	**314,963,700**	311,358,600
Equity securities	*33*	**161,187,337**	161,599,718
		P15,424,248,009	P1,389,857,145

As at December 31, 2020, 2019 and 2018, the ECL allowance on debt securities at FVOCI included under "Net unrealized gains on financial assets at FVOCI" amounted to P1.8 million, P0.1 million, and P0.8 million, respectively (see Note 18).

Equity Securities
This account consists of ordinary shares from a foreign financial institution and a telecommunications company and club shares. The Bank has designated these equity securities as at FVOCI.

Equity securities include the Bank's 8.57% equity interest in Banco National de Guinea Equatorial (BANGE) as part of its partnership with the National Government of the Republic of Equatorial Guinea. Dividend income received from BANGE in 2020, 2019 and 2018 amounted to P3.0 million, P5.5 million and P6.6 million, respectively, booked under "Miscellaneous Income" in the statements of income (see Notes 31 and 33).

In 2019 and 2018, the Bank disposed club shares with carrying value of P0.03 million and P7.0 million, respectively, and transferred to "Deficit" account the realized gain of P0.3 million and P5.3 million in 2019 and 2018, respectively. In 2020, there were no disposals of equity securities.

Dividend income in 2020, 2019 and 2018 from equity securities at FVOCI amounted to P12.2 million, P8.2 million and P13.1 million, respectively (see Note 31).

Net Unrealized Gains on Financial Assets at FVOCI
The movements of net unrealized gains on financial assets at FVOCI follow:

	Note	**2020**	2019	2018
Balance at beginning of year		**P36,108,673**	(P129,757,730)	P8,546,417
Net unrealized gains recognized as OCI		**315,724,110**	368,927,255	(133,365,743)
Realized gains taken to profit or loss	*28*	**(280,743,443)**	(198,827,405)	164,734
Effect of tax	*32*	**(3,084,165)**	(3,305,159)	196,862
ECL on debt securities at FVOCI	*18*	**1,652,388**	(659,788)	-
Realized gains taken deficit		**-**	(268,500)	(5,300,000)
Balance at end of year		**P69,657,563**	P36,108,673	(P129,757,730)

11. Investment Securities at Amortized Cost

This account consists of:

	Note	2020	2019
Government securities		**P5,934,456,406**	P18,952,874,273
Private debt securities	33	**3,213,052,558**	3,597,923,189
		9,147,508,964	22,550,797,462
Less allowance for credit losses	18	**1,231,453**	2,964,709
		P9,146,277,511	P22,547,832,753

In September and October 2020, the Bank sold government securities classified as Investment securities at amortized cost with total carrying value of P11.8 billion for peso denominated government securities and $51.3 million for dollar denominated government securities. The Bank realized gain from the sale of these securities amounting to P570.5 million and $4.0 million (P196.6 million) for peso and dollar denominated government securities, respectively (see Note 28).

The sales were made as part of the Bank's initiatives to preserve its capital and provide a buffer over regulatory minimum levels. The capital of the Bank was directly threatened by the increasing past due and NPL brought by the unforeseen and historical COVID-19 pandemic which required a significant increase in provision for credit losses on loans. The Bank assessed that the sale did not result in changes to the objectives of the hold-to-collect business model as the sale was infrequent. The remaining investment securities continue to be measured at amortized cost.

12. Loans and Receivables

This account consists of:

	Note	2020	2019
Receivables from customers:			
Term loans		**P56,631,811,377**	P57,024,835,729
Housing loans		**8,517,583,659**	8,494,591,887
Auto loans		**4,233,260,023**	4,693,003,643
Bills purchased, import bills and trust receipts	*22*	**715,294,705**	876,619,124
Direct advances		**600,996,331**	931,274,215
Agri-agra loans		**314,820,702**	334,962,386
Others		**2,107,327,349**	2,156,105,393
		73,121,094,146	74,511,392,377
Less unearned interest income		**22,784,328**	22,914,092
		73,098,309,818	74,488,478,285
Accounts receivable		**1,125,879,319**	1,091,478,464
Accrued interest receivable:			
Loans and receivables		**783,484,965**	584,376,502
Trading and investment securities		**99,472,481**	225,035,140
Due from BSP and other banks		**3,394,000**	2,460,937
Interbank loans receivable and SPURA		**2,121,071**	4,756,138
Sales contract receivables		**456,157,168**	528,276,665
Unquoted debt securities		**291,578,198**	291,578,203
RCOCI		**10,500**	94,545
		75,860,407,520	77,216,534,879
Less allowance for credit losses	*18*	**4,232,058,040**	3,474,273,070
		P71,628,349,480	P73,742,261,809

Bills purchased, import bills and trust receipts include bills purchased with contra account in “Bills purchased - contra” under “Other Liabilities” amounting to P684.4 million and P822.0 million as at December 31, 2020 and 2019, respectively (see Notes 22 and 33). Bills purchased - contra represents liabilities arising from the outright purchases of checks due for clearing as a means of immediate financing offered by the Bank to its clients.

Other receivables from customers pertain to consumer loans such as benefit loans, salary loans, and credit cards.

Accounts receivable mainly consist of amounts due from customers and other parties under open-account arrangements, advances for buyers of foreclosed properties, receivables from employees and other miscellaneous receivables.

Sales contract receivables arise mainly from the sale of foreclosed properties booked under “Investment properties” and “Non-current assets held for sale” accounts.

On March 25, 2020, Republic Act (RA) No. 11469, otherwise known as the Bayanihan to Heal as One Act (“Bayanihan 1”) was enacted. Bayanihan 1 provides that all covered institutions shall implement a 30-day grace period for all loans with principal and/or interest falling due within the enhanced community quarantine period without incurring interest on interest, penalties, fees and other charges. Subsequently, on September 11, 2020, RA No. 11494, otherwise known as the Bayanihan to Recover as One Act (“Bayanihan 2”), was enacted. Under Bayanihan 2, a one-time 60-day grace period is granted for the payment of all existing, current and outstanding loans falling due, or any part thereof, on or before December 31, 2020, without incurring interest on interest, penalties, fees and other charges, thereby extending the maturity of the said loans.

Based on the Bank’s assessment, the modifications in the contractual cash flows as a result of the above reliefs are not substantial and therefore do not result in the derecognition of the affected financial assets. The impact of loan modifications amounted to a loss of P29.6 million. For the year ended December 31, 2020, the net impact of the loan modification after subsequent accretion of the modified loan amounted to P24.8 million and were recorded in “Interest income” in the statement of income.

BSP Regulatory Reporting

As at December 31, 2020 and 2019, the breakdown of receivables from customers as to collateral follows (amounts in thousands, except percentages):

	2020		2019	
	Amount	**%**	Amount	%
Loans secured by:				
Real estate	**P4,109,378**	**5.6**	P6,998,411	9.4
Chattel	**3,331,699**	**4.6**	3,596,487	4.8
Deed of assignment	**1,609,305**	**2.2**	4,798,740	6.4
Deposit hold-out	**620,771**	**0.9**	733,324	1.0
Others*	**16,395,441**	**22.4**	4,912,537	6.6
	26,066,594	**35.7**	21,039,499	28.2
Unsecured	**47,054,500**	**64.3**	53,471,893	71.8
	P73,121,094	**100.0**	P74,511,392	100.0

**Others include certificate of participation, corporate guaranty, continuing surety agreement, deed of pledge, mortgage trust indenture and post-dated checks*

As at December 31, 2020 and 2019, information on the concentration of credit as to industry follows (amounts in thousands, except percentages):

	2020		2019	
	Amount	**%**	Amount	%
Real estate activities	**P16,784,796**	**23.0**	P18,389,214	24.7
Electricity, gas, steam, and air-conditioning supply	**15,331,150**	**21.0**	12,444,906	16.7
Construction	**10,328,230**	**14.1**	10,698,737	14.3
Manufacturing	**9,010,927**	**12.3**	8,185,572	11.0
Financial and insurance activities	**3,742,904**	**5.1**	2,080,598	2.8
Arts, entertainment and recreation	**3,500,204**	**4.8**	3,500,000	4.7
Wholesale and retail trade, repair of motor vehicles and motorcycles	**2,791,156**	**3.8**	2,170,380	2.9
Water supply, sewerage, waste management and remediation activities	**1,401,877**	**1.9**	941,283	1.3
Transportation and storage	**1,353,153**	**1.9**	2,998,915	4.0
Agriculture, forestry and fishing	**1,064,300**	**1.5**	3,983,847	5.3
Accommodation and food service activities	**943,691**	**1.3**	647,704	0.9
Administrative and support service activities	**185,583**	**0.2**	207,513	0.3
Others*	**6,683,123**	**9.1**	8,262,723	11.1
	P73,121,094	**100.0**	P74,511,392	100.0

**Others include Information and Communication, Professional Activities, Education, Personal Consumption and other various activities*

BSP considers that concentration of credit risk exists when the total loan exposure to a particular industry or economic sector exceeds 30.0% of total loan portfolio or 10.0% of Tier 1 capital. As at December 31, 2020 and 2019, the Bank does not have credit concentration in any particular industry that exceeds 30.0% of total loan portfolio. As at December 31, 2020, 10% of Tier 1 capital amounted to P1.5 billion and the table above includes the seven industry groups exceeding this level as of that date. The table also includes the nine industry groups above the 10% of Tier 1 capital (P1.5 billion) as at December 31, 2019. The BROC and CRECOM constantly monitor these credit risk concentrations to ensure they are within the risk appetite of the Bank.

Under BSP Circular No. 941, *Amendments to the Regulations on Past Due and Non-Performing Loans,* loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of 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.

As at December 31, 2020 and 2019, the breakdown of receivables from customers as to status, as reported to BSP, is as follows (amounts in thousands)

	2020	2019
Performing loans	**P70,424,269**	P72,878,388
Non-performing loans	**2,698,793**	1,610,090
	P73,123,062	P74,488,478

As at December 31, 2020 and 2019, the NPLs of the Bank, as reported to BSP, are as follows:

	2020	2019
Gross NPLs	**P2,698,793**	P1,610,090
Less deductions as required by BSP	**1,908,728**	1,320,969
Net NPLs	**P790,065**	P289,121

Gross and net NPL ratios of the Bank are 3.0% and 0.9%, respectively, as at December 31, 2020 and 1.9% and 0.3%, respectively, as at December 31, 2019.

As at December 31, 2020 and 2019, restructured loans amounted to P304.4 million and P528.0 million, respectively. Restructured receivables which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs. As at December 31, 2020 and 2019, restructured receivables from customers considered as NPLs amounted P195.8 million.

On March 14, 2020, the BSP issued BSP Memorandum No. M-2020-008 Regulatory Reliefs for BSP-supervised financial institutions (BSFIs) Affected by the COVID-19, as amended by M-2020-0032 dated April 27, 2020 and M-2020-0022 dated April 8, 2020. The said memorandum provides for certain temporary regulatory relief measures for financial institutions supervised by the BSP. Accordingly, the Bank informed the BSP of its intention to avail the following:

- Staggered booking of allowance for credit losses over a maximum of five years for all types of credits extended to individuals and businesses directly affected by COVID-19 as of March 8, 2020, subject to prior approval of the BSP;

- Exclusion from the computation of past due and non-performing classification, the loans by borrowers in affected areas which should have been reclassified as past due as of March 8, 2020, including those loans becoming past due or non-performing six months thereafter, subject to the following: (a) such loans shall be reported to the BSP; (b) the exclusion shall be allowed from March 8, 2020 until December 31, 2021; and (c) BSP documentary requirements for restructuring of loans may be waived provided that the Bank will adopt appropriate and prudent operational control measures;

- Non-imposition of monetary policies for delays incurred in the submission of all supervisory reports to BSP due to be submitted from March 8, 2020 up to six months thereafter;

- Non-imposition of penalties on legal reserve deficiencies computed under Section 255 of the MORB starting from reserve week following March 8, 2020 up to six months thereafter, subject to prior approval of the BSP;

- Increase in the Single Borrower's Limit (SBL) from 25.0% to 30.0% until March 31, 2021;

- Allowance of (a) loans to Micro, Small and Medium Enterprises (MSMEs) and (b) loans to critically-impacted large enterprises as alternative mode of compliance with reserve requirements until December 31, 2021; and

- Provision of financial assistance to officers affected by the present health emergency, for the grant of loans, advances or any other forms of credit accommodations, subject to the submission by the Bank of a request for BSP approval within 30 calendar days from the approval thereof of the BOD.

As of December 31, 2020, the Bank chose not to continue with the availment of the relief on staggered booking of allowance for credit losses with regards to its Audited Financial Statements. There has also been no availment of the other reliefs during this period.

Interest Income on Loans and Receivables

This account consists of:

	2020	2019	2018
Receivables from customers:			
Term loans	**P3,502,896,604**	P3,729,495,585	P2,719,698,559
Housing loans	**570,443,567**	501,280,911	373,151,392
Auto loans	**351,866,491**	327,044,238	270,126,575
Agri-agra loans	**26,051,159**	34,055,163	22,707,796
Direct advances	**25,320,441**	33,414,850	31,737,042
Bills purchased, import bills and trust receipts	**280,959**	5,023,182	19,703,706
Others	**336,682,833**	255,918,893	189,760,452
	4,813,542,054	4,886,232,822	3,626,885,522
Sales contract receivable	**26,601,895**	33,828,277	41,825,704
	P4,840,143,949	P4,920,061,099	P3,668,711,226

**Others pertain to interest income from consumer loans such as benefit loans, salary loans, and credit cards.*

As at December 31, 2020, 2019 and 2018, 44.3%, 44.7% and 46.7%, respectively, of the total receivables from customers were subject to periodic interest repricing. Peso-denominated loans earn annual fixed interest rates ranging from 1.3% to 54.0%, 1.6% to 54.0% and 1.3% to 54.0% in 2020, 2019 and 2018, respectively. Dollar-denominated loans earn annual fixed interest rates ranging from 1.2% to 8.0%, 2.9% to 8.5% and 3.1% to 8.0% in 2020, 2019 and 2018, respectively.

Sales contract receivables bear fixed interest rates ranging from 3.4% to 12.1% in 2020 and 2019 and 3.4% to 13.2% in 2018.

13. Non-current Assets Held for Sale

As at December 31, 2020 and 2019, non-current assets held for sale amounting to nil and P48.1 million, respectively, were comprised of buildings and were stated at carrying amount.

In 2020, these properties ceased to be classified as held for sale since the sale was not highly probable. The Bank reclassified these properties to Investment properties account and recognized P48.1 million in Depreciation and amortization in the statement of income for the current period.

There were no additions and disposals of non-current assets held for sale in 2019.

There is no cumulative income or expense included in OCI relating to non-current assets held for sale.

14. Investment in an Associate

The details of movements of the Bank's equity investment in BIC follow:

	Note	**2020**	2019	2018
Acquisition cost (24.26%-owned)		**P75,395,200**	P75,395,200	P75,395,200
Accumulated equity in net loss and OCI:				
Balance at beginning of year		**(28,025,906)**	(29,487,304)	(23,319,749)
Share in net loss		**(753,029)**	(2,865,073)	(1,844,496)
Share in other comprehensive income (loss)		**(3,073)**	4,326,471	(4,323,059)
Balance at end of year		**(28,782,008)**	(28,025,906)	(29,487,304)
Allowance for impairment loss	*18*	**(5,925,786)**	(5,925,786)	(5,925,786)
	33	**P40,687,406**	P41,443,508	P39,982,110

The following table shows the summarized financial information of BIC:

	2020***	2019**	2018*
Assets	**P179,192,558**	P182,018,232	P185,720,681
Liabilities	**(11,409,432)**	(11,439,777)	(11,097,790)
Net assets	**167,783,126**	170,578,455	174,622,891
Revenues	**956,700**	1,168,192	1,659,125
Net loss for the year	**(2,782,659)**	(4,039,329)	(24,612,820)
Other comprehensive loss	**(12,670)**	(5,106)	19,174
Total comprehensive loss	**(2,795,329)**	(4,044,435)	(24,593,646)

**Based on 2018 audited financial statements*
***Based on 2019 audited financial statements*
****Based on 2020 unaudited numbers*

As at December 31, 2020 and 2019, the Bank's subscribed capital stock in BIC amounted to P75.8 million out of BIC's outstanding capital stock of P312.5 million.

15. Property and Equipment

The movements in property and equipment follow:

		December 31, 2020					
	Note	**Land**	**Buildings**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Right-of-Use Assets** (Note 30)	**Total**
Cost							
Balance at January 1		**P41,569,630**	**P852,916,703**	**P1,535,856,312**	**P818,750,027**	**P762,476,355**	**P4,011,569,027**
Additions		**-**	**1,253,430**	**86,666,609**	**10,308,715**	**220,979,671**	**319,208,425**
Disposals		**-**	**-**	**(82,166,966)**	**-**	**(43,050,807)**	**(125,217,773)**
Balance at December 31		**41,569,630**	**854,170,133**	**1,540,355,955**	**829,058,742**	**940,405,219**	**4,205,559,679**
Less Accumulated Depreciation and Amortization							
Balance at January 1		**-**	**220,640,955**	**1,122,019,787**	**751,645,607**	**170,031,581**	**2,264,337,930**
Depreciation and amortization		**-**	**22,180,554**	**113,180,003**	**24,200,831**	**196,113,592**	**355,674,980**
Disposals		**-**	**-**	**(37,264,285)**	**-**	**(42,746,185)**	**(80,010,470)**
Balance at December 31		**-**	**242,821,509**	**1,197,935,505**	**775,846,438**	**323,398,988**	**2,540,002,440**
Allowance for impairment losses	*18*	**5,022,885**	**1,133,017**	**-**	**-**	**-**	**6,155,902**
Net Book Value at December 31		**P36,546,745**	**P610,215,607**	**P342,420,450**	**P53,212,304**	**P617,006,231**	**P1,659,401,337**

		December 31, 2019					
	Note	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	Right-of-Use Assets (Note 30)	Total
Cost							
Balance at January 1		P41,569,630	P845,238,581	P1,649,552,985	P808,309,177	P550,480,190	P3,895,150,563
Additions		-	7,678,122	189,183,291	10,440,850	211,996,165	419,298,428
Disposals		-	-	(302,879,964)	-	-	(302,879,964)
Balance at December 31		41,569,630	852,916,703	1,535,856,312	818,750,027	762,476,355	4,011,569,027
Less Accumulated Depreciation and Amortization							
Balance at January 1		-	198,472,522	1,267,389,443	722,813,031	-	2,188,674,996
Depreciation and amortization		-	22,168,433	108,753,170	28,832,576	170,031,581	329,785,760
Disposals		-	-	(254,122,826)	-	-	(254,122,826)
Balance at December 31		-	220,640,955	1,122,019,787	751,645,607	170,031,581	2,264,337,930
Allowance for impairment losses	*18*	5,022,885	1,133,017	-	-	-	6,155,902
Net Book Value at December 31		P36,546,745	P631,142,731	P413,836,525	P67,104,420	P592,444,774	P1,741,075,195

		December 31, 2018					
	Note	Land (Note 36)	Buildings (Note 36)	Furniture, Fixtures and Equipment	Leasehold Improvements	Right-of-Use Assets (Note 30)	Total
Cost							
Balance at January 1		P41,570,353	P838,758,341	P1,754,713,543	P776,819,527	P -	P3,411,861,764
Additions		-	6,480,240	141,038,070	31,789,650	-	179,307,960
Reclassifications		(723)	-	-	-	-	(723)
Disposals and others		-	-	(246,198,628)	(300,000)	-	(246,498,628)
Balance at December 31		41,569,630	845,238,581	1,649,552,985	808,309,177	-	3,344,670,373
Less Accumulated Depreciation and Amortization							
Balance at January 1		-	176,496,736	1,370,455,000	682,792,721	-	2,229,744,457
Depreciation and amortization		-	21,975,786	95,470,830	40,020,310	-	157,466,926
Disposals		-	-	(198,536,387)	-	-	(198,536,387)
Balance at December 31		-	198,472,522	1,267,389,443	722,813,031	-	2,188,674,996
Allowance for impairment losses	*18*	5,022,885	1,133,017	-	-	-	6,155,902
Net Book Value at December 31		P36,546,745	P645,633,042	P382,163,542	P85,496,146	P -	P1,149,839,475

In 2020, 2019 and 2018 net gains on sale of property and equipment under "Gains on foreclosure and sale of property and equipment and foreclosed assets - net" account in the statement of income amounted to P0.5 million, P0.4 million and P3.9 million, respectively.

As at December 31, 2020 and 2019, the cost of fully depreciated property and equipment still in use amounted to P1.6 billion and P0.8 billion, respectively.

16. Investment Properties

The movements in investment properties follow:

		December 31, 2020		
	Note	**Land**	**Buildings**	**Total**
Balance at January 1		**P3,382,699,201**	**P1,117,837,397**	**P4,500,536,598**
Additions		**11,786,963**	**12,404,057**	**24,191,020**
Reclassification	*13*	**-**	**58,930,175**	**58,930,175**
Disposals		**(39,584,003)**	**(11,919,235)**	**(51,503,238)**
Balance at December 31		**3,354,902,161**	**1,177,252,394**	**4,532,154,555**
Less Accumulated Depreciation				
Balance at January 1		**-**	**595,014,287**	**595,014,287**
Depreciation		**-**	**125,259,084**	**125,259,084**
Reclassification	*13*	**-**	**10,808,618**	**10,808,618**
Disposal		**-**	**(3,730,338)**	**(3,730,338)**
		-	**727,351,651**	**727,351,651**
Less Allowance for Impairment Losses	*18*	**172,547,531**	**7,268,767**	**179,816,298**
		P3,182,354,630	**P442,631,976**	**P3,624,986,606**

		December 31, 2019		
	Note	Land	Buildings	Total
Balance at January 1		P2,892,960,147	P925,714,857	P3,818,675,004
Additions	*31*	559,494,733	319,842,177	879,336,910
Disposals		(69,755,679)	(127,719,637)	(197,475,316)
Balance at December 31		3,382,699,201	1,117,837,397	4,500,536,598
Less Accumulated Depreciation				
Balance at January 1		-	529,929,280	529,929,280
Depreciation		-	73,682,841	73,682,841
Disposal		-	(8,597,834)	(8,597,834)
		-	595,014,287	595,014,287
Less Allowance for Impairment Losses	*18*	165,124,070	10,629,048	175,753,118
		P3,217,575,131	P512,194,062	P3,729,769,193

	Note	December 31, 2018 Land	Buildings	Total
Balance at January 1		P2,956,570,194	P928,413,124	P3,884,983,318
Additions		92,626,551	58,364,723	150,991,274
Disposals		(156,237,321)	(61,062,990)	(217,300,311)
Reclassifications	*15*	723	-	723
Balance at December 31		2,892,960,147	925,714,857	3,818,675,004
Less Accumulated Depreciation				
Balance at January 1		-	511,919,830	511,919,830
Depreciation		-	58,955,492	58,955,492
Disposal		-	(40,946,042)	(40,946,042)
		-	529,929,280	529,929,280
Allowance for Impairment Losses	*18*	146,959,442	19,161,294	166,120,736
		P2,746,000,705	P376,624,283	P3,122,624,988

As at December 31, 2020 and 2019, the aggregate market value of investment properties amounted to P8.1 billion and P7.2 billion, respectively. Information about the fair value measurement of investment properties is presented in Note 6.

Gain on foreclosure and sale of investment properties under "Gains on foreclosure and sale of property and equipment and foreclosed assets - net" consists of the following:

	2020	2019	2018
Gain on assets sold	**P45,987,545**	P134,937,859	P119,558,672
Gain on foreclosure	**1,104,271**	193,461,664	62,092,904
	P47,091,816	P328,399,523	P181,651,576

Rental income on investment properties (included in "Miscellaneous income" account in the statements of income) in 2020, 2019 and 2018 amounted to P0.2 million, P1.6 million P2.0 million, respectively (see Note 31).

No direct operating expenses on investment properties that generated rental income (included under "Litigation and acquired assets" in "Other expenses - miscellaneous" account and "Taxes and licenses" account in the statements of income) were incurred in 2020, 2019 and 2018. Direct operating expenses on investment properties such as litigation expenses, included under "Litigation and acquired assets" in "Other expenses - miscellaneous" account, and real estate taxes, included under "Taxes and licenses" account in the statements of income, that did not generate rental income in 2020, 2019 and 2018 amounted to P68.4 million, P70.2 million and P61.4 million, respectively (see Note 31).

17. Other Assets

This account consists of:

	Note	2020	2019
Miscellaneous assets - TRB	*34*	**P4,435,569,820**	P4,435,986,451
Creditable withholding tax		**1,277,486,389**	1,124,318,843
Intangible assets*		**363,318,065**	393,067,200
Sinking fund	*24*	**279,765,823**	277,515,653
Documentary stamps		**102,095,989**	64,327,008
Other properties acquired*		**51,041,236**	140,467,777
Prepaid expenses		**21,596,789**	25,290,597
Others		**213,982,609**	181,400,604
		6,744,856,720	6,642,374,133
Less allowance for impairment losses	*18*	**4,615,724,154**	4,615,166,861
		P2,129,132,566	P2,027,207,272

**net of accumulated amortization/depreciation, gross of allowance for impairment losses*

Others include security deposit, unused supplies and forms and petty cash fund.

Miscellaneous Assets - TRB

This account includes non-performing assets (NPAs) amounting to P4.4 billion as at December 31, 2020 and 2019 which were assumed by the Bank in connection with the Purchase and Sale Agreement (PSA) entered into by the Bank with Traders Royal Bank (TRB) in 2002 (see Note 34). Pursuant to the requirements of PFRS, the impairment losses on the NPAs amounting to P4.4 billion as at December 31, 2020 and 2019, were charged in full in the period incurred.

For its separate prudential reporting to BSP, the Bank was allowed under the MB Resolution No. 1751, dated November 8, 2001, as further amended by MB Resolution No. 489, dated April 3, 2003 and pursuant to MB Resolution No. 1950, dated November 21, 2013, to defer the full recognition of the impairment losses. The Bank annually recognizes provisions for impairment losses to gradually meet the foregoing provisioning requirement based on the net yield earned by the Bank from the Financial Assistance Agreement (FAA) with Philippine Deposit Insurance Corporation (PDIC) until November 29, 2013 when the collateralized government securities was sold and the obligation was fully settled. In 2020 and 2019, provisions for impairment losses recognized for prudential reporting to BSP amounted to P160.0 million and P159.3 million, respectively (see Note 34).

Intangible Assets

Intangible assets consist of:

	Note	2020	2019
Software costs*		**P303,318,065**	P333,067,200
Branch licenses		**60,000,000**	60,000,000
		363,318,065	393,067,200
Less allowance for impairment losses	*18*	**90,278,696**	90,278,696
		P273,039,369	P302,788,504

**net of accumulated amortization, gross of allowance for impairment losses*

Movements in software costs follow:

	2020	2019	2018
Cost			
Balance at January 1	**P861,720,028**	P730,123,876	P705,548,281
Additions	**16,158,782**	131,596,152	24,575,595
Balance at end of year	**877,878,810**	861,720,028	730,123,876
Less Accumulated Amortization			
Balance at January 1	**528,652,828**	494,508,673	437,126,957
Amortization for the year	**45,907,917**	34,144,155	57,381,716
Balance at end of year	**574,560,745**	528,652,828	494,508,673
Less Allowance for Impairment Losses	**90,278,696**	90,278,696	90,278,696
Net Book Value	**P213,039,369**	P242,788,504	P145,336,507

Other Properties Acquired

Movements in the other properties acquired follow:

	2020	2019	2018
Cost			
Balance at January 1	**P246,655,672**	P228,602,522	P59,786,522
Additions	**24,013,000**	49,947,500	232,780,000
Disposals	**(45,238,500)**	(31,511,000)	(63,964,000)
Write-off	**-**	(383,350)	-
Balance at end of year	**225,430,172**	246,655,672	228,602,522
Less Accumulated Depreciation			
Balance at January 1	**106,187,895**	38,239,801	16,360,495
Depreciation for the year	**86,916,796**	76,976,250	42,619,251
Disposals	**(18,715,755)**	(8,644,806)	(20,739,945)
Write-off	**-**	(383,350)	-
Balance at end of year	**174,388,936**	106,187,895	38,239,801
Less Allowance for Impairment Losses	**-**	25,777	-
Net Book Value	**P51,041,236**	P140,442,000	P190,362,721

In 2020, 2019 and 2018, gain on foreclosure amounted to P0.2 million, P1.6 million and P3.2 million, respectively. Gain on sale of other properties acquired under "Gains on foreclosure and sale of property and equipment and foreclosed assets - net" amounted to P11.0 million, P5.9 million and P18.6 million in 2020, 2019 and 2018, respectively.

18. Allowance for Credit and Impairment Losses

Movements in ECL allowances in 2020, 2019 and 2018 on financial assets, other than loans and receivables, are summarized as follows (amounts in thousands):

	December 31, 2020					
	Due from BSP	**Due from Other Banks**	**Interbank Loans Receivable and SPURA** (Note 8)	**Financial Assets at FVOCI** (Note 10)	**Investment Securities at Amortized Cost** (Note 11)	**Total**
ECL allowance, January 1, 2020	**P2,964**	**P87**	**P1,813**	**P118**	**P2,965**	**P7,947**
Provision for (reversal of) credit and impairment losses for the year	**2,376**	**55**	**1,204**	**1,687**	**(1,707)**	**3,615**
Foreign exchange differences	**-**	**(4)**	**(39)**	**(35)**	**(27)**	**(105)**
ECL allowance, December 31, 2020	**P5,340**	**P138**	**P2,978**	**P1,770**	**P1,231**	**P11,457**

	December 31, 2019					
	Due from BSP	Due from Other Banks	Interbank Loans Receivable and SPURA (Note 8)	Financial Assets at FVOCI (Note 10)	Investment Securities at Amortized Cost (Note 11)	Total
ECL allowance, January 1, 2019	P2,893	P518	P1,618	P777	P3,109	P8,915
Provision for (reversal of) credit and impairment losses for the year	71	(423)	221	(656)	(119)	(906)
Foreign exchange differences	-	(8)	(26)	(3)	(25)	(62)
ECL allowance, December 31, 2019	P2,964	P87	P1,813	P118	P2,965	P7,947

	December 31, 2018					
	Due from BSP	Due from Other Banks	Interbank Loans Receivable and SPURA (Note 8)	Financial Assets at FVOCI (Note 10)	Investment Securities at Amortized Cost (Note 11)	Total
ECL allowance, January 1, 2018	P3,470	P430	P853	P566	P2,909	P8,228
Reversal of (provision for) credit and impairment losses for the year	(577)	68	751	197	167	606
Foreign exchange differences	-	20	14	14	33	81
ECL allowance, December 31, 2018	P2,893	P518	P1,618	P777	P3,109	P8,915

All accounts above were carried at Stage 1 and there were no transfers into and out of Stage 1 in 2020, 2019 and 2018.

The ECL allowance on financial assets at FVOCI is included in the “Net unrealized gains on financial assets at FVOCI” account in the statements of financial position (see Note 10).

As at December 31, 2020 and 2019, ECL on off-balance sheet exposures amounted to P32.2 million and P47.9 million, respectively, (see Note 22). In 2020, 2019 and 2018, the Bank recognized reversal of ECL on loan commitment and financial guarantees amounting to P15.7 million, P8.0 million and P5.9 million, respectively.

The table below summarizes the movement in ECL allowances on loans and receivables in 2020, 2019 and 2018 (amounts in thousands).

	December 31, 2020										
	Term Loans	Housing Loans	Auto Loans	Bills Purchased, Import Bills and Trust Receipts	Direct Advances	Agri Agra Loans	Others*	Total Receivables from Customers	Sales Contract Receivables	Other Receivables**	Total
Stage 1											
ECL Loans, January 1, 2020	P595,718	P160,023	P93,507	P7,830	P1,022	P1,412	P23,986	P883,498	P3,986	P12,918	P900,402
Provision for credit and impairment losses	93,568	279,607	125,749	(420)	6,421	230	(2,358)	502,797	(633)	12,140	514,304
Transfer from Stage 1	(56,149)	(241,584)	(140,802)	-	(7,059)	-	(1,854)	(447,448)	(499)	(8,812)	(456,759)
Transfer from Stage 2	-	1,316	735	-	-	-	28	2,079	13	56	2,148
Transfer from Stage 3	-	82	41	-	-	-	-	123	5	4	132
Foreign exchange differences	(3,247)	(13)	-	(9)	(4)	-	(58)	(3,331)	-	(14)	(3,345)
	629,890	199,431	79,230	7,401	380	1,642	19,744	937,718	2,872	16,292	956,882
Stage 2											
ECL Loans, January 1, 2020	86,618	11,943	5,674	-	-	1,842	437	106,514	96	25,241	131,851
Provision for credit and impairment losses	(2,657)	43,875	26,193	-	235	(635)	(213)	66,798	(23)	9,325	76,100
Transfer from Stage 1	49,354	81,028	27,681	-	7,059	-	632	165,754	73	3,113	168,940
Transfer from Stage 2	(6,039)	(48,896)	(30,809)	-	-	-	(199)	(85,943)	(67)	(5,996)	(92,006)
Transfer from Stage 3	-	532	37	-	-	-	5,057	5,626	74	3	5,703
Movement due to foreclosure/settlement	(77,922)	-	-	-	-	-	-	(77,922)	-	-	(77,922)
Foreign exchange differences	-	-	-	-	(235)	-	-	(235)	-	(59)	(294)
	49,354	88,482	28,776	-	7,059	1,207	5,714	180,592	153	31,627	212,372
Stage 3											
ECL Loans, January 1, 2020	587,504	88,278	94,418	76,156	163,188	17,663	318,069	1,345,276	54,373	1,042,371	2,442,020
Provision for credit and impairment losses	(4,826)	9,420	24,142	(62)	-	-	356,011	384,685	(65)	(5,082)	379,538
Transfer from Stage 1	6,795	160,556	113,121	-	-	-	1,222	281,694	426	5,699	287,819
Transfer from Stage 2	6,039	47,580	30,074	-	-	-	171	83,864	54	5,940	89,858
Transfer from Stage 3	-	(614)	(78)	-	-	-	(5,057)	(5,749)	(79)	(7)	(5,835)
Movement due to foreclosure/settlement	-	-	(9,517)	-	-	-	-	(9,517)	-	(882)	(10,399)
Write-off	-	-	-	-	-	-	(108,923)	(108,923)	-	-	(108,923)
Foreign exchange differences	(1,801)	-	-	(2,384)	-	-	(2,411)	(6,596)	-	(4,678)	(11,274)
	593,711	305,220	252,160	73,710	163,188	17,663	559,082	1,964,734	54,709	1,043,361	3,062,804
TOTAL											
ECL Loans, January 1, 2020	1,269,840	260,244	193,599	83,986	164,210	20,917	342,492	2,335,288	58,455	1,080,530	3,474,273
Provision for credit and impairment losses	86,085	332,902	176,084	(482)	6,656	(405)	353,440	954,280	(721)	16,383	969,942
Transfer from Stage 1	-	-	-	-	-	-	-	-	-	-	-
Transfer from Stage 2	-	-	-	-	-	-	-	-	-	-	-
Transfer from Stage 3	-	-	-	-	-	-	-	-	-	-	-
Movement due to foreclosure/settlement	(77,922)	-	(9,517)	-	-	-	-	(87,439)	-	(882)	(88,321)
Write-off	-	-	-	-	-	-	(108,923)	(108,923)	-	-	(108,923)
Foreign exchange differences	(5,048)	(13)	-	(2,393)	(239)	-	(2,469)	(10,162)	-	(4,751)	(14,913)
	P1,272,955	P593,133	P360,166	P81,111	P170,627	P20,512	P584,540	P3,083,044	P57,734	P1,091,280	P4,232,058

Comprised of benefit loans, salary loans and credit cards.
***Comprised of accrued interest receivables, accounts receivables and RCOCI*

	December 31, 2019										
	Term Loans	Housing Loans	Auto Loans	Bills Purchased, Import Bills and Trust Receipts	Direct Advances	Agri Agra Loans	Others*	Total Receivables from Customers	Sales Contract Receivables	Other Receivables**	Total
Stage 1											
ECL Loans, January 1, 2019	P592,605	P129,606	P66,540	P3,662	P466	P4,911	P18,026	P815,816	P4,748	P6,381	P826,945
Provision for credit and impairment losses	33,062	26,326	31,634	4,180	568	(1,657)	7,008	101,121	(537)	5,748	106,332
Transfer from Stage 1	(27,836)	(7,773)	(8,775)	-	-	(1,842)	(1,095)	(47,321)	(306)	(1,080)	(48,707)
Transfer from Stage 2	-	8,416	2,669	-	-	-	124	11,209	34	1,812	13,055
Transfer from Stage 3	-	3,454	1,439	-	-	-	84	4,977	47	61	5,085
Foreign exchange differences	(2,113)	(6)	-	(12)	(12)	-	(161)	(2,304)	-	(4)	(2,308)
	595,718	160,023	93,507	7,830	1,022	1,412	23,986	883,498	3,986	12,918	900,402
Stage 2											
ECL Loans, January 1, 2019	174,686	15,909	4,614	-	-	-	271	195,480	48	25,247	220,775
Provision for credit and impairment losses	(90,393)	1,192	(2,579)	-	-	-	(17)	(91,797)	(50)	23,211	(68,636)
Transfer from Stage 1	716	3,544	4,996	-	-	1,842	265	11,363	99	264	11,726
Transfer from Stage 2	1,609	(11,526)	(4,108)	-	-	-	(170)	(14,195)	(36)	(23,555)	(37,786)
Transfer from Stage 3	-	2,824	2,751	-	-	-	88	5,663	35	88	5,786
Movement due to foreclosure/settlement	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange differences	-	-	-	-	-	-	-	-	-	(14)	(14)
	86,618	11,943	5,674	-	-	1,842	437	106,514	96	25,241	131,851
Stage 3											
ECL Loans, January 1, 2019	699,277	64,352	87,948	78,525	163,652	17,663	245,855	1,357,272	54,726	988,978	2,400,976
Provision for credit and impairment losses	(136,029)	25,057	19,351	(594)	(464)		73,136	(19,543)	(480)	35,725	15,702
Transfer from Stage 1	27,120	4,229	3,779	-	-	-	830	35,958	207	816	36,981
Transfer from Stage 2	(1,609)	3,110	1,439	-	-	-	46	2,986	2	21,743	24,731
Transfer from Stage 3	-	(6,278)	(4,190)	-	-	-	(172)	(10,640)	(82)	(149)	(10,871)
Movement due to foreclosure/settlement	-	(2,192)	(13,909)	-	-	-	-	(16,101)	-	(1,259)	(17,360)
Foreign exchange differences	(1,255.00)	-	-	(1,775)	-	-	(1,626)	(4,656)	-	(3,483)	(8,139)
	587,504.00	88,278	94,418	76,156	163,188	17,663	318,069	1,345,276	54,373	1,042,371	2,442,020
TOTAL											
ECL Loans, January 1, 2019	1,466,568	209,867	159,102	82,187	164,118	22,574	264,152	2,368,568	59,522	1,020,606	3,448,696
Provision for credit and impairment losses	(193,360)	52,575	48,406	3,586	104	(1,657)	80,127	(10,219)	(1,067)	64,684	53,398
Transfer from Stage 1	-	-	-	-	-	-	-	-	-	-	-
Transfer from Stage 2	-	-	-	-	-	-	-	-	-	-	-
Transfer from Stage 3	-	-	-	-	-	-	-	-	-	-	-
Movement due to foreclosure/settlement	-	(2,192)	(13,909)	-	-	-	-	(16,101)	-	(1,259)	(17,360)
Foreign exchange differences	(3,368)	(6)	-	(1,787)	(12)	-	(1,787)	(6,960)	-	(3,501)	(10,461)
	P1,269,840	P260,244	P193,599	P83,986	P164,210	P20,917	P342,492	P2,335,288	P58,455	P1,080,530	P3,474,273

**Comprised of benefit loans, salary loans and credit cards.*
***Comprised of accrued interest receivables, accounts receivables and RCOCI*

	December 31, 2018										
	Term Loans	Housing Loans	Auto Loans	Bills Purchased, Import Bills and Trust Receipts	Direct Advances	Agri Agra Loans	Others*	Total Receivables from Customers	Sales Contract Receivables	Other Receivables**	Total
Stage 1											
ECL Loans, January 1, 2018	P441,083	P107,425	P67,621	P8,579	P588	P2,601	P15,136	P643,033	P10,484	P7,170	P660,687
Provision for credit and impairment losses	158,204	20,499	223	(4,926)	19,197	2,310	3,030	198,537	(5,313)	257	193,481
Transfer from Stage 1	(6,992)	(9,851)	(7,834)	-	(19,344)	-	(758)	(44,779)	(471)	(1,424)	(46,674)
Transfer from Stage 2	-	4,938	2,203	-	-	-	134	7,275	26	243	7,544
Transfer from Stage 3	-	6,595	4,327	-	-	-	468	11,390	22	132	11,544
Foreign exchange differences	310	-	-	9	25	-	16	360	-	3	363
	592,605	129,606	66,540	3,662	466	4,911	18,026	815,816	4,748	6,381	826,945
Stage 2											
ECL Loans, January 1, 2018	273,428	10,049	6,382	-	-	-	467	290,326	138	14,347	304,811
Provision for credit and impairment losses	(100,112)	1,203	(5,012)	-	-	-	(459)	(104,380)	(73)	11,890	(92,563)
Transfer from Stage 1	-	6,877	3,948	-	-	-	82	10,907	50	971	11,928
Transfer from Stage 2	(2,125)	(6,461)	(3,868)	-	-	-	(150)	(12,604)	(68)	(2,031)	(14,703)
Transfer from Stage 3	3,171	4,241	3,164	-	-	-	331	10,907	1	50	10,958
Movement due to foreclosure/settlement	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange differences	324	-	-	-	-	-	-	324	-	20	344
	174,686	15,909	4,614	-	-	-	271	195,480	48	25,247	220,775
Stage 3											
ECL Loans, January 1, 2018	919,280	56,073	78,233	83,088	146,082	17,663	204,091	1,504,510	54,692	971,338	2,530,540
Provision for credit and impairment losses	(228,578)	17,315	25,229	(7,325)	(1,774)	-	39,543	(155,590)	(406)	11,966	(144,030)
Transfer from Stage 1	6,992	2,974	3,886	-	19,344	-	676	33,872	421	453	34,746
Transfer from Stage 2	2,125	1,523	1,665	-	-	-	16	5,329	42	1,788	7,159
Transfer from Stage 3	(3,171)	(10,836)	(7,491)	-	-	-	(799)	(22,297)	(23)	(182)	(22,502)
Movement due to foreclosure/settlement	-	(2,697)	(13,574)	-	-	-	-	(16,271)	-	(1,188)	(17,459)
Foreign exchange differences	2,629	-	-	2,762	- -	-	2,328	7,719	-	4,803	12,522
	699,277	64,352	87,948	78,525	163,652	17,663	245,855	1,357,272	54,726	988,978	2,400,976
TOTAL											
ECL Loans, January 1, 2018	1,633,791	173,547	152,236	91,667	146,670	20,264	219,694	2,437,869	65,314	992,855	3,496,038
Provision for credit and impairment losses	(170,486)	39,017	20,440	(12,251)	17,423	2,310	42,114	(61,433)	(5,792)	24,113	(43,112)
Transfer from Stage 1	-	-	-	-	- -	-	-	-	-	-	-
Transfer from Stage 2	-	-	-	-	-	-	-	-	-	-	-
Transfer from Stage 3	-	-	-	-	-	-	-	-	-	-	-
Movement due to foreclosure/settlement	-	(2,697)	(13,574)	-	-	-	-	(16,271)	-	(1,188)	(17,459)
Foreign exchange differences	3,263	-	-	2,771	25	-	2,344	8,403	-	4,826	13,229
	P1,466,568	P209,867	P159,102	P82,187	P164,118	P22,574	P264,152	P2,368,568	P59,522	P1,020,606	P3,448,696

**Comprised of benefit loans, salary loans and credit cards.*
***Comprised of accrued interest receivables, accounts receivables and RCOCI*

The table below summarizes the movement in the gross carrying amounts of financial assets, other than loans and receivables, in 2020 and 2019 (amounts in thousands).

	December 31, 2020				
	Due from BSP	**Due from Other Banks**	**Interbank Loans Receivable and SPURA** (Note 8)	**Financial Assets at FVOCI** (Note 10)	**Investment Securities at Amortized Cost** (Note 11)
Gross carrying amount, January 1, 2020	**P21,958,460**	**P670,568**	**P13,431,093**	**P1,389,857**	**P22,550,797**
New assets purchased or originated	**2,608,260,913**	**19,120**	**2,224,513,173**	**29,751,469**	**5,989,528**
Assets derecognized or repaid	**(2,590,910,913)**	**(39,070)**	**(2,217,983,223)**	**(16,022,195)**	**(20,043,309)**
Other movements*	**244,090**	**372,776**	**2,097,763**	**305,117**	**650,493**
Gross carrying amount, December 31, 2020	**P39,552,550**	**P1,023,394**	**P22,058,806**	**P15,424,248**	**P9,147,509**

**Includes movements in outstanding balances and foreign exchange differences*

	December 31, 2019				
	Due from BSP	Due from Other Banks	Interbank Loans Receivable and SPURA (Note 8)	Financial Assets at FVOCI (Note 10)	Investment Securities at Amortized Cost (Note 11)
Gross carrying amount, January 1, 2020	P21,427,033	P3,838,567	P11,985,245	P7,974,183	P23,214,197
New assets purchased or originated	302,898,084	2,183	1,855,170,775	3,491,762	922,128
Assets derecognized or repaid	(296,148,084)	(58,168)	(1,851,378,614)	(10,024,308)	(1,557,000)
Other movements*	(6,218,573)	(3,112,014)	(2,346,313)	(51,780)	(28,528)
Gross carrying amount, December 31, 2020	P21,958,460	P670,568	P13,431,093	P1,389,857	P22,550,797

**Includes movements in outstanding balances and foreign exchange differences*

The table below summarizes the movement in the gross carrying amounts on loans and receivables in 2020 and 2019 (amounts in thousands).

	December 31, 2020										
	Term Loans	Housing Loans	Auto Loans	Bills Purchased, Import Bills and Trust Receipts	Direct Advances	Agri Agra Loans	Others*	Total Receivables from Customers	Sales Contract Receivables	Other Receivables**	Total
Stage 1											
Gross carrying amount, January 1, 2020	P56,117,848	P7,993,664	P4,312,736	P800,463	P765,368	P294,531	P1,803,761	P72,088,371	P398,621	P1,129,974	P73,616,966
New assets purchased or originated	26,701,798	784,403	887,809	641,585	446,383	247,344	358,892	30,068,214	59,627	1,120,087	31,247,928
Assets derecognized or repaid	(23,425,918)	(177,266)	(237,521)	(800,463)	(755,645)	(252,499)	(175,708)	(25,825,020)	(31,971)	(883,242)	(26,740,233)
Transfer from Stage 1	(740,284)	(1,191,508)	(1,038,585)	-	(36,954)	-	(458,306)	(3,465,637)	(49,855)	(108,137)	(3,623,629)
Transfer from Stage 2	-	39,885	27,235	-	-	-	1,149	68,269	1,322	1,896	71,487
Transfer from Stage 3	-	1,102	1,436	-	-	-	-	2,538	471	59	3,068
Other movements***	(3,350,140)	(549,443)	(1,034,352)	-	(19,971)	(10,553)	(112,806)	(5,077,265)	(90,998)	(89,947)	(5,258,210)
	55,303,304	6,900,837	2,918,758	641,585	399,181	278,823	1,416,982	67,859,470	287,217	1,170,690	69,317,377
Stage 2											
Gross carrying amount, January 1, 2020	308,470	251,179	180,775	-	-	22,338	10,283	773,045	9,585	26,664	809,294
New assets purchased or originated	-	-	-	-	-	-	-	-	-	-	-
Assets derecognized or repaid	(301,354)	(13,099)	(17,709)	-	-	-	(2,904)	(335,066)	(616)	(16,341)	(352,023)
Transfer from Stage 1	726,822	795,254	787,817	-	36,954.00	-	60,489	2,407,336	7,378	76,933	2,491,647
Transfer from Stage 2	(6,130)	(165,733)	(96,204)	-	-	-	(2,726)	(270,793)	(6,668)	(9,410)	(286,871)
Transfer from Stage 3	-	4,938	1,177	-	-	-	17,020	23,135	7,377	53	30,565
Other movements***	(986)	(10,749)	(36,182)	-	-	(4,553)	(3,025)	(55,495)	(1,711)	666	(56,540)
	726,822	861,790	819,674	-	36,954	17,785	79,137	2,542,162	15,345	78,565	2,636,072
Stage 3											
Gross carrying amount, January 1, 2020	598,518	249,628	199,334	76,156	163,188	17,663	322,575	1,627,062	120,071	1,043,142	2,790,275
New assets purchased or originated	-	-	-	-	-	-	-	-	-	-	-
Assets derecognized or repaid	(13,635)	(9,156)	(12,744)	-	-	-	(2,285)	(37,820)	(2,686)	(20,551)	(61,057)
Transfer from Stage 1	13,462	396,254	250,768	-	-	-	397,817	1,058,301	42,477	31,204	1,131,982
Transfer from Stage 2	6,130	125,848	68,969	-	-	-	1,577	202,524	5,346	7,514	215,384
Transfer from Stage 3	-	(6,040)	(2,613)	-	-	-	(17,020)	(25,673)	(7,848)	(112)	(33,633)
Write-off	-	-	-	-	-	-	(108,923)	(108,923)	-	-	(108,923)
Other movements***	(2,790)	(1,686)	(8,916)	(2,446)	-	-	(2,955)	(18,793)	(3,765)	(4,512)	(27,070)
	601,685	754,848	494,798	73,710	163,188	17,663	590,786	2,696,678	153,595	1,056,685	3,906,958
Total											
Gross carrying amount, January 1, 2020	57,024,836	8,494,471	4,692,845	876,619	928,556	334,532	2,136,619	74,488,478	528,277	2,199,780	77,216,535
New assets purchased or originated	26,701,798	784,403	887,809	641,585	446,383	247,344	358,892	30,068,214	59,627	1,120,087	31,247,928
Assets derecognized or repaid	(23,740,907)	(199,521)	(267,974)	(800,463)	(755,645)	(252,499)	(180,897)	(26,197,906)	(35,273)	(920,134)	(27,153,313)
Transfer from Stage 1	-	-	-	-	-	-	-	-	-	-	-
Transfer from Stage 2	-	-	-	-	-	-	-	-	-	-	-
Transfer from Stage 3	-	-	-	-	-	-	-	-	-	-	-
Write-off	-	-	-	-	-	-	(108,923)	(108,923)	-	-	(108,923)
Other movements***	(3,353,916)	(561,878)	(1,079,450)	(2,446)	(19,971)	(15,106)	(118,786)	(5,151,553)	(96,474)	(93,793)	(5,341,820)
	P56,631,811	P8,517,475	P4,233,230	P715,295	P599,323	P314,271	P2,086,905	P73,098,310	P456,157	P2,305,940	P75,860,407

**Comprised of benefit loans, salary loans and credit cards.*
***Comprised of accrued interest receivables, accounts receivables and RCOCI*
****Includes movements in outstanding balances and foreign exchange differences*

	December 31, 2019										
	Term Loans	Housing Loans	Auto Loans	Bills Purchased, Import Bills and Trust Receipts	Direct Advances	Agri Agra Loans	Others*	Total Receivables from Customers	Sales Contract Receivables	Other Receivables**	Total
Stage 1											
Gross carrying amount, January 1, 2019	P56,954,903	P6,395,507	P3,260,811	P1,315,932	P888,175	P354,490	P1,194,998	P70,364,816	P474,781	P1,122,533	P71,962,130
New assets purchased or originated	26,585,114	2,406,631	2,317,012	800,463	758,454	276,403	439,370	33,583,447	110,589	399,108	34,093,144
Assets derecognized or repaid	(24,669,612)	(237,305)	(241,628)	(1,315,932)	(880,015)	(299,161)	(221,350)	(27,865,003)	(94,809)	(341,384)	(28,301,196)
Transfer from Stage 1	(39,568)	(242,098)	(215,592)	-	-	(22,338)	(17,581)	(537,177)	(30,588)	(101,803)	(669,568)
Transfer from Stage 2	-	177,914	86,813	-	-	-	5,192	269,919	3,332	2,699	275,950
Transfer from Stage 3	-	9,731	3,436	-	-	-	169	13,336	4,748	106	18,190
Other movements***	(2,712,989)	(516,716)	(898,116)	-	(1,246)	(14,863)	402,963	(3,740,967)	(69,432)	48,715	(3,761,684)
	56,117,848	7,993,664	4,312,736	800,463	765,368	294,531	1,803,761	72,088,371	398,621	1,129,974	73,616,966
Stage 2											
Gross carrying amount, January 1, 2019	385,625	403,921	203,470	-	-	-	15,694	1,008,710	4,804	25,415	1,038,929
New assets purchased or originated	-	-	-	-	-	-	-	-	-	-	-
Assets derecognized or repaid	(33,118)	(53,610)	(26,671)	-	-	-	(4,630)	(118,029)	(447)	(563)	(119,039)
Transfer from Stage 1	9,557	156,733	177,088	-	-	22,338	10,052	375,768	9,861	22,196	407,825
Transfer from Stage 2	-	(246,471)	(127,457)	-	-	-	(7,020)	(380,948)	(3,564)	(24,531)	(409,043)
Transfer from Stage 3	4,566	6,922	5,989	-	-	-	200	17,677	3,486	263	21,426
Other movements***	(58,160)	(16,316)	(51,644)	-	-	-	(4,013)	(130,133)	(4,555)	3,884	(130,804)
	308,470	251,179	180,775	-	-	22,338.00	10,283	773,045	9,585	26,664	809,294
Stage 3											
Gross carrying amount, January 1, 2019	712,431	160,139	179,398	78,525	163,859	17,663	251,128	1,563,143	155,339	1,000,216	2,718,698
New assets purchased or originated	-	-	-	-	-	-	-	-	-	-	-
Assets derecognized or repaid	(134,677)	(42,661)	(27,683)	-	(671)	-	(2,454)	(208,146)	(42,584)	(1,486)	(252,216)
Transfer from Stage 1	30,011	85,365	38,504	-	-	-	7,529	161,409	20,727	79,607	261,743
Transfer from Stage 2	-	68,557	40,644	-	-	-	1,828	111,029	232	21,832	133,093
Transfer from Stage 3	(4,566)	(16,653)	(9,425)	-	-	-	(369)	(31,013)	(8,234)	(369)	(39,616)
Other movements***	(4,681)	(5,119)	(22,104)	(2,369)	-	-	64,913	30,640	(5,409)	(56,658)	(31,427)
	598,518	249,628	199,334	76,156	163,188	17,663	322,575	1,627,062	120,071	1,043,142	2,790,275
TOTAL											
Gross carrying amount, January 1, 2019	58,052,959	6,959,567	3,643,679	1,394,457	1,052,034	372,153	1,461,820	72,936,669	634,924	2,148,164	75,719,757
New assets purchased or originated	26,585,114	2,406,631	2,317,012	800,463	758,454	276,403	439,370	33,583,447	110,589	399,108	34,093,144
Assets derecognized or repaid	(24,837,407)	(333,576)	(295,982)	(1,315,932)	(880,686)	(299,161)	(228,434)	(28,191,178)	(137,840)	(343,433)	(28,672,451)
Transfer from Stage 1	-	-	-	-	-	-	-	-	-	-	-
Transfer from Stage 2	-	-	-	-	-	-	-	-	-	-	-
Transfer from Stage 3	-	-	-	-	-	-	-	-	-	-	-
Other movements***	(2,775,830)	(538,151)	(971,864)	(2,369)	(1,246)	(14,863)	463,863	(3,840,460)	(79,396)	(4,059)	(3,923,915)
	P57,024,836	P8,494,471	P4,692,845	P876,619	P928,556	P334,532	P2,136,619	P74,488,478	P528,277	P2,199,780	P77,216,535

**Comprised of benefit loans, salary loans and credit cards.*
***Comprised of accrued interest receivables, accounts receivables and RCOCI*
****Includes movements in outstanding balances and foreign exchange differences*

Movement in allowance for impairment losses as at December 31, 2020, 2019 and 2018 for investment in associate and non-financial assets are summarized as follows (amounts in thousands):

	December 31, 2020				
	Investment in Associate (Note 14)	**Property and Equipment** (Note 15)	**Investment Properties** (Note 16)	**Other Assets** (Note 17)	**Total**
Balance at beginning of year	**P5,926**	**P6,156**	**P175,753**	**P4,615,167**	**P4,803,002**
Provision for impairment losses for the year	**-**	**-**	**4,063**	**564**	**4,627**
Foreign exchange differences	**-**	**-**	**-**	**(7)**	**(7)**
Balance at end of year	**P5,926**	**P6,156**	**P179,816**	**P4,615,724**	**P4,807,622**

	December 31, 2019				
	Investment in Associate (Note 14)	Property and Equipment (Note 15)	Investment Properties (Note 16)	Other Assets (Note 17)	Total
Balance at beginning of year	P5,926	P6,156	P166,121	P4,617,177	P4,795,380
Provision for (Reversal of) impairment losses for the year	-	-	9,632	(2,002)	7,630
Foreign exchange differences	-	-	-	(8)	(8)
Balance at end of year	P5,926	P6,156	P175,753	P4,615,167	P4,803,002

	December 31, 2018				
	Investment in Associate (Note 14)	Property and Equipment (Note 15)	Investment Properties (Note 16)	Other Assets (Note 17)	Total
Balance at beginning of year	P5,926	P14,733	P200,818	P4,617,553	P4,839,030
Provision for (Reversal of) impairment losses for the year	-	(8,577)	(34,697)	(376)	(43,650)
Foreign exchange differences	-	-	-	-	-
Accounts charged-off	-	-	-	-	-
Balance at end of year	P5,926	P6,156	P166,121	P4,617,177	P4,795,380

19. Deposit Liabilities

Long-term Negotiable Certificates of Time Deposit (LTNCTD)

On March 17, 2020, the Bank issued unsecured LTNCTD with 4.5% fixed interest rate at par value of P5.0 billion and maturing on September 17, 2025. The issuance of the LTNCTD was approved by the BOD on June 25, 2019 and by the BSP on October 31, 2019. The issuance was listed in the Philippine Dealing and Exchange Corporation.

Reserve Requirement

On December 6, 2019, the BSP reduced the reserve requirement to 14.0% through the issuance of BSP Circular No.1063, *Reduction in Reserve Requirements*.

On March 31, 2020, the BSP issued Circular No. 1082, *Reduction in Reserve Requirements* reducing the reserve requirement to 12.0% effective on the reserve week starting on April 3, 2020.

As at December 31, 2020 and 2019, the Bank is in compliance with such reserve requirements. Due from BSP demand deposit account amounting to P15.4 billion and P15.1 billion as at December 31, 2020 and 2019, respectively, is available for meeting these reserve requirements as reported to BSP.

Due from BSP-Overnight Deposit Accounts earned annual interest rates ranging from 1.5% to 3.5%, from 3.5% to 4.3%, from 2.5% to 4.3% in 2020, 2019, and 2018, respectively. Due from BSP-Term Deposit Accounts earned annual interest rates ranging from 1.7% to 4.3%, from 4.2% to 5.2%, from 2.8% to 4.5% in 2020, 2019, and 2018, respectively. Interest income on Due from BSP amounted to P255.2 million, P104.9 million, P45.2 million in 2020, 2019, and 2018, respectively.
Interest expense on deposit liabilities follows:

	2020	2019	2018
Demand	**P44,728,904**	P35,708,157	P32,724,146
Savings	**710,148,562**	1,912,211,483	1,187,162,285
Time	**194,935,281**	398,347,203	289,050,090
LTNCTD	**177,915,733**	-	-
	P1,127,728,480	P2,346,266,843	P1,508,936,521

Peso-denominated deposits are subject to annual interest rates ranging from 0.1% to 5.3% in 2020 and 2019 and from 0.1% to 7.4% in 2018. Foreign currency-denominated deposits are subject to annual interest rates ranging from 0.1% to 3.0% in 2020 and 2019 and from 0.1% to 3.1% in 2018.

20. Bills Payable

This account consists of SSURA, short-term borrowings from local banks and borrowings from rediscounting facility availed by TRB from Social Security System, which was assumed by the Bank in connection with the PSA entered into by the Bank with the TRB in 2002. As at December 31, 2020 and 2019, borrowings from rediscounting facility were collateralized by certain receivables from customers amounting to P0.04 million and P0.08 million, respectively.

As at December 31, 2020 and 2019, there are no financial assets at FVOCI pledged and transferred under SSURA transactions and no short-term borrowings from local banks.

Interest expense consists of:

	2020	2019	2018
Local banks	**P272,528**	P2,660,677	P423,182
SSURA	**-**	597,709	8,475,711
Other borrowings	**833,171**	1,597,608	1,125,131
	P1,105,699	P4,855,994	P10,024,024

Peso-denominated short-term borrowings from local banks are subject to annual interest rate of 1.9%, from 5.0% to 5.3% and from 3.1% to 4.7% in 2020, 2019 and 2018, respectively. Foreign currency denominated short-term borrowings from local banks are subject to annual interest rate of 1.3% in 2020. No foreign currency denominated short-term borrowings in 2019 and interest rates ranging from 1.4% to 2.3% in 2018.

SSURA were subject to annual interest rate of 2.8% in 2019 and interest rates ranging from 2.6% to 2.8% in 2018.

Borrowings from rediscounting facility are subject to annual interest rate of 8.0% in 2020 and annual interest rates ranging from 8.0% to 12% in 2019 and 2018.

21. Accrued Interest, Taxes and Other Expenses

This account consists of accruals for the following:

	Note	**2020**	2019
Interest payable:			
Deposit liabilities	*19*	**P51,639,625**	P150,513,201
Bills payable	*20*	**1,762**	2,244
		51,641,387	150,515,445
Employee and other benefits		**338,329,853**	216,523,457
Insurance		**144,295,518**	123,427,239
Penalties		**141,485,559**	81,642,389
Taxes payable		**73,083,225**	99,115,147
Equipment-related expenses		**23,502,169**	26,894,604
Fees and commissions		**22,796,639**	33,454,721
Rent		**11,201,623**	13,182,866
Management and professional fees		**9,360,289**	16,631,150
Others		**76,767,215**	53,647,785
		P892,463,477	P815,034,803

Other accrued expenses include accruals for utilities expenses, security services, janitorial, messengerial and various expenses attributable to the Bank's operations.

22. Other Liabilities

This account consists of:

	Note	**2020**	2019
Accounts payable		**P874,595,629**	P978,466,356
Lease liability	*30*	**681,997,064**	645,999,494
Bills purchased - contra	*12*	**640,565,660**	775,822,119
Retirement liability	*29*	**392,542,958**	315,118,153
Due to preferred shareholders	*24*	**279,765,823**	277,515,653
Other credits-dormant		**178,948,793**	107,139,500
Due to Treasurer of the Philippines		**56,618,723**	56,868,348
Withholding tax payable		**49,898,110**	76,276,475
ECL on off-balance sheet exposures	*18*	**32,194,847**	47,868,523
Miscellaneous		**98,918,230**	62,431,855
		P3,286,045,837	P3,343,506,476

Accounts payable mainly pertains to advance loan payments from borrowers, inward and outward remittances received by the Bank pending payment or application to designated deposit accounts.

Other credits - dormant account are long outstanding Managers' Checks that are yet to be encashed by the payee for more than one (1) year from the date of check.

ECL on off-balance sheet exposures relate to committed credit line, credit card lines, outstanding guarantees and unused commercial letter of credits (see Note 38).

Miscellaneous include deposits for keys of safety deposit boxes, SSS payable and unclaimed salaries of resigned employees.

23. Maturity Profile of Assets and Liabilities

The following tables present the maturity profile of the assets and liabilities of the Bank based on the amounts to be recovered or settled within and/or after more than 12 months after the reporting period (amounts in thousands):

		2020			2019		
	Note	**Within 12 Months**	**Over 12 Months**	**Total**	Within 12 Months	Over 12 Months	Total
Financial Assets - gross							
COCI		**P2,420,505**	**P -**	**P2,420,505**	P1,776,399	P -	P1,776,399
Due from BSP	*19*	**39,552,550**	**-**	**39,552,550**	21,958,460	-	21,958,460
Due from other banks		**1,023,394**	**-**	**1,023,394**	670,568	-	670,568
Interbank loans receivable and SPURA	*8*	**22,058,806**	**-**	**22,058,806**	13,431,093	-	13,431,093
Financial assets at FVPL:	*9*						
Government securities held-for-trading		**639,004**	**-**	**639,004**	257,572		257,572
Private debt securities		**-**	**602,404**	**602,404**	-	770,871	770,871
Derivative assets		**-**	**24,011**	**24,011**	-	25,318	25,318
Financial assets at FVOCI:	*10*						
Government securities held-for-trading		**10,545,490**	**4,402,607**	**14,948,097**	470,437	446,462	916,899
Private debt securities		**-**	**314,964**	**314,964**	-	311,359	311,359
Equity securities		**-**	**161,187**	**161,187**	-	161,600	161,600
Investment securities at amortized cost - gross:	*11*						
Government securities		**1,794,104**	**4,140,353**	**5,934,457**	1,582,316	17,370,558	18,952,874
Private debt securities		**2,358,976**	**854,076**	**3,213,052**	352,227	3,245,696	3,597,923
Loans and receivables - gross:	*12*						
Receivable from customers:							
Term loans		**22,498,929**	**34,132,883**	**56,631,812**	23,850,544	33,174,292	57,024,836
Housing loans		**1,673,336**	**6,844,248**	**8,517,584**	524,057	7,970,535	8,494,592
Auto loans		**1,499,126**	**2,734,134**	**4,233,260**	543,298	4,149,706	4,693,004
Bills purchased, import bills and trust receipts		**715,295**	**-**	**715,295**	876,619	-	876,619
Direct advances		**596,077**	**4,920**	**600,997**	918,763	12,511	931,274
Agri-agra loans		**266,282**	**48,537**	**314,819**	270,591	64,371	334,962
Others		**1,635,536**	**471,791**	**2,107,327**	1,532,216	623,889	2,156,105
Accounts receivable		**1,125,879**	**-**	**1,125,879**	1,091,478	-	1,091,478
Accrued interest receivable		**888,473**	**-**	**888,473**	816,629	-	816,629
Sales contract receivables		**168,409**	**287,748**	**456,157**	137,614	390,663	528,277
Unquoted debt securities		**291,578**	**-**	**291,578**	291,578	-	291,578
RCOCI		**10**	**-**	**10**	94	-	94
Investment in associate	*14*	**-**	**75,395**	**75,395**	-	75,395	75,395
		111,751,759	**55,099,258**	**166,851,017**	71,352,553	68,793,226	140,145,779
Non-financial Assets - gross							
Non-current assets held for sale	*13*	**-**	**-**	**-**	48,122	-	48,122
Property and equipment	*15*	**-**	**4,205,560**	**4,205,560**	-	4,011,569	4,011,569
Investment properties	*16*	**-**	**4,532,155**	**4,532,155**	-	4,500,537	4,500,537
Deferred tax assets - net	*32*	**-**	**955,380**	**955,380**	-	880,301	880,301
Other assets	*17*	**1,416,804**	**6,077,002**	**7,493,806**	1,227,041	6,050,174	7,277,215
		1,416,804	**15,770,097**	**17,186,901**	1,275,163	15,442,581	16,717,744
		P113,168,563	**P70,869,355**	**P184,037,918**	P72,627,716	P84,235,807	P156,863,523
Less:							
Allowance for credit and impairment losses	*18*			**P9,049,367**			P8,285,104
Accumulated depreciation and amortization	*15, 16, 17*			**4,016,304**			3,494,193
Accumulated equity in net loss	*14*			**28,782**			28,026
Unearned interest	*12*			**22,784**			22,914
Total				**P170,920,681**			P145,033,286

		2020			2019		
	Note	**Within 12 Months**	**Over 12 Months**	**Total**	Within 12 Months	Over 12 Months	Total
Financial Liabilities							
Deposit liabilities:	*19*						
Demand		**P39,659,286**	**P -**	**P39,659,286**	P34,158,478	P -	P34,158,478
Savings		**83,743,821**	**-**	**83,743,821**	72,016,488	77	72,016,565
Time		**19,162,549**	**1,510,535**	**20,673,084**	15,781,288	1,899,857	17,681,145
LTNCTD		**-**	**5,029,420**	**5,029,420**	-	-	-
Bills payable	*20*	**19**	**-**	**19**	-	105	105
Manager's checks		**870,080**	**-**	**870,080**	923,460	-	923,460
Accrued interest and other expenses*	*21*	**469,849**	**-**	**469,849**	486,213	-	486,213
Other liabilities**	*22*	**2,036,987**	**774,422**	**2,811,409**	2,150,117	754,126	2,904,243
		145,942,591	**7,314,377**	**153,256,968**	125,516,044	2,654,165	128,170,209
Non-financial Liabilities							
Accrued taxes and other expense payable	*21*	**422,615**	**-**	**422,615**	328,822	-	328,822
Other liabilities	*22*	**474,636**	**-**	**474,636**	439,263	-	439,263
		897,251	**-**	**897,251**	768,085	-	768,085
		P146,839,842	**P7,314,377**	**P154,154,219**	P126,284,129	P2,654,165	P128,938,294

**amounts exclude accruals of employee and other benefits, taxes payable and rent*
***amounts exclude withholding tax payable, retirement liability and ECL of loan commitments and financial guarantees*

24. Capital

As at December 31, 2020, 2019 and 2018, the Bank's capital stock consists of the following:

	Shares			Amount		
	2020	2019	2018	**2020**	2019	2018
Authorized common stock, P100 par value	**170,251,147**	212,500,000	212,500,000	**P17,025,114,700**	P21,250,000,000	P21,250,000,000
Authorized preferred stock, P100 par value	**45,500,000**	7,500,000	7,500,000	**4,550,000,000**	750,000,000	750,000,000
Common stock issued and outstanding	**112,241,112**	112,241,112	112,241,112	**11,224,111,200**	11,224,111,200	11,224,111,200
Additional paid-in capital	**-**	-	-	**5,594,079,646**	5,594,079,646	5,594,079,646

As at December 31, 2020, 2019 and 2018, the Bank has no outstanding preferred shares. However, the Bank has outstanding liability for the unpaid portion of the redemption price of preferred shares amounting to P279.8 million and P277.5 million as at December 31, 2020 and 2019, respectively, which is recorded as "Due to preferred shareholders" account under "Other liabilities" in Note 22 to the financial statements. As at December 31, 2020 and 2019, the related sinking fund which is recorded under "Other assets" account amounting to P279.8 million and P277.5 million, respectively, has been set up to fund the eventual settlement of this liability (see Note 17).

On April 8, 2010, the SEC approved the Bank's application for the increase in authorized capital stock from P6.0 billion, divided into 52.5 million common shares and 7.5 million preferred shares both with the par value of P100 each, to P22.0 billion divided into 212.5 million common shares and 7.5 million preferred shares both with the par value of P100 each. The related amendment to the Articles of Incorporation of the Bank relative to its proposed increase in authorized capital stock from P6.0 billion to P22.0 billion was approved by BSP and the SEC on March 26, 2010 and April 8, 2010, respectively.

During its meeting on January 18, 2011, the BOD of the Bank passed a resolution approving the following:

- the sale of fully paid shares of Valiant Ventures & Development Holdings, Inc. (Valiant) in the Bank to SMPI and SMCRP amounting to 2,800,000 shares and 1,972,735 shares, respectively; and

- the assignment of subscription rights of Valiant to SMPI amounting to 523,726 shares (Tranche 1) and 4,713,539 shares (Tranche 2).

In this connection, the Bank secured the approval of the MB of BSP for such sale of shares and assignment of subscription of the shares of Valiant. This is mandated in BSP's MORB since the total shareholdings of Valiant entitles it to a board seat. The Board also approved that the sale of shares and assignment of subscription rights be recorded in the stock and transfer book of the Bank only after the approval of the MB has been obtained.

On March 30, 2011, the MB of BSP approved the sale of shares of Valiant. In 2011, the Bank's subscribed common stock totaling 59,741,113 shares have been fully paid in accordance with the subscription agreement.

On April 30, 2019, the BOD and the Stockholders approved to amend the Articles of Incorporation to deny pre-emptive rights. The said amendment was approved by the BSP on August 16, 2019 and by the SEC on September 5, 2019.

On January 30, 2020, the BOD and the Stockholders approved the amendment of the Articles of Incorporation to (a) reflect that the Bank's terms of existence shall be perpetual (b) retire 4,248,853 redeemed preferred shares thereby decreasing the Bank's authorized capital stock to P21,575,114,70 (c) reclassify 3,251,147 existing unissued preferred shares into new unissued preferred shares and (d) reclassify 42,248,853 existing unissued common shares into new unissued preferred shares. The amendments resulted in total new preferred shares of 45,500,000 with par value of P100 and decrease in common shares to 170,251,147 with par value of P100. These were approved by the BSP on May 21, 2020 and by the SEC on June 9, 2020.

Preferred shares are non-voting, except as provided by law, perpetual or non-redeemable, cumulative, convertible to common shares at the option of the holders, subject to requirements under laws, rules and regulations, have preference over common shares in case of liquidation, dissolution, or winding up of the affairs of the Bank and subject to the other terms and conditions as may be fixed by the BOD, required under regulations, and to the extent permitted by applicable law.

<u>Capital Management</u>

The Bank's capital base, comprised of capital stock, paid-in surplus and surplus reserves, is being actively managed to cover risks inherent in the Bank's operations. In 2009, SMPI and SMCRP infused additional capital amounting to P3.3 billion in the form of paid-up common stock. On February 18, 2010 and March 1, 2010, major stockholders infused P271.9 million and P2.1 billion, respectively, into the Bank in the form of advances for future stock subscriptions, which shall be treated as part of the Bank's paid-up capital upon the SEC's approval thereon and on the increase in the Bank's authorized capital stock.

In a disclosure to the Philippine Stock Exchange on November 7, 2019, San Miguel Corporation (SMC) declared that the BOD of SMC approved to provide an additional equity investment in the Bank of up to P5.5 billion in support of the application of the Bank for an upgrade of its commercial banking license to a universal banking license. The Bank continues to discuss the terms of the investment with SMC and is currently working on the other requirements of the BSP for a universal banking license.

Under Section 121 of the MORB, *Minimum Required Capital,* the minimum capitalization requirement applicable for the Bank (commercial banks with more than 100 branches) amounted to P15.0 billion. As at December 31, 2020 and 2019, the reported unimpaired capital of the Bank amounted to P16.5 billion and P16.0 billion, respectively.

The guidelines on bank's ICAAP under Section 130 and Appendices 94, 95 and 96 of the MORB supplements the BSP's risk-based capital adequacy framework. In compliance with this new circular, the Bank has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Bank. The level and structure of capital are assessed and determined in light of the Bank's business environment, plans, performance, risks and budget; as well as regulatory edicts. The deadline for submission of ICAAP documents is March 31 of each year.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regulatory net worth) as reported to the BSP, which is determined on the basis of Regulatory Accounting Principles which differ from PFRSs in some respects.

The BSP sets and monitors compliance to minimum capital requirements for the Bank. In implementing current capital requirements, BSP issued Circular 538, *Revised Risk-Based Capital Adequacy Framework For Universal and Commercial Banks and their Subsidiary Banks and Quasi-banks* which implemented the Revised Risk-Based Capital Adequacy Framework under Basel II effective July 1, 2007. It requires the Bank to maintain a prescribed risk-based capital adequacy ratio (expressed as a percentage of qualifying capital to risk-weighted assets) of not less than 10.0%.

Under Section 125 and Appendix 59 of the MORB, the regulatory qualifying capital of the Bank consists of Tier 1 (core) and Tier 2 (supplementary) capital. Tier 1 capital comprised common stock, additional paid-in capital and surplus. Tier 2 composed upper tier 2 and lower tier 2. Upper tier 2 consists of preferred stock, revaluation increment reserve, general loan loss provision and deposit for common stock subscription. Lower tier 2 consists of the unsecured subordinated debt.

The following are the minimum capital requirements for UBs and KBs and their subsidiary banks and quasi-banks (QBs):

- 6.0% Common Equity Tier 1 (CET1)/Risk-Weighted Assets (RWAs)
- 7.5% Tier 1 Capital/RWAs, and 10.0% Total Qualifying Capital (Tier1 plus Tier2)/RWAs

The Qualifying Capital must consist of the sum of the following elements, net of required deductions: Tier 1-'going concern' [CET1 plus Additional Tier 1(ATI)] and Tier 2 -'gone concern.' A bank/quasi-bank must ensure that any component of capital included in qualifying capital complies with all the eligibility criteria for the particular category of capital in which it is included. The Circular further describes the elements/criteria that a domestic bank should meet for each capital category. Regulatory adjustments and calculation guidelines for each capital category are also discussed.

In conformity with the Basel III standards, a Capital Conservation Buffer (CCB) of 2.5% of RWAs, comprised of CET1 capital, has been required of U/KBs and their subsidiary banks and quasi-banks. This buffer is meant to promote the conservation of capital and build-up of adequate cushion that can be drawn down by banks to absorb losses during financial and economic stress.

The CET1 capital requirement includes as an additional capital buffer, the Countercyclical capital buffer (CcyB) of zero percent (0%) subject to upward adjustment to a rate determined by the Monetary Board when systemic conditions warrant but not to exceed two and a half percent (2.5%). Any increases in the CcyB rate shall be effective 12 months after announcement while decreases shall be effective immediately.

The countercyclical buffer requirement will extend the size of the capital conservation buffer. A bank shall not be subject to any restriction on distribution if the following conditions are met:

a. Has positive retained earnings as of the preceding quarter and has complied with the requirements on the declaration of dividends as provided in the MORB;

b. Has CET1 of more than the total required (minimum CET1 ratio of 6.0% plus CCB of 2.5% plus CcyB at the rate determined by the MB) before distribution; and

c. Has complied with the minimum capital ratios (CET1 ratio of 6.0%, Tier 1 ratio of 7.5% and 10.0% CAR) after the distribution.

Otherwise, the policy framework of the capital conservation buffer on the restriction on distributions shall apply, except for drawdowns. Thresholds on the restriction on distribution shall consider the CcyB requirement as an extension of the capital conservation buffer.

As at December 31, 2020 and 2019, based on the CAR reports submitted to BSP, the Bank's CAR of 16.60% and 15.93%, respectively, exceeded the minimum 10.0% requirement as computed and monitored using the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios"), based on the Basel III framework. The increase in CAR ratio was mainly due to the movement in the credit risk weighted amount of loans and other risk assets.

The breakdown of the Bank's risk-weighted assets as at December 31, 2020 and 2019 as reported to BSP follows (amounts in thousands):

	2020	2019
Credit risk-weighted assets	**P87,988,590**	P89,735,017
Operational risk-weighted assets	**8,310,351**	7,472,407
Market-risk weighted assets	**733,210**	409,223
	P97,032,151	P97,616,647

The Bank is also required to maintain a minimum Tier 1 capital ratio of 7.5% in 2020 and 2019 (in millions) which was compiled as per below:

	2020	2019
Tier 1 capital	**P15,120**	P14,715
Tier 2 capital	**984**	837
Total qualifying capital	**P16,104**	P15,552
Risk-weighted assets	**P97,032**	P97,617
Tier 1 capital ratio	**15.58%**	15.07%
Total capital ratio	**16.60%**	15.93%

Certain adjustments are made to PFRSs results and reserves to calculate CAR which included the Bank's accounting of the following transactions that require different accounting treatments under PFRSs:

a) non-performing assets and operating losses of TRB capitalized as miscellaneous assets and subject to staggered allowance provisioning through offset of net yield earned from the financial assistance;

b) accounting for investment properties.

The recognition of the Bank is based on the accounting treatment approved by BSP (see Notes 16 and 17).

Under Section 129 of the MORB Basel III, leverage ratio is designed to act as supplementary measure to the risk-based capital requirements. It is defined as the capital measure (numerator) divided by the exposure measure (denominator). The leverage ratio shall not be less than 5.0% computed on both solo (head office plus branches) and consolidated bases (parent bank plus subsidiary financial allied undertakings but excluding insurance companies).

The Bank exceeded the minimum leverage ratio 5.0% in 2020 and 2019 (in thousands) as per below breakdown (amounts in thousands):

	2020	2019
Capital measure	**P15,120,329**	P14,714,742
Exposure measure	**174,068,012**	148,518,664
Leverage ratio	**8.69%**	9.91%

The LCR framework under Section 145 of the MORB promotes short-term resilience of liquidity risk profile of a bank. The LCR is the ratio of HQLAs to total net cash outflows. Under normal situation, the value of the ratio should be no lower than 100.0% on a daily basis because the stock of unencumbered HQLA is intended to serve as a defense against the potential onset of liquidity stress. The compliance with the LCR minimum requirement commenced on January 01, 2018 and the prescribed minimum shall be set initially at 90% for 2018 and raised to the minimum level of 100% on January 01, 2019.

Based on the LCR reports submitted to the BSP as at December 31, 2020 and 2019, the Bank’s LCR were 165.00% and 149.64% respectively, which were above the prescribed minimum requirement set at 100.0%.

While the NSFR promotes long-term resilience of banks against liquidity risk and maintains stable funding profile in relation to the composition of its assets and off-balance sheet activities. The implementation of the minimum NSFR was phased-in, banks undergone observation period from July 1, 2018 up to December 31, 2018 while actual implementation commenced on January 01, 2019. The NSR is the ratio of Bank’s available stable funding to its required stable funding and shall maintain at least 100.0% at all times.

As at December 31, 2020 and 2019, the reported NSFR of 161% and 137% respectively, exceeded the required minimum of 100%.

This applies to U/KBs as well as their subsidiary banks and quasi-banks with the framework anchored on the international standards issued by the Basel Committee on Banking Supervision known as the Basel 3 reforms.

25. Surplus Reserve

	2020	2019	2018
Reserve for general provision - special reserve	**P208,882,885**	P223,344,419	P287,401,612
Reserve for trust business	**126,719,455**	115,918,324	107,593,173
Reserve for self-insurance	**60,000,000**	60,000,000	60,000,000
	P395,602,340	P399,262,743	P454,994,785

The BSP, through Circular No. 1011, *Guidelines on the Adoption of the PFRS 9*, requires appropriation of the Bank's Retained earnings in case the computed allowance for credit losses on loans based on PFRS 9 is less than the BSP required 1.0% general provision on outstanding Stage 1 on-balance sheet loans, except for accounts considered as risk-free under existing regulations.

In compliance with BSP regulations, 10.0% of the Bank's profit from trust business is appropriated to surplus reserve. This yearly appropriation is required until the surplus reserve for trust business equals 20.0% of the Bank's authorized capital stock.

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

26. Interest Income on Debt Securities

This account consists of:

	Note	**2020**	2019	2018
Investment securities at amortized cost:	*11*			
Government securities		**P571,132,356**	P754,709,801	P754,060,444
Private debt securities		**177,633,500**	171,893,382	163,479,146
Financial assets at FVOCI:	*10*			
Government securities		**150,809,611**	162,313,770	153,446,491
Private debt securities		**19,799,002**	28,175,322	52,899,950
		919,374,469	1,117,092,275	1,123,886,031
Financial assets at FVPL:	*9*			
Government securities held for trading		**16,991,151**	16,058,663	62,668,042
		P936,365,620	P1,133,150,938	P1,186,554,073

Foreign currency-denominated financial assets at FVPL bear annual interest rates ranging from 0.6% to 9.5% in 2020, from 0.3% to 8.6% in 2019 and from 0.3% to 9.9% in 2018. Peso-denominated financial assets at FVPL bear annual interest rates ranging from 0.8% to 8.1%, from 3.6% to 8.1% and from 3.6% to 8.1% in 2020, 2019 and 2018, respectively.

Foreign currency-denominated financial assets at FVOCI bear EIRs ranging from 0.1% to 3.9%, from 2.0% to 3.9%, and from 1.1% to 4.5%, respectively, in 2020, 2019 and 2018. Peso-denominated financial assets at FVOCI bear EIRs ranging from 1.4% to 7.1% in 2020, from 6.0% to 7.2% in 2019 and from 2.1% to 7.6% in 2018.

Foreign currency-denominated investment securities at amortized cost bear EIRs ranging from 0.8% to 3.4%, from 2.0% to 3.4% and from 1.4% to 3.7%, respectively, in 2020, 2019 and 2018. Peso-denominated investment securities at amortized cost bear EIRs ranging from 1.7% to 8.1% in 2020, from 3.2% to 8.1% in 2019 and from 2.1% to 8.1% in 2018.

27. Service Charges, Fees and Commissions

This account consists of:

	2020	2019	2018
Trust income	**P124,291,947**	P107,985,620	P83,231,022
Service charges	**123,659,614**	142,303,916	137,357,081
Credit card fees	**90,918,959**	114,954,396	66,577,112
Remittance fees	**42,395,261**	41,849,712	16,429,495
Commitment fee	**26,054,795**	2,280,159	20,221,761
Letters of credit fees	**11,347,102**	16,036,627	15,382,181
Penalty charges	**8,626,070**	19,629,875	17,398,727
Fees and commissions	**2,999,204**	3,285,774	3,374,185
Telegraphic transfer fees	**2,363,815**	3,053,339	3,876,512
Others	**11,980,303**	25,894,862	27,964,823
	P444,637,070	P477,274,280	P391,812,899

Service charges include charges on loans, ATM fees and deposit taking-related activities.

Others include commission on acceptance fee, insurance, auto and housing loans, processing and sale of demand drafts.

28. Trading and Investment Securities Gains (Losses) - net

This account consists of realized and unrealized gains (losses) from the following securities:

	Note	**2020**	2019	2018
Financial assets and liabilities at FVPL:				
Debt securities:				
Unrealized	*9*	**P69,731,751**	P135,535,224	(P19,715,698)
Realized		**30,065,549**	21,326,085	(89,534,221)
Financial assets at FVOCI	*10*	**280,743,443**	198,827,405	(164,734)
Investment securities at amortized cost	*11*	**767,033,010**	-	-
		P1,147,573,753	P355,688,714	(P109,414,653)

29. Employee Benefits

Retirement Plan

The Bank has a funded noncontributory defined benefit retirement plan covering its regular and permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using projected unit credit method.

The Bank’s retirement benefits are based on the employee’s years of service and a percentage of his gross monthly salary. An employee shall be retired and shall be entitled to full retirement benefits upon his attainment of 60 years of age.

An employee, upon reaching the age of 50 years and with the completion of no less than 10 years of service as a regular employee and with 30 days prior notice to the Bank, may retire at his option and shall be entitled to the retirement benefits.

An employee who has at least 10 years of service as a regular employee, but who has not reached the age of 50 years, may retire at his option and shall be entitled to the retirement benefits but such retirement benefit shall be subject to the pertinent requirements of the BIR.

The Bank's retirement plan is registered with the BIR as a tax-qualified plan under RA No. 4917, as amended, and complies with the minimum retirement benefit specified under RA No. 7641, the "New Retirement Law."

The date of the last actuarial valuation is December 31, 2020. Valuations are performed on an annual basis.

As at December 31, 2020, 2019 and 2018, the principal actuarial assumptions used in determining retirement benefits liability for the Bank's retirement plan are shown below:

	2020	2019	2018
Average working life	**13.0**	13.0	13.0
Discount rate	**3.9%**	5.3%	7.6%
Future salary increases	**6.6%**	6.6%	6.6%

The following table shows reconciliation from the opening balances to the closing balances for net retirement benefit liability and its components (in thousands).

	Defined Benefits Obligation			**Fair Value of Plan Assets**			**Net Retirement Benefit Liability**		
	2020	2019	2018	**2020**	2019	2018	**2020**	2019	2018
Balance at January 1	**P1,137,202**	P822,021	P862,561	**(P822,084)**	(P620,813)	(P677,115)	**P315,118**	P201,208	P185,446
Included in Profit or Loss									
Current service cost	**108,067**	76,083	86,437	**-**	-	-	**108,067**	76,083	86,437
Interest expense (income)	**60,272**	62,474	50,028	**(43,570)**	(47,182)	(39,272)	**16,702**	15,292	10,756
	168,339	138,557	136,465	**(43,570)**	(47,182)	(39,272)	**124,769**	91,375	97,193
Included in OCI									
Remeasurement loss (gain):									
Actuarial loss (gain) arising from:									
Financial assumptions	**196,092**	234,215	(162,837)	**-**	-	-	**196,092**	234,215	(162,837)
Experience adjustment	**(87,254)**	(5,378)	22,345	**-**	-	-	**(87,254)**	(5,378)	22,345
Return on plan assets excluding interest income	**-**	-	-	**20,251**	(4,151)	59,061	**20,251**	(4,151)	59,061
	108,838	228,837	(140,492)	**20,251**	(4,151)	59,061	**129,089**	224,686	(81,431)
Others									
Contributions paid by the employer	**-**	-	-	**(176,433)**	(202,151)	-	**(176,433)**	(202,151)	-
Benefits paid	**(85,013)**	(52,213)	(36,513)	**85,013**	52,213	36,513	**-**	-	-
	(85,013)	(52,213)	(36,513)	**(91,420)**	(149,938)	36,513	**(176,433)**	(202,151)	-
Balance at December 31	**P1,329,366**	P1,137,202	P822,021	**(P936,823)**	(P822,084)	(P620,813)	**P392,543**	P315,118	P201,208

The movements of the remeasurement losses on retirement liability of the Bank follow:

	2020	2019	2018
Balance at beginning of year	**P319,998,451**	P95,312,091	P176,743,526
Remeasurement losses (gains) on:			
Defined benefits obligation	**108,837,990**	228,837,578	(140,492,272)
Plan assets	**20,251,559**	(4,151,218)	59,060,837
	129,089,549	224,686,360	(81,431,435)
Balance at end of year	**P449,088,000**	P319,998,451	P95,312,091

The actual gain on plan assets amounted to P23.3 million and P51.3 million in 2020 and 2019, respectively.

The Bank expects to contribute P192.4 million to its defined benefits retirement plan in 2021.

The major categories of the fair value of plan assets as at December 31, 2020 and 2019 follow:

	2020	2019
Financial assets at FVOCI:		
Government and other debt securities	**P515,228,053**	P425,389,037
Quoted equity securities	**211,844,705**	196,084,992
Unquoted equity securities	**10,986,031**	12,223,787
Deposits with the bank	**69,142,094**	63,689,062
Loans receivables	**122,556,146**	115,816,489
Other receivables	**7,065,856**	8,880,528
Total Plan Assets	**P936,822,885**	P822,083,895

Sensitivity Analysis
Reasonably possible changes to one of the relevant actuarial assumptions, with all other assumptions constant, would have affected the net retirement liability of the Bank by the amounts shown below:

	December 31, 2020			
	Discount Rate		**Salary Increase Rate**	
	+1.00%	**-1.00%**	**+1.00%**	**-1.00%**
Present value of the defined benefit obligation	**P1,184,591,907**	**P1,502,174,842**	**P1,486,931,398**	**P1,193,854,763**
Fair value of plan assets	**936,822,885**	**936,822,885**	**936,822,885**	**936,822,885**
Net retirement liability	**P247,769,022**	**P565,351,957**	**P550,108,513**	**P257,031,878**

	December 31, 2019			
	Discount Rate		Salary Increase Rate	
	+0.50%	-0.50%	+0.50%	-0.50%
Present value of the defined benefit obligation	P1,024,750,080	P1,270,093,388	P1,259,632,270	P1,031,132,850
Fair value of plan assets	822,083,895	822,083,895	822,083,895	822,083,895
Net retirement liability	P202,666,185	P448,009,493	P437,548,375	P209,048,955

The maturity analyses of the undiscounted benefit payments as at December 31, 2020 and 2019 are as follows:

	2020	2019
1 - 5 years	**P346,025,220**	P400,997,606
6 - 10 years	**774,482,245**	671,856,271
11 - 15 years	**1,108,344,179**	1,109,714,344
16 years and up	**4,353,924,242**	4,529,654,517

The defined benefit plans expose the Bank to actuarial risks, such as longevity risk, interest risk, and market (investment risk).

The overall investment policy and strategy of the retirement plan is based on the Bank's suitability assessment, as provided by its Trust Services Group, in compliance with BSP requirements.

The weighted average duration of the defined benefit obligations is equal to the expected average remaining working lives as at December 31, 2020, 2019 and 2018.

Compensation and Fringe Benefits
The details of the following accounts for the year ended December 31 follow:

	2020	2019	2018
Salaries and allowances	**P970,341,304**	P939,044,104	P840,818,170
Employee benefits	**371,032,809**	318,705,457	301,155,953
Bonuses	**332,320,000**	298,945,157	286,446,807
Retirement benefits	**124,768,607**	91,375,015	97,313,094
Overtime	**20,929,533**	36,468,698	32,037,051
	P1,819,392,253	P1,684,538,431	P1,557,771,075

30. Lease Contracts

Bank as Lessee
The Bank leases the premises occupied by most of its branches. The lease contracts are for periods ranging from 1 to 15 years and are renewable upon mutual agreement between the Bank and the lessors. Various lease contracts include escalation clauses, most of which bear an annual rent increase ranging from 3.0% to 20.0%.

The Bank also leases IT equipment such as ATMs and photocopier machine with contract term of 1 year. These leases are short-term and/or leases of low value items. The Bank has elected not to recognize right-of-use assets and lease liabilities for these leases. Rent expenses related to these contracts are charged against current operations (included under “Rent and utilities” account in the statements of income).

Information about leases for which the Bank is a lessee is presented below:

Right-of-Use Assets
Right-of-use assets relate to leased branch and office premises. Details of right-of-use assets are presented within property and equipment (see Note 15).

Lease Liabilities
See Note 5 for maturity analysis of lease liabilities as at December 31, 2020 and 2019.

As at December 31, 2018, the future minimum lease payments under non-cancellable operating leases were payable as follows (amounts in millions):

Maturity analysis - contractual undiscounted cash flows:	
Less than one year	P178.5
Between one and five years	387.2
More than five years	48.3
Total undiscounted lease liabilities at December 31	P614.0

The table below shows the amounts recognized in the statement of income in 2020 and 2019 related to leases under PFRS 16 (amounts in millions).

	2020	2019
Interest on lease liabilities	**P42.9**	P45.4
Expenses relating to short-term leases	**44.4**	56.0
Expenses relating to lease of low-value assets, excluding short-term leases of low-value assets	**13.2**	10.5

Rent expense recognized in the statement of income in 2018 related to operating leases under PAS 17 amounted to P324.0 million

Total cash outflow for leases recognized in the statement of cash flows in 2020 and 2019 amounted to P280.9 million and P275.9 million, respectively.

<u>Bank as Lessor</u>
The Bank leases out its commercial properties for office space. These non-cancellable leases have remaining lease terms of less than 1 year in 2019 and expired in 2020. The Bank has classified these leases as operating leases, because they do not transfer substantially all the risks and rewards incidental to the ownership of the assets.

Rental income recognized by the Bank on its commercial properties (shown under "Miscellaneous" in the statements of income) during the years ended December 31, 2020, 2019 and 2018 were P0.7 million, P2.6 million, and P2.2 million respectively, and includes rental income on investment properties (Note 16). The Bank also recognized income from the use of safety deposit boxes amounting to P2.8 million and P2.9 million during the years ended December 31, 2020 and 2019, respectively (see Note 31). There is no contingent rental income recognized in 2018.

The following table sets out a maturity analysis of lease payments, showing undiscounted lease payments to be received after the reporting date (amounts in millions).

Operating Leases under PFRS 16	**2020**	2019
Less than one year	**P -**	P0.4
Total	**P -**	P0.4

Operating Leases under PAS 17	2018
Less than one year	P1.2
One to two years	0.4
Total	P1.6

31. Miscellaneous Income and Expenses

Miscellaneous Income
This account consists of:

	Note	2020	2019	2018
Passed-on GRT		**P33,438,750**	P54,649,626	P36,992,947
Dividend income	*10*	**12,228,425**	8,201,707	13,065,426
Rent income	*30*	**3,546,544**	5,509,668	5,053,852
Gain on exchange	*16*	**-**	363,450,000	-
Others		**16,204,006**	28,050,227	40,222,608
		P65,417,725	P459,861,228	P95,334,833

In December 2019, the Bank received a parcel of land located in Sto. Domingo, Quezon City, as a replacement for certain assets (condominium units) booked as investment properties. The assignment of the condominium units to the Bank was made in 1998 as settlement of a loan. However, the covering Condominium Certificates of Title could not be transferred to the Bank since the related project was not completed by the developer. In order to finally settle the issues relating to the above condominium units, a settlement agreement has been executed by the Bank and the borrower to replace the recorded condominium units with the above mentioned parcel of land.

The Bank recognized gain from exchange of properties and provision for deferred tax (included in "Income tax expense" account in the statements of income (see Note 32) from this transaction amounting to P363.5 million and P109.0 million, respectively.

Others include gain due to rent concessions, recovery from charged-off assets and excess chattel fees.

Miscellaneous Expense
This account consists of:

	Note	2020	2019	2018
Fines and penalties		**P61,931,157**	P41,932,646	P88,221,536
Supervision and examination fee		**55,138,108**	47,807,051	44,127,596
Messengerial services		**53,324,266**	52,025,020	48,589,626
Communications		**52,048,887**	57,879,402	54,550,711
Marketing		**51,243,101**	73,927,301	62,010,994
Forms and supplies		**40,537,784**	38,009,159	30,728,779
Membership dues		**13,307,104**	12,670,088	7,476,041
Transportation and travel		**11,465,185**	22,657,826	18,836,580
Litigation and acquired assets-related expenses	*17*	**5,416,646**	11,388,756	43,538,090
Others		**37,346,912**	41,487,429	21,296,459
		P381,759,150	P399,784,678	P419,376,412

Others include management fee on deposits, charges on correspondent banks and postage.

32. Income and Other Taxes

Income and other taxes are comprised of RBU and FCDU taxes which are discussed as follows:

Regular Banking Unit
Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented under “Taxes and licenses” account in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes.

Income tax expense include corporate income tax, as discussed below, and final taxes paid at the rate of 20.0%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes.

The corporate income tax rate is 30.0%. Interest allowed as a deductible expense is reduced by an amount equivalent to 33.0% of interest income subjected to final tax.

The regulations also provide for MCIT of 2.0% on modified gross income and allow NOLCO. The MCIT and NOLCO may be applied against the Bank’s income tax liability and taxable income, respectively, over a 3-year period from the year of incurrence.

In addition, Revenue Regulations (RR) No. 10-2002 provides for the ceiling on the amount of entertainment, amusement and representation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company like the Bank is limited to the actual EAR paid or incurred but not to exceed 1.0% of net revenue.

In 2011, the BIR issued RR 4-2011, *Proper allocation of costs and expenses amongst income earning of banks and other financial institutions for income tax reporting purposes*, which requires banks to allocate and claim as deduction only those costs and expenses attributable to RBU to arrive at the taxable income of the RBU subject to regular income tax. Any cost or expense related with or incurred for the operations FCDU are not allowed as deduction from the RBU’s taxable income. In computing for the amount allowable as deduction from RBU operations, all costs and expenses should be allocated between the RBU and FCDU by specific identification and by allocation.

Foreign Currency Deposit Unit
RA No. 9294, the existing applicable tax regulation governing the taxation of FCDU, provides, among others, the following:

- Offshore income or the income derived by FCDUs from foreign currency transactions with nonresidents, Offshore Banking Units (OBUs) in the Philippines, local commercial banks including branches of foreign banks that may be authorized by BSP to transact business with FCDUs and other depository banks under the foreign currency deposit system shall be exempt from all taxes, except net income from such transactions as may be specified by the Secretary of Finance, upon recommendation by the MB to be subject to the regular income tax payable by banks.

- Gross onshore income or interest income from foreign currency loans granted by FCDUs to residents through offshore units in the Philippines or other depository banks under the expanded system shall be subject to final tax at a rate of 10.0%; and

- Interest income derived by resident individual or corporation on deposits with FCDUs and OBUs are subject to 15.0% final tax.

Income tax expense consists of:

	2020	2019	2018
Current:			
Final	**P278,627,049**	P281,701,979	P267,811,760
RCIT	**136,789,048**	1,536,421	723,047
Tax benefit	**(80,130,816)**	-	-
MCIT	**-**	61,363,313	57,182,035
	335,285,281	344,601,713	325,716,842
Deferred	**(78,162,871)**	119,584,686	(70,310,861)
	P257,122,410	P464,186,399	P255,405,981

The amount of tax benefit relates to previously unrecognized MCIT of prior periods that is used to reduce current tax payable.

The amount of deferred tax income relates to the origination and reversal of temporary differences.

The reconciliation of the income tax expense computed at the statutory tax rate to the effective income tax shown in the statements of income follows:

	2020	2019	2018
Income before income tax expense	**P1,041,556,198**	P1,116,908,933	P238,861,213
Income tax at statutory rate	**P312,466,859**	P335,072,680	P71,658,364
Additions to (reductions in) income taxes resulting from the tax effects of:			
Nondeductible expenses	**340,769,185**	319,664,541	228,721,683
Nontaxable income	**(209,326,488)**	(79,941,478)	(80,954,777)
Tax paid income	**(129,117,988)**	(142,426,503)	(128,719,151)
Changes in unrecognized deferred tax assets	**87,538,287**	12,565,790	175,496,013
FCDU income	**(71,635,416)**	(28,009,350)	556,652
Others	**(73,572,029)**	47,260,719	(11,352,803)
Effective income tax	**P257,122,410**	P464,186,399	P255,405,981

The components of net deferred tax assets and deferred tax liabilities in the statements of financial position follow:

	Beginning Balance (December 31, 2019 Tax Effect)	Amount (Charged) Credited to Profit or Loss	Amount Recognized in OCI	Ending Balance (December 31, 2020 Tax Effect)
Deferred tax assets:				
Allowance for credit and impairment losses	**P1,052,927,615**	**P -**	**P -**	**P1,052,927,615**
Accumulated depreciation on foreclosed properties	**175,304,119**	**42,901,376**	**-**	**218,205,495**
Accrued employee benefits and other expenses	**100,210,650**	**38,887,522**	**-**	**139,098,172**
Unrealized loss on foreclosed properties	**87,296,490**	**4,398,110**	**-**	**91,694,600**
Net lease liability	**16,066,416**	**3,430,834**	**-**	**19,497,250**
Accrued rent expense	**1,441,827**	**1,641,965**	**-**	**3,083,792**
	1,433,247,117	**91,259,807**	**-**	**1,524,506,924**
Deferred tax liability:				
Unrealized gain on foreclosed properties	**(457,536,129)**	**(1,415,939)**	**-**	**(458,952,068)**
Unrealized foreign exchange gain	**(54,429,444)**	**6,088,710**	**-**	**(48,340,734)**
Gain on investment properties sold under installments	**(36,211,019)**	**1,327,746**	**-**	**(34,883,273)**
Unrealized gain on financial assets at FVOCI	**(3,305,159)**	**-**	**(3,084,165)**	**(6,389,324)**
Unrealized gain on financial assets at FVPL	**-**	**(3,598,029)**	**-**	**(3,598,029)**
Retirement benefits	**(1,464,089)**	**(15,499,424)**	**-**	**(16,963,513)**
	(552,945,840)	**(13,096,936)**	**(3,084,165)**	**(569,126,941)**
Net Deferred Tax Assets (Liabilities)	**P880,301,277**	**P78,162,871**	**(P3,084,165)**	**P955,379,983**

	Beginning Balance (December 31, 2018 Tax Effect)	Amount (Charged) Credited to Profit or Loss	Amount Recognized in OCI	Ending Balance (December 31, 2019 Tax Effect)
Deferred tax assets:				
Allowance for credit and impairment losses	P1,050,037,901	P2,889,714	P -	P1,052,927,615
Accumulated depreciation on foreclosed properties	156,013,550	19,290,569	-	175,304,119
Accrued employee benefits and other expenses	86,317,408	13,893,242	-	100,210,650
Unrealized loss on foreclosed properties	138,450,921	(51,154,431)	-	87,296,490
Net lease liability	-	16,066,416	-	16,066,416
Accrued rent expense	18,594,692	(17,152,865)	-	1,441,827
	1,449,414,472	(16,167,355)	-	1,433,247,117
Deferred tax liability:				
Unrealized gain on foreclosed properties	(345,683,932)	(111,852,197)	-	(457,536,129)
Unrealized foreign exchange gain	(53,260,423)	(1,169,021)	-	(54,429,444)
Gain on investment properties sold under installments	(47,278,995)	11,067,976	-	(36,211,019)
Unrealized gain on financial assets at FVOCI	-	-	(3,305,159)	(3,305,159)
Retirement benefits	-	(1,464,089)	-	(1,464,089)
	(446,223,350)	(103,417,331)	(3,305,159)	(552,945,840)
Net Deferred Tax Assets (Liabilities)	P1,003,191,122	(P119,584,686)	(P3,305,159)	P880,301,277

Management believes that certain future deductible items may not be realized in the near foreseeable future as future taxable income may not be sufficient for the related tax benefits to be realized. Accordingly, the Bank did not set up deferred tax assets on the following temporary differences and carry forward benefits of NOLCO and MCIT:

	2020		2019		2018	
	Deductible Temporary Differences	**Deferred Tax Asset**	Deductible Temporary Differences	Deferred Tax Assets	Deductible Temporary Differences	Deferred Tax Assets
Allowance for credit and impairment losses	**P3,027,818,815**	**P908,345,645**	P2,280,245,612	P684,073,684	P2,282,938,129	P684,881,439
MCIT	**91,992,619**	**91,992,619**	172,123,436	172,123,436	156,443,933	156,443,933
NOLCO	**-**	**-**	207,378,429	62,213,529	132,524,523	39,757,357
Unrealized loss on financial assets at FVPL	**-**	**-**	1,556,373	466,912	51,954,240	15,586,272
Retirement benefits	**-**	**-**	-	-	105,895,889	31,768,767
Others	**142,823,016**	**42,846,905**	122,564,407	36,769,322	48,811,082	14,643,325
Deferred tax items not recognized in profit or loss	**3,262,634,450**	**1,043,185,169**	2,783,868,257	955,646,883	2,778,567,796	943,081,093
Remeasurement losses on retirement liability	**449,088,000**	**134,726,400**	319,998,451	95,999,535	95,312,091	28,593,627
Unrealized loss on financial assets at FVOCI	**-**	**-**	-	-	71,179,467	21,353,840
Deferred tax items not recognized in OCI	**449,088,000**	**134,726,400**	319,998,451	95,999,535	166,491,558	49,947,467
	P3,711,722,450	**P1,177,911,569**	P3,103,866,708	P1,051,646,418	P2,945,059,354	P993,028,560

Details of the Bank's RBU NOLCO and MCIT as at December 31, 2020 follow:
NOLCO

Inception Year	Amount	Used	Balance	Expiry Year
2018	P114,621,525	P114,621,525	P -	2021
2019	92,756,904	92,756,904	-	2022
	P207,378,429	P207,378,429	P -	

MCIT

Inception Year	Amount	Used	Balance	Expiry Year
2017	P53,578,087	P53,578,087	P -	2020
2018	57,182,035	26,552,729	30,629,306	2021
2019	61,363,313	-	61,363,313	2022
	P172,123,435	P80,130,816	P91,992,619	

33. Related Party Transactions

The Bank has various transactions with its related parties and with certain directors, officers, stockholders and related interests (DOSRI). These transactions usually arise from normal banking activities such as lending, borrowing, deposit arrangements and trading of securities, among others. Under existing policies of the Bank, transactions with related parties are made substantially on the same terms as with other individuals and businesses of comparable risks.

Under current banking regulations, total outstanding loans, other credit accommodations and guarantees to each of the Bank's DOSRI shall be limited to an amount equivalent to their respective unencumbered deposits and book value of their paid-in capital contribution in the Bank: Provided, however, that unsecured loans, other credit accommodations and guarantees to each of the Bank's DOSRI shall not exceed 30.0% of their respective total loans, other accommodations and guarantees. Loans, other credit accommodations, and guarantees granted by the Bank to its DOSRI for the purpose of project finance, shall be exempted from the 30.0% unsecured individual ceiling during the project gestation phase: Provided, That: the Bank shall ensure that standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include pledge of the borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts, and assignment of project documents.

Except with the prior approval of the Monetary Board, the total outstanding loans, other credit accommodations and guarantees to DOSRI shall not exceed 15% of the total loan portfolio of the bank or 100.0% of net worth whichever is lower: Provided, That in no case shall the total unsecured loans, other credit accommodations and guarantees to said DOSRI exceed 30.0% of the aggregate ceiling or the outstanding loans, other credit accommodations and guarantees, whichever is lower. For the purpose of determining compliance with the ceiling on unsecured loans, other credit accommodations and guarantees, banks shall be allowed to average their ceiling on unsecured loans, other credit accommodations and guarantees every week.

The total outstanding loans, other credit accommodations and guarantees to each of the bank's subsidiaries and affiliates shall not exceed 10.0% of the net worth of the lending bank: Provided, That the unsecured loans, other credit accommodations and guarantees to each of said subsidiaries and affiliates shall not exceed 5.0% of such net worth: Provided, further, That the total outstanding loans, other credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.0% of the net worth of the lending bank: Provided, finally, That these subsidiaries and affiliates are not related interest of any of the director, officer, and/or stockholder of the lending bank.

The following table shows information on related party loans (amounts in thousands):

	2020		2019	
	DOSRI Loans	**Related Party Loans (inclusive of DOSRI)**	DOSRI Loans	Related Party Loans (inclusive of DOSRI)
Total outstanding loans	**P -**	**P21,783,009**	P1,746	P25,283,718
Percent of DOSRI/Related Party loans to total loans	**0.00%**	**29.80%**	0.00%	33.93%
Percent of unsecured DOSRI/Related Party loans to total DOSRI/Related Party loans	**0.00%**	**62.71%**	16.59%	66.09%
Percent of past due DOSRI/Related Party loans to total DOSRI/Related Party loans	**0.00%**	**0.04%**	14.18%	0.01%
Percent of non-performing DOSRI/Related Party loans to total DOSRI/Related Party loans	**0.00%**	**0.07%**	0.00%	0.01%

The details of significant related party transactions of the Bank follow (amounts in thousands):

Category	*Note*	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Associate	*14*			
2020				
Investment in an associate		**P -**	**P40,687**	24.26% equity interests in BIC which is a stockholder of the Bank
Share in net loss of an associate		**753**	**-**	Share in net loss of BIC
2019				
Investment in an associate		-	41,444	24.26% equity interests in BIC which is a stockholder of the Bank
Share in net loss of an associate		2,865	-	Share in net loss of BIC
2018				
Investment in an associate		-	39,982	24.25% equity interests in BIC which is a stockholder of the Bank
Share in net loss of an associate		1,844	-	Share in net loss of BIC

Unless otherwise stated, RPTs disclosed are unsecured.

Category	Note	Amount/Volume 2020	2019	2018	Outstanding Balance 2020	2019	Nature, Terms and Conditions
Other Related Parties							
Financial assets at FVOCI:	*10*						
Equity securities		**P -**	P -	P -	**P18,531**	P17,812	8.57% equity interest in BANGE
Private debt securities		**-**	-	-	**314,964**	311,359	Long-term bond with interest rate of 6.6% with maturity
Maturities		**-**	558,581	-	**-**	-	in 2022. Matured bond had interest rate of 5.9%
Investment securities at amortized cost	*11*	**-**	-	-	**1,711,696**	2,044,107	Long-term bonds with interest rates ranging from 4.0% to 8.1% with maturity years ranging from 2021 to 2025.
Maturities		**332,380**	-	-	**-**	-	Matured bond had interest rate of 5.0%
Loans and receivables - net:	*12*						
Receivables from customers:		**-**	-	-	**21,449,789**	24,587,767	Term, housing, auto, salary and personal loans with interest rates ranging from 2.7% to 23.0% and with
Availments		**57,727,441**	97,558,958	-	**-**	-	maturity of less than 1 year to 20 years; Collateral
Settlements		**60,698,979**	100,372,158	-	**-**	-	includes real estate mortgage, unregistered chattel mortgage, hold-out on deposit, assignment of contract and concession agreement, continuing surety agreement, mortgage trust indenture and pledge agreement on shares;
Sales contract receivables and accrued interest receivables:		**-**	-	-	**130,863**	171,069	Sales contract receivables with annual interest rates ranging from 6.3% to 10.5% and with maturity years of
Availments		**-**	-	-	**-**		5 to 10 years; accrued interest receivables on loans,
Settlements		**998**	32,491	1,120	**-**	-	sales contract receivables and long-term bonds;
Interest income		**1,948,698**	2,337,264	2,045,134	**-**	-	Interest income on loans, sales contract receivables and long-term bonds;
Deposit liabilities:	*19*	**-**	-	-	**42,747,440**	28,795,694	Consists of current, savings and time deposits which
Deposits		**3,171,896,515**	3,654,227,740	3,700,249,029	**-**	-	earn interest at the respective bank deposit rates-
Withdrawals		**2,570,073,386**	2,330,818,579	2,427,698,304	**-**	-	-
Accrued interest payable	*21*	**138,076**	558,705	253,452	**2,377**	13,805	Interest expense and accrued interest payable on deposits;
Accrued other expenses and other liabilities	*22*	**144,915**	166,865	156,187	**2,951**	5,061	Accrued other expenses include professional fees, per diem of Directors and accruals for rent and utilities; On demand, unsecured and non-interest bearing; Other liabilities consists of accounts payable to Bank's officers; On demand, unsecured and non-interest bearing.
Fees and other income	*27, 31*	**49,736**	62,269	61,380	**-**	-	Loan and investment-related fees and commission income, gain from the cash sale transactions of foreclosed properties, dividend received from BANGE and passed-on GRT
Commitments and contingent liabilities	*33*	**-**	-	-	**1,811,745**	1,897,609	Bank guarantees in favor of related party and outstanding sight import letters of credit

Unless otherwise stated, RPTs disclosed are unsecured and balances are gross of allowance

As at December 31, 2020 and 2019, outstanding bills purchased of related parties with contra account in “Other liabilities” amounted to P419.8 million and P695.0 million, respectively (see Notes 12 and 22).

Other related parties are companies linked directly or indirectly to the Bank through one or more intermediaries or are members of the same group, is controlled by, is under the same significant influence, or is under common control with the Bank.

The related party transactions shall be settled in cash. As of December 31, 2020 and 2019, the allowance for credit losses on outstanding transactions with other related parties amounted to P361.6 million and P377.2 million, respectively. Provision for (reversal of) of credit losses recorded in 2020, 2019 and 2018 on such related party transactions totaled to (P15.5) million, (P98.7) million and P33.0 million, respectively. Such outstanding transactions include private debt securities at FVOCI, investment securities at amortized cost, receivables from customers, sales contract receivables and accrued interest receivable under the “Loans and receivables - net” account in the statements of financial position and commitment and contingent liabilities.

Transactions with Retirement Plan

The Bank’s retirement plan is managed and administered by the Bank’s Trust Services Group which is covered by an IMA Agreement (agency relationship). The fair values of the plan assets are disclosed in Note 29.

Related information on assets/liabilities and income/expense of the funds as at and for the years ended December 31, 2020, 2019 and 2018 follow:

	2020	2019
Financial assets at FVOCI:		
Government and other debt securities	**P515,228,053**	P425,389,037
Quoted equity securities	**211,844,705**	196,084,992
Unquoted equity securities	**10,986,031**	12,223,787
Loans and other receivables	**129,622,002**	124,697,017
Deposits with the Bank	**71,106,690**	66,464,054
Total Plan Assets	**P938,787,481**	P824,858,887
Due to Broker	**P1,728,636**	P2,582,777
Trust fee payable	**201,974**	177,615
Other liabilities	**33,986**	14,600
Total Plan Liabilities	**P1,964,596**	P2,774,992

Plan Income	**2020**	2019	2018
Interest income	**P26,049,369**	P25,325,513	P19,722,520
Trading and investment gains (loss)	**(10,560,419)**	1,742,765	-
Dividend income and others	**8,193,257**	6,625,221	498,995
	P23,682,207	P33,693,499	P20,221,515
Plan Expense			
Trust fees	**P2,088,834**	P1,755,143	P1,627,332
Other expenses	**647,155**	752,211	676,688
Provision for credit losses	**73,991**	277,864	(527,867)
	P2,809,980	P2,785,218	P1,776,153

As at December 31, 2020 and 2019, the retirement plan assets of the Bank include 73,067 shares of the Bank classified under financial assets at FVOCI. The allowance for probable losses on the retirement plan's shares of the Bank amounted to P11.1 million and P9.9 million as at December 31, 2020 and 2019, respectively. Limitations and restrictions are covered by the IMA Agreement and anything outside the IMA Agreement must be explicitly authorized by the Board of Trustees (BOT).

Interest income on deposit with the Bank amounted to P129,977, P10,537 and P7,910 as at December 31, 2020, 2019 and 2018, respectively. Investments are subject to the limitations of the agreement and all other actions pertaining to the fund are to be executed only upon explicit authority by the BOT of the fund.

The Bank's contribution to its defined benefits retirement plan amounted to P176.4 million and P202.2 million in 2020 and 2019, respectively. Benefits paid out of the Bank's plan assets amounted to P85.0 million and P52.2 million in 2020 and 2019, respectively (see Note 29).

Compensation of Key Management Personnel of the Bank

The remuneration of directors and other members of key management included in the "Compensation and fringe benefits" account in the statements of income for the years ended December 31, 2020, 2019 and 2018 follows:

	2020	2019	2018
Short-term employee benefits	**P530,809,650**	P536,003,622	P458,986,174
Post-employment benefits	**37,430,582**	29,240,005	28,220,797
	P568,240,232	P565,243,627	P487,206,971

34. Acquisition of Selected Assets and Assumption of Certain Liabilities of TRB

A summary of the significant transactions related to the PSA entered into by the Bank with TRB on November 9, 2001 follows:

a. TRB sold and transferred, in favor of the Bank, identified recorded assets owned by TRB both real and personal, or in which TRB has title or interest, and which are included and deemed part of the assets listed and referred to in TRB's Consolidated Statement of Condition (CSOC) as at August 31, 2001. The said assets are inclusive of the banking goodwill of TRB, bank premises, licenses to operate its head office and branches, leasehold rights and patents used in connection with its business or products. In consideration of the sale of identified recorded assets, the Bank assumed identified recorded TRB liabilities including contingent liabilities as listed and referred to in its CSOC as at August 31, 2001. The liabilities assumed do not include the liability for the payment of compensation, retirement pay, separation benefits and any labor benefits whatsoever arising from, incidental to, or connected with employment in, or rendition of employee services to TRB, whether permanent, regular, temporary, casual or contractual and items in litigation, both actual and prospective, against TRB.

b. The Bank is allowed to avail of certain BSP incentives including but not limited to the following: (a) full waiver of the liquidated damages on the emergency loan of TRB and penalties related to reserve deficiencies and all other outstanding penalties at the time of acquisition may be paid over a period of 1 year, (b) relocation of branches shall be allowed within 1 year from the date of BSP approval of the PSA. Relocation shall be allowed in accordance with BSP Circular No. 293. The 90-day notice requirement on branch relocation has been waived, and (c) availment of rediscounting facility window subject to present BSP regulations.

c. The Bank paid the outstanding emergency advances owed by TRB to BSP originally amounting to P2.4 billion through dacion en pago with mandatory buy-back agreement of certain assets of the Bank and TRB at a price set at 80.0% of the appraised value of those assets (see discussions on Settlement of Liabilities of TRB).

d. The Bank arranged with PDIC a liquidity facility for the first year following the effectivity date in the amount not to exceed 10.0% of the assumed deposit liabilities of TRB to service unanticipated withdrawals by TRB depositors, subject to terms and conditions as may be imposed by PDIC.

Settlement of Liabilities of TRB

Part of the liabilities of TRB assumed by the Bank includes P2.4 billion emergency advances from BSP. As settlement for the emergency advances, a dacion en pago with mandatory buy-back agreement involving certain bank premises and ROPA (with a dacion price equivalent to 80.0% of the average appraised value of the dacion properties) was executed. The dacion en pago with mandatory buy-back agreement contained the following significant terms and conditions:

a. The Bank may repurchase the bank premises and ROPA within 10 years from the execution of the agreement.

b. The buy-back price for the ROPA is the dacion price plus, if applicable, real estate taxes paid by BSP. The buy-back price for the bank premises used in operations shall be the dacion price plus 6.0% simple interest per annum plus 50.0% of rental rates based on prevailing rates in the locality as mutually agreed by the parties with a 4.3% yearly increment.

c. Any gain on sale of the dacion properties within the 10-year holding period, in excess or over the buy-back price, net of any taxes paid related to the sale, shall be shared 70-30 between the Bank and BSP, respectively.

As approved by BSP, properties of the Bank and TRB with net book value amounting to P2.3 billion fully settled the liabilities to BSP assumed by the Bank from TRB amounting to P2.4 billion at the time of dacion; the difference amounting to P102.0 million was credited to other deferred credits (ODC) account. Expenses incurred related to the dacion of properties were offset against ODC.

The Bank fully settled its emergency loan with BSP in June 2012 through cash settlement and permanent transfer of dacioned properties.

FAA

The summary of significant transactions related to the FAA entered into by the Bank with the PDIC, for acting as a “White Knight” by agreeing to the terms and conditions of the PSA with TRB, follows:

a. The PDIC granted the Bank a loan amounting to P1.8 billion representing the amount of insured deposits of TRB as at June 30, 2001, which should have been paid by PDIC under a closure scenario. The proceeds of the loan were used to purchase a 20-year government securities with a coupon rate of 15.0% per annum to be pledged as collateral for the loan. Yield on the 20-year government securities (net of 20.0% withholding tax and the 3.0% interest to be paid on the loan from PDIC) shall be used to offset on a staggered basis, for prudential reporting purposes, against TRB’s unbooked valuation reserves on NPAs with a total face value of P4.5 billion, which was approved by BSP to be booked as “Miscellaneous assets”.

   On November 29, 2013, the Bank fully settled its loan from PDIC amounting to P1.8 billion.

b. The Bank infused additional fresh capital amounting to P200.0 million in 2001 and commits to infuse additional capital in the event a shortfall in order to comply with BSP’s pertinent regulations on minimum capital requirement.

c. The Bank agrees to comply with certain regulatory requirements, to provide information as required by the PDIC, to pursue realization of performance targets based on the financial plan, to secure PDIC’s written consent for the appointment of an external auditor, and to entitle PDIC to appoint a consultant.

d. The Bank shall not, among others, without the prior written consent of PDIC, grant new DOSRI loans, make any single major or significant total capital expenditures within 5 years as defined in the FAA, establish new banking offices or branches, dispose all or substantial portion of its assets except in the ordinary course of business, declare or pay cash dividends, effect any profit sharing or distribution of bonuses to directors and officers of the Bank not in accordance with the financial plan and other transactions or activities not in accordance with the financial plan.

On September 22, 2009, the Bank and PDIC signed a Supplemental Agreement to the 2002 FAA with the following additional terms:

a. To the extent and in the context relevant to the terms of the FAA, PDIC hereby agrees to a limited adjustment of TRB's unbooked valuation reserves/deferred charges/accumulated operating losses, so as to include operating losses accumulated from the period October 2001 to July 2002 in the amount of P596.0 million which shall bring TRB's total unbooked valuation reserves, deferred charges and accumulated operating losses to P4.5 billion;

b. Extension of the FAA for such limited period as shall exactly be sufficient to fully set off on staggered basis the MA-TRB against the net yield of the new series 20-year government securities to be purchased to replace the maturing government securities in March 2022 and likewise to be pledged to PDIC; and

c. Income resulting from the difference between the dacion price and book value of the assets as collateral to BSP, if any, as well as future collections derived by the Bank from NPLs covered by the unbooked valuation reserves shall be deducted from the above amount of P4.5 billion. Such set-off shall be formally and officially reported by BSP to PDIC.

The foregoing Supplemental Agreement did not constitute a significant modification of the terms of the PDIC's below-market loan to the Bank. Had the modification been significant, it would have resulted to the derecognition of the old liability and the recognition of the new liability at its fair value.

In addition, as part of the PSA, there were transactions allowed and approved by BSP, which required different treatment under PFRSs. These transactions and their effects are described below:

Assumption of NPAs of TRB
In addition to the provisions of FAA and subsequent to the approval by BSP and PDIC to recognize NPAs of P144.2 million as miscellaneous assets, the Bank negotiated with BSP and PDIC to include as miscellaneous assets the additional operating losses of TRB amounting to P595.6 million incurred during the transition period of the Bank's assumption of TRB's assets and liabilities.

As at December 31, 2002, a portion of the additional operating losses of TRB amounting to P227.2 million was approved by BSP and PDIC to be included as additional miscellaneous assets. On April 28, 2003, BSP approved the deferral of operating losses amounting to P596.4 million (instead of P595.6 million which was previously negotiated by the Bank and P227.2 million which was previously approved by BSP) thereby increasing the TRB-related bookings to miscellaneous assets to P4.4 billion (see Note 17). NPL included under miscellaneous assets comprised TRB's loans amounting to P3.1 billion as at August 31, 2001 which is excluded in the determination of financial ratios, provisioning and computation of CAR based on the agreed term sheet. Also, BSP considered these miscellaneous assets as non-risk assets and are not subject to classification.

Pursuant to the requirements of PFRS, the impairment losses on the NPAs amounting to P4.4 billion as at December 31, 2020, 2019 and 2018 were charged in full in the period incurred (see Note 17).

For its separate prudential reporting to BSP, the Bank continues to recognize the P4.4 billion impairment losses on a staggered basis as provided under MB No. 1950 (see Note 17).

35. Notes to Statements of Cash Flows

As at December 31, 2020 and 2019, interbank loans receivable amounting to P106.5 million and P110.9 million, respectively, were not considered as part of cash and cash equivalents, having a maturity of more than 3 months.

The following is a summary of noncash activities of the Bank:

	2020	2019	2018
Noncash investing activities:			
Additions to investment properties and other properties acquired in settlement of loans	**P46,108,250**	P433,122,836	P338,423,348
Increase in sales contract receivables from sale of investment properties	**43,862,200**	118,925,434	86,214,038

The following table shows the reconciliation analysis of liabilities arising from financing liabilities for period ended December 31, 2020, 2019 and 2018:

	2020	2019	2018
Beginning balance	**P646,104,589**	P557,471,615	P267,208
Lease liabilities	**-**	587,782,880	-
	646,104,589	1,145,254,495	267,208
Additions to lease liabilities	**220,703,671**	206,273,261	-
Interest accretion	**42,921,243**	45,360,536	
Cash flows during the year:			
Proceeds	**1,984,184,000**	6,554,445,000	5,151,699,550
Settlements	**(2,204,998,022)**	(7,305,228,703)	(4,594,495,143)
	(220,814,022)	(750,783,703)	557,204,407
Other adjustments	**(6,899,742)**	-	-
Ending balance	**P682,015,739**	P646,104,589	P557,471,615

Other adjustments pertain to reductions to lease liabilities due to rent concessions and pre-termination of lease contracts.

As allowed by PAS 7, short-term borrowings from local banks amounting to P2.0 billion and P6.6 billion in 2020 and 2019, respectively, are presented in statements of cash flows on a net basis.

36. Financial Performance Indicators

Basic earnings (loss) per share amounts were computed as follows:

	2020	2019	2018
a. Net income (loss)	**P784,433,788**	P652,722,534	(P16,544,768)
b. Weighted average number of outstanding common shares	**112,241,112**	112,241,112	112,241,112
c. Earnings (loss) per share (a/b)	**P6.99**	P5.82	(P0.15)

As at December 31, 2020, 2019 and 2018, the Bank has no potentially dilutive common shares.

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

	2020	2019	2018
Return on average equity	**4.77%**	4.13%	-0.11%
Return on average assets	**0.50%**	0.44%	-0.01%
Net interest margin on average earning assets	**3.87%**	3.45%	3.28%

37. Events after the Reporting Date

On January 26, 2021, the BOD approved the issuance of 41,666,667 preferred shares to San Miguel Corporation. These shares will be issued out of the unissued Series 1 Preferred Shares of the Bank. BSP clearance of the indicative terms and conditions of these Preferred Shares is being requested to ensure that the investment meets the requirements for Additional Tier 1 capital. Final share price will also be dependent on the cleared terms and conditions. On June 29, 2021, the BOD approved the change of investor for preferred shares from San Miguel Corporation to SMC Equivest Corporation, a wholly owned subsidiary of San Miguel Corporation and an existing stockholder of the Bank. On August 5, 2021, the Bank issued 41,666,667 Series 1 Preferred Shares to SMC Equivest Corporation at P132.0 per share.

On February 23, 2021, the BOD approved a Bond Issuance Program of up to P20.0 billion, in multiple tranches, with a minimum term of 1.5 years. Interest rates will be based on prevailing market rates. The Bond Issuance Program aims to further diversify the Bank's funding sources and generate stable longer-term funding to support the Bank's expansion activities.

On March 29, 2021, the BOD approved the Bank to undergo equity restructuring to wipe out the deficit amounting to P51,156,715 as at December 31, 2020 through the use of the Bank's Paid-in surplus. On July 12, 2021, the Bank received from BSP a "No Objection" response to its application for equity restructuring with the SEC, subject to the (i) Bank's compliance with the Commission's other requirements; and (ii) condition that the Bank shall provide BSP a certified true copy of SEC's approval of the equity restructuring within five (5) days from receipt thereof. On October 14, 2021, the SEC approved the equity restructuring to wipe-out the deficit as at December 31, 2020 amounting to P51,156,715 against the Paid-in surplus of P5.6 billion subject to the conditions that the remaining Paid-in surplus cannot be applied for future losses that may be incurred by the Bank without prior approval of the SEC. As of the date of SEC approval, the deficit of the Bank as at January 1, 2021 amounted to nil.

On May 25, 2021, the BOD approved the amendment of the Bank's Articles of Incorporation relative to the change in par value of common and preferred shares from One Hundred Pesos (P100.0) to Ten Pesos (P10.0). The amendment was approved by the Stockholders on July 8, 2021. On October 4, 2021 and November 2, 2021, the amendment on the Bank's Articles of Incorporation for the change in par value from P100.0 to P10.0 was approved by the BSP and SEC, respectively. The amendment resulted to an increase in common shares from 170,251,147 to 1,702,511,470 and increase in preferred shares from 45,500,000 to 455,000,000.

On October 28, 2021 and November 9, 2021, the BOD and the Stockholders, respectively, approved the primary public offer and sale of up to 280,700,000 common shares from unissued capital stock. The actual sale will be done as soon as approvals are received from the applicable regulatory agencies.

On the same dates, the BOD and the Stockholders also approved amendments to the Articles of Incorporation to align sections around the sale, assignment, and disposal of shares with the lock up requirements of the Philippine Stock Exchange. The By-laws were also amended to update sections on stockholders, the Board of Directors, certificates of stock, and the transfer of shares of stock. On December 31, 2021, the Monetary Board approved the upgrade of the Bank's banking license from commercial bank to universal bank (UB) subject to certain regulatory requirements.

38. Supplementary Information Required under BSP Circular No. 1074

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 BSP Circular No. 1074, *Amendment to Regulations on Financial Audit of Banks.*

(a) Commitments and Contingencies

In the normal course of operations, the Bank makes various commitments, such as guarantees, commitments to extend credit, etc., which are not reflected in the accompanying financial statements. The Bank does not anticipate any material losses as a result of these transactions.

The following is a summary of the Bank's commitments and contingencies at their peso equivalent contractual amounts arising from off-books accounts as at December 31, 2020 and 2019:

	2020	2019
Contingent assets:		
Future/spot exchange bought	**P168,080,500**	P101,270,000
Outward bills for collection	**3,286,476**	1,012,065
Fixed income securities purchased	**248,291**	60,938,300
	P171,615,267	P163,220,365
Commitments and contingent liabilities:		
Trust department accounts	**P39,055,150,377**	P40,329,500,019
Credit card lines	**3,708,362,146**	4,114,539,042
Committed credit line	**3,577,500,000**	3,325,000,000
Outstanding guarantees	**1,165,637,379**	1,695,038,981
Unused commercial letters of credit	**800,505,453**	382,345,641
Future/spot exchange sold	**528,253,000**	658,255,000
Late deposits/payments received	**171,532,610**	99,280,942
Fixed income securities sold	**496,582**	19,752
Items held for safekeeping/securities held as collateral	**54,088**	851,068
	P49,007,491,635	P50,604,830,445

The Bank has several loan-related suits, claims and regulatory examinations that remain unsettled or ongoing. It is not practicable to estimate the potential financial impact of these contingencies. However, in the opinion of management, in consultation with its legal counsels, the suits and claims, if decided adversely, will not involve sums having a material effect on the Bank's financial statements.

<u>Other Commitments</u>
The assets pledged by the Bank are strictly for the purpose of providing collateral for the counterparty. To the extent that the counterparty is permitted to sell and/or re-pledge the assets, they are classified in the statements of financial position as pledged collateral. The pledged assets will be returned to the Bank when the underlying transaction is terminated but, in the event of the Bank's default, the counterparty is entitled to apply the collateral in order to settle the liability.

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

(b) Trust Assets

Securities and other properties (other than deposits) held by the Bank in fiduciary or agency capacities for its customers are not included in the accompanying statements of financial position since these are not assets of the Bank. Total assets held by the Bank's Trust Services Group amounted to P39.1 billion (unaudited) and P40.3 billion (audited) as at December 31, 2020 and 2019, respectively.

In compliance with the requirements of current banking regulations relative to the Bank's trust functions, government securities with face value of P504.0 million and P439.0 million as at December 31, 2020 and 2019, respectively, which have been included under "Investment securities at amortized cost" (see Note 11), are deposited with BSP.

Other relevant disclosures required by BSP Circular No. 1074 are in Notes 12, 24 and 33.

39. Supplementary Information Required under Revenue Regulations (RR) No. 15-2010

The Bureau of Internal Revenue (BIR) has issued RR No. 15-2010 which requires certain tax information to be disclosed in the notes to financial statements. The Bank reported and/or paid the following types of taxes in 2020:

a. Other Taxes and Licenses

This includes all other taxes, local and national, including real estate taxes, licenses and permit fees lodged under the 'Taxes and Licenses' account in the Bank's statement of income.

Details of taxes and licenses for the year consist of the following:

Documentary stamp tax	**P407,266,395**
Gross receipts tax	**349,550,289**
License and permit fees	**39,381,605**
Real estate taxes	**17,315,921**
Fringe benefits	**8,327,769**
Transfer taxes	**7,667,241**
Capital gains tax	**550,681**
Others	**98,537**
	P830,158,438

b. Withholding Tax Remittances to BIR

As withholding agent, the Bank remitted the following withheld taxes during the year:

Final withholding taxes	**P278,738,710**
Tax on compensation and benefits	**182,571,378**
Expanded withholding taxes	**46,439,694**
	P507,749,782

c. Deficiency Tax Assessments

Period Covered	
2003	**P3,095,735***

**Amount of deficiency tax assessments, whether protested or not.*

Management, in consultation with its legal counsels, believes that the deficiency tax assessment above is without legal basis. Accordingly, the Bank has filed abatement on January 27, 2006 for the closure of the case. The said abatement is pending decision by the BIR.

d. Tax Cases

As at December 31, 2020, the Bank has no outstanding tax cases and assessments.

R.G. Manabat & Co.
The KPMG Center, 6/F
6787 Ayala Avenue, Makati City
Philippines 1209
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Internet www.home.kpmg/ph
Email ph-inquiry@kpmg.com

REPORT OF INDEPENDENT AUDITORS
COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Board of Directors and the Stockholders
Bank of Commerce
San Miguel Properties Centre
No. 7, St. Francis Street
Mandaluyong City

We have audited, in accordance with Philippine Standards on Auditing, the accompanying financial statements of Bank of Commerce (the “Bank”) as at December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018, and have issued our report thereon dated January 25, 2022.

Our audits were made for the purpose of forming an opinion on the basic financial statements of the Bank taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Bank's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the financial statements as at December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018, and no material exceptions were noted.

R.G. MANABAT & CO.

SHEILA RICCA G. DIOSO
Partner
CPA License No. 0115382
BSP Accreditation No. 115382-BSP, Group A, valid for five (5) years
covering the audit of 2019 to 2023 financial statements
SEC Accreditation No. 115382-SEC, Group A, valid for five (5) years
covering the audit of 2019 to 2023 financial statements
Tax Identification No. 229-233-163
BIR Accreditation No. 08-001987-047-2019
Issued December 26, 2019; valid until December 25, 2022
PTR No. MKT 8854064
Issued January 3, 2022 at Makati City

January 25, 2022
Makati City, Metro Manila

R.G. Manabat & Co.
The KPMG Center, 6/F
6787 Ayala Avenue, Makati City
Philippines 1209
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Internet www.home.kpmg/ph
Email ph-inquiry@kpmg.com

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

The Board of Directors and the Stockholders
Bank of Commerce
San Miguel Properties Centre
No. 7, St. Francis Street
Mandaluyong City

We have audited, in accordance with Philippine Standards on Auditing, the accompanying financial statements of Bank of Commerce (the "Bank") as at December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018, and have issued our report thereon dated January 25, 2022.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Bank taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Bank's management. Such additional components include:

- Reconciliation of Retained Earnings Available for Dividend Declaration
- Relationship Map
- Supplementary Schedules of Annex 68-J

Firm Regulatory Registration & Accreditation:
PRC-BOA Registration No. 0003, valid until November 21, 2023
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)

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

R.G. MANABAT & CO.

SHEILA RICCA G. DIOSO
Partner
CPA License No. 0115382
BSP Accreditation No. 115382-BSP, Group A, valid for five (5) years
covering the audit of 2019 to 2023 financial statements
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January 25, 2022
Makati City, Metro Manila

BANK OF COMMERCE

SUPPLEMENTARY SCHEDULES REQUIRED BY SRC RULE 68
DECEMBER 31, 2020

Philippine Securities and Exchange Commission (SEC) issued the Revised Securities Regulation Code Rule (SRC) 68. It prescribed the additional information and schedule requirements for issuers of securities to the public.

Below are the additional information and schedules required by the Revised SRC Rule 68. These are presented for purposes of filing with the SEC and is not required part of the basic financial statements.

PART I

Schedule A:	Schedule of Financial Soundness Indicators
Schedule B:	Reconciliation of Retained Earnings Available for Dividend Declaration
Schedule C:	Relationship Map

PART II (Schedules Required by Annex 68-J of the Revised SRC Rule 68)

Schedule A:	Financial Assets
Schedule B:	Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
Schedule C:	Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements
Schedule D:	Long-Term Debt
Schedule E:	Indebtedness to Related Parties (Long-Term Loans from Related Companies)
Schedule F:	Guarantees of Securities of Other Issuers
Schedule G:	Capital Stock

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
BANK OF COMMERCE

AS OF DECEMBER 31, 2020 AND DECEMBER 31, 2019

RATIO	FORMULA	RATIO 2020	RATIO 2019
Current Ratio	Total current assets / Total current liabilities	**0.77**	0.58
Acid Test Ratio	Total current financial assets / Total current liabilities	**0.76**	0.57
Solvency Ratio	Net income before non-cash expenses / Total liabilities	**0.02**	0.01
Debt to Equity Ratio	Total liabilities / Total equity	**9.19**	8.01
Asset to Equity Ratio	Total assets / Total equity	**10.19**	9.01
Interest Rate Coverage Ratio	Net Income before interest and taxes / Interest expense	**1.89**	1.47
Return on Equity	Net income / Average total equity	**4.77%**	4.13%
Return on Asset	Net income / Average total assets	**0.50%**	0.44%
Net Profit Margin	Net income / Total revenues	**11.41%**	11.19%
OTHER RATIOS			
Net Interest Margin	Net interest income / Average interest-earning assets	**3.87%**	3.45%
Cost to Income Ratio	Total operating expense / Total revenues	**0.71**	0.80
Debt to Assets Ratio	Total liabilities / Total assets	**0.90**	0.89
Loans to Deposit Ratio	Total gross loans* / Total deposits	**0.64**	0.71
Non-performing Loans Cover	Allowance for credit losses on loans / Non-performing loans	**114.24%**	145.04%
Non-performing Loans Ratio**	Non-performing loans / Total gross loans	**3.03%**	1.92%
Net Non-performing Loans Ratio**	Net non-performing loans / Total gross loans	**0.89%**	0.34%
Capital Adequacy Ratio	Total qualifying capital / Total risk-weighted assets	**16.60%**	15.93%

**Gross loans include receivables from customers (loans), interbank loans receivable and securities purchased under resale agreements.*
***Computed based on BSP Circular 941*

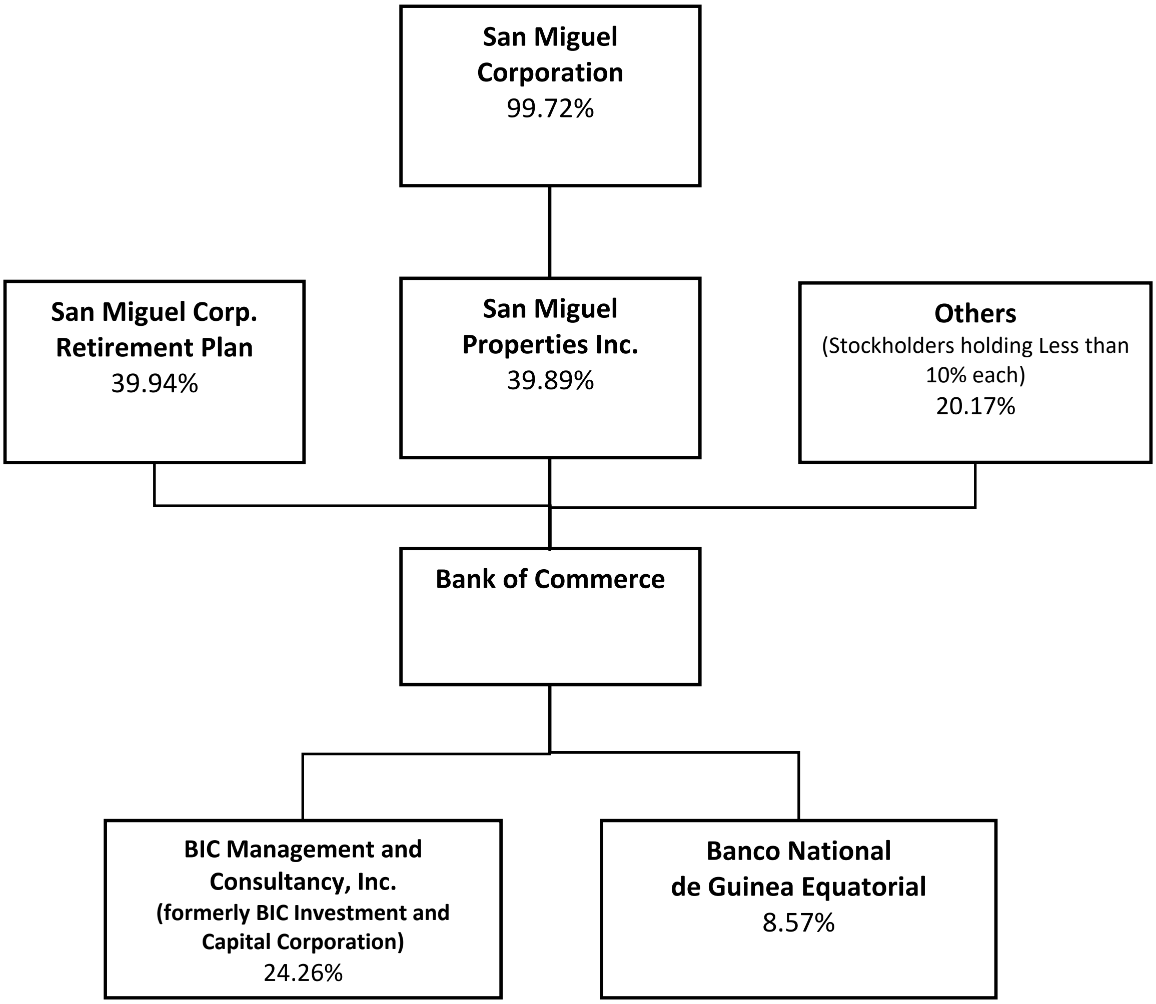
BANK OF COMMERCE

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION DECEMBER 31, 2020

Unappropriated deficit, beginning	**(P839,250,906)**
Adjustments:	
Deferred tax assets recognized	**(1,433,247,117)**
Fair value adjustments on foreclosed properties	**(1,234,132,129)**
Unrealized foreign exchange gain	**(181,431,479)**
Unappropriated deficit, as adjusted to available for dividend declaration, beginning	**(3,688,061,631)**
Net income during the year closed to retained earnings	**784,433,788**
Add/Less: Non-actual/unrealized income (expenses)	
Movement on deferred tax asset	**(91,259,807)**
Unrealized gain on fair value through profit or loss	**(69,731,751)**
Unrealized foreign exchange loss	**20,295,698**
Fair value adjustments on foreclosed properties	**9,940,570**
Add: Net income actually earned/realized during the period	**653,678,498**
Add: Transfer from surplus reserves	**3,660,403**
Unappropriated deficit available for dividend declaration, end	**(P3,030,722,730)**

BANK OF COMMERCE

RELATIONSHIP MAP
DECEMBER 31, 2020



BANK OF COMMERCE

SCHEDULE A – FINANCIAL ASSETS
DECEMBER 31, 2020

Name and Designation of Debtor	Balance at Beginning of Year	Additions	Amounts Collected	Amounts Written Off	Current	Not Current	Ending Balance
NONE TO REPORT							

Greater of aggregate cost or market value of FVPL is less than 5% of current assets.

BANK OF COMMERCE

SCHEDULE B – AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
DECEMBER 31, 2020

Name and Designation of Debtor	Balance at Beginning of Year	Additions	Amounts Collected	Amounts Written Off	Current	Not Current	Ending Balance
			NONE TO REPORT				
			Indebtedness arise in the ordinary course of business.				

BANK OF COMMERCE

SCHEDULE C – AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2020

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Amounts Collected	Amounts Written Off	Current	Not Current	Balance at End of Period
			NONE TO REPORT				
			Financial statements are not for consolidation.				

BANK OF COMMERCE

SCHEDULE D – LONG-TERM DEBT
DECEMBER 31, 2020

Type of Issue and Type of Obligation	Amount Authorized by Indenture	Amount Shown under Caption "Current Portion of Long-Term Debt" in Related Balance Sheet	Amount Shown under Caption "Long-Term Debt" in Related Balance Sheet	Interest Rates	Amounts or Numbers of Periodic Installments	Maturity Dates
Long-term negotiable certificates of time deposit	P5,029,420,000	P -	P5,029,420,000	4.500%	Quarterly interest payment	September 17, 2025

BANK OF COMMERCE

SCHEDULE E – INDEBTEDNESS TO RELATED PARTIES (LONG TERM LOANS FROM RELATED COMPANIES)
DECEMBER 31, 2020

Name of Related Parties	Balance at Beginning of Year	Balance at End of Year	Nature, Terms and Conditions
NONE TO REPORT			
No long term loans from related companies.			

BANK OF COMMERCE

SCHEDULE F – GUARANTEES OF SECURITIES OF OTHER ISSUERS
DECEMBER 31, 2020

Name of Issuing Entity of Securities Guaranteed by the Company for which this Statement is Filed	Title of Issue of Each Class of Securities Guaranteed	Total Amount of Guaranteed and Outstanding	Amount Owned by Person of which Statement is Filed	Nature of Guarantee
		NONE TO REPORT *No securities were guaranteed.*		

BANK OF COMMERCE

SCHEDULE G – CAPITAL STOCK
DECEMBER 31, 2020

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding as Shown under the Related Balance Sheet Caption	Number of Shares Reserved for Options, Warrants, Conversion and Other Rights	Number of Shares Held by Related Parties	Directors, Officers and Employees	Others
Common shares	170,251,147	112,241,112	-	147,635	73,706	112,019,771
Preferred Shares	45,500,000	-	-	-	-	-

Required information is disclosed in Note 24: Capital Stock

C O V E R   S H E E T

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

						2	4	2	2	1

C O M P A N Y   N A M E

BANK OF COMMERCE

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

San Miguel Properties Centre
No. 7 St. Francis Street
Mandaluyong City

Form Type	Department requiring the report	Secondary License Type, If Applicable
A A F S		

C O M P A N Y   I N F O R M A T I O N

Company's email Address	Company's Telephone Number/s	Mobile Number
N/A	8982-6000	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
145	Any day in April	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Antonio S. Laquindanum	ASLaquindanum@bankcom.com.ph	8982-6000	N/A

CONTACT PERSON's ADDRESS

12th Floor, San Miguel Properties Centre, No. 7 St. Francis St., Mandaluyong City

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

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