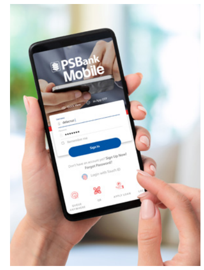
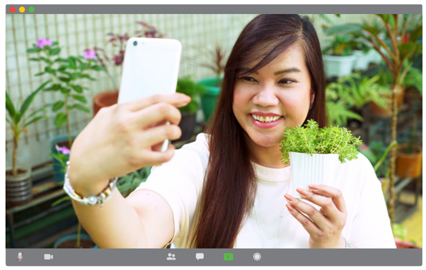
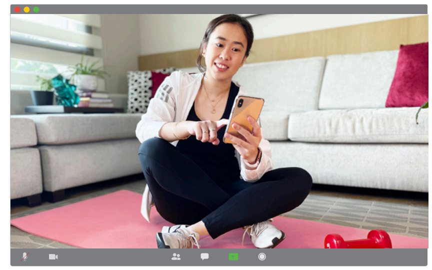
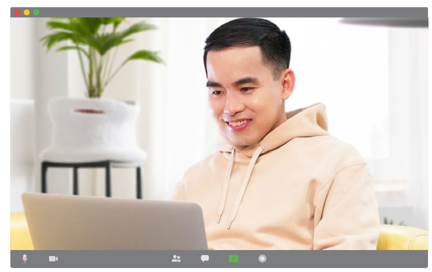
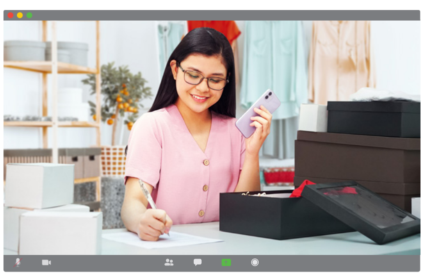
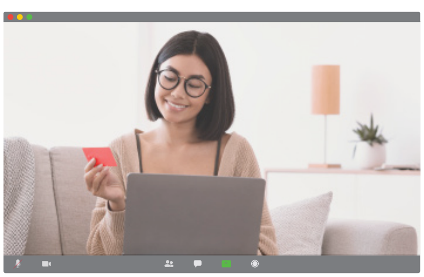
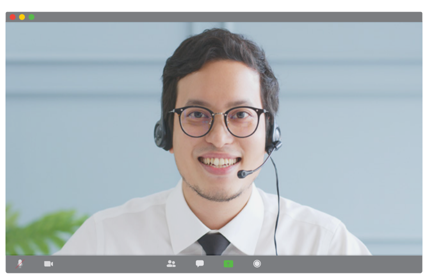
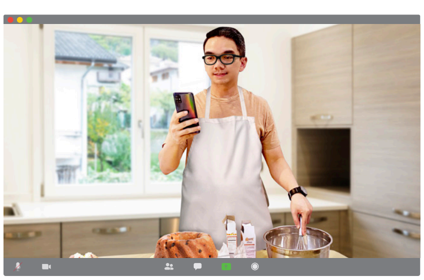
MANAGING IN THE NEW NORMAL


2020 AUDITED FINANCIAL STATEMENTS

PSBank
PHILIPPINE SAVINGS BANK
Metrobank Group

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MANAGEMENT DISCUSSION AND ANALYSIS

BALANCE SHEET

Assets

The Bank's Total Assets as of December 2020 amounted to PhP219.41 billion, 2.44% lower than the PhP224.91 billion the previous year. The reduction was primarily due to the reduction of the Bank's loan and investment portfolio.

Loans and Receivables

Loans and Receivables decreased by 13.30% to PhP142.52 billion, driven by the lower demand in the Bank's consumer lending business brought about by the pandemic. Auto loans dropped by 16.40% while Mortgage loans decreased by 3.64%.

Securities and Investments

Due from Bangko Sentral ng Pilipinas (BSP) increased by 365.00% to PhP31.69 billion in 2020 from PhP6.81 billion in 2019 due to placements in BSP's overnight and term deposit facilities. Interbank Loans Receivable and Securities Purchased under Resale Agreement amounted to PhP5.45 billion.

Fair Value through Profit or Loss Investments (FVTPL) increased to PhP50.19 thousand from PhP43.67 thousand in 2019. Fair Value through Other Comprehensive Income (FVOCI) increased by 110.65% to PhP10.06 billion from PhP4.78 billion in 2019. On the other hand, Investment Securities at Amortized Cost dropped by 59.88% to PhP13.74 billion in December 2020 from PhP34.23 billion in the previous year. The decline was caused by the sale of Investment Securities at Amortized Cost based on changes in PSBank's funding requirements given its assessment on the impact of a prolonged pandemic.

Investment in a Joint Venture decreased by PhP50.30 million to PhP705.48 million. This represents the Bank's 30.00% stake in Sumisho Motor Finance Corporation.

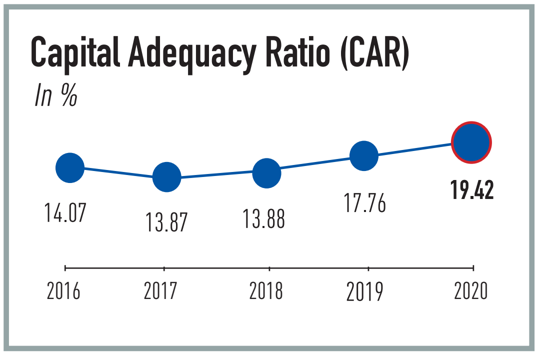
Goodwill and Intangible Assets went down to PhP441.14 million from PhP480.46 million posted in 2019.

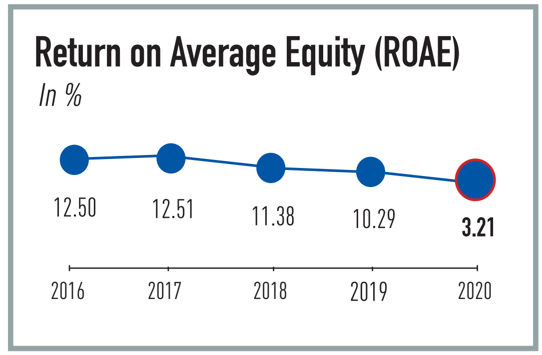
Deferred Tax

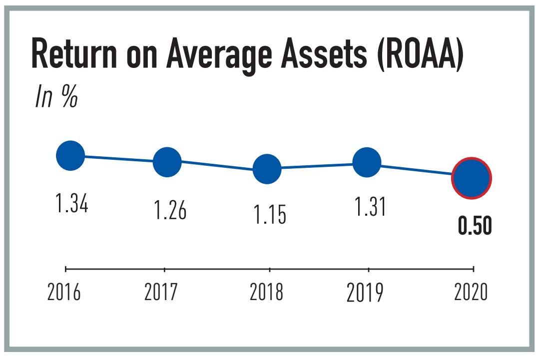
Deferred Tax Assets was higher by 49.57% at PhP2.09 billion as we recognized deferred tax benefits from the higher loan-loss provisioning during the year.

Deposit Liabilities

Total Deposit Liabilities went down by 2.92% year on year to PhP167.46 billion with CASA% mix shifting to 40.16% from 33.73% in 2019. Demand deposit was higher by 13.48% to PhP25.52 billion while Savings deposits grew by 16.90% to PhP41.72 billion. Meanwhile, Time deposits, including Long-term Negotiable Certificates of Deposits (LTNCDs), decreased by 12.34% to PhP100.22 billion.







Bills Payable

Last June 2020, the Bank paid its outstanding Medium-Term Fixed Rate Notes of PhP3.00 billion issued in December 2018.

Bonds Payable

As of December 2020, the Bank's Total Bonds Payable, net of prepaid expenses, amounted to PhP10.90 billion. The Bank raised PhP6.30 billion in Peso Fixed Rate Bonds last July 2019. The 2-year bond is priced at 5.60% per annum with interest payments made every quarter and full principal paid out at maturity in 2021. On February 2020, the Bank issued Peso Fixed Rate Bonds amounting to PhP4.65 billion with a tenor of 3 years with interest rate of 4.50% per annum payable quarterly.

Capital

Capital was higher by 0.16% at PhP34.51 billion from PhP34.46 billion in 2019, due to the issuance of stock dividends last February 2020. The Bank continues to declare quarterly dividends of PhP0.75 per share, consistent with our dividend policy.

As of end 2020, Common Equity Tier 1 (CET1) Ratio is at 18.08% while Total Capital Adequacy Ratio (CAR) is at 19.42%. Both ratios are above the BSP's minimum requirements.

MANAGEMENT DISCUSSION AND ANALYSIS

INCOME STATEMENT

Net Income

The Bank ended 2020 with a Net Income of PhP1.11 billion. This is lower by 63.41% compared to the reported Net Income last year of PhP3.03 billion. The lower income was primarily due to credit prudence and muted loan demand.

Net Interest Income

Net Interest Income increased to PhP13.75 billion in 2020 from PhP11.36 billion the same period last year. This was mainly due to the 47.98% or PhP2.56 billion decrease in Interest Expense on Deposit Liabilities resulting from lower cost of funds.

Interest Income on Loans and Receivables rose to PhP15.67 billion while Interest Income on Investment Securities was lower at PhP1.34 billion.

Interest Expense on Bills Payable amounted to Php110.40 million in 2020. Interest Expense on Bonds Payable was at PhP583.41 million in 2020, an increase of 248.10% due to the Bank's PhP4.65 billion fixed rate bonds issued last February 2020 with interest rate of 4.50% per annum.

Non-Interest Income

The Bank's Other Operating Income was lower in 2020 compared with the previous year by 13.16% to PhP2.82 billion in 2020. Net Service Fees and Commission Income decreased by 32.53% to PhP1.26 billion from PhP1.86 billion in 2019. The Bank reflected a Loss on Foreclosure and Sale of Investment and Chattel Mortgage Properties of PhP131.91 million, or PhP658.84 million lower compared to the 2019 level. The Bank registered Trading and Securities Gains amounting to PhP1.65 billion in 2020 from the sale of Financial Assets at Fair Value through Other Comprehensive Income (FVOCI) and Investment Securities at Amortized Cost. Foreign Exchange Gain decreased to PhP27.22 million. Miscellaneous Income was lower by 97.21% mostly arising from the recognition of Modification Loss from Republic Act No. 11469 Bayanihan to Heal as One Act ("Bayanihan 1 Act").

The Bank recorded its Share in Net Income of a Joint Venture in Sumisho Motor Finance Corporation at PhP40.30 million from PhP105.91 million last year. This was lower by 61.95% versus the same period last year.

Operating Expenses and Provisions

Total Operating Expenses, excluding Provision for Impairment and Credit Losses, were kept in check amounting to PhP9.12 billion in 2020, increasing by only 2.33% or PhP207.44 million, year on year. Compensation and Fringe Benefits increased by PhP115.01 million or 3.27% to PhP3.64 billion. Taxes and Licenses went up by 1.43% to PhP1.57 billion compared to last year. Occupancy and Equipment-related Costs increased by 12.74% to PhP363.41 million as a result of higher Rent expense. Miscellaneous Expense amounted to PhP2.08 billion, increasing by 3.05% or PhP61.63 million year on year.

The Bank exercised credit prudence and set aside additional Provision for Credit and Impairment Losses to three times over to PhP6.40 billion in view of the ongoing pandemic conditions.

As of December 2020, we had 250 branches and 535 ATMs.

SUPPLEMENTARY MANAGEMENT DISCUSSION

On January 15, 2013, the Bangko Sentral ng Pilipinas, through its Circular No. 781, issued the Basel III Implementing Guidelines on Minimum Capital Requirements. The guidelines took effect on January 01, 2014 wherein the risk-based capital ratio of the Bank, expressed as a percentage of qualifying capital to risk weighted assets, shall not be less than ten percent (10%) for both solo and consolidated basis. Other minimum capital ratios include Common Equity Tier 1 (CET1) ratio and Tier 1 capital ratios of 6.0% and 7.5%, respectively. A capital conservation buffer of 2.5%, comprised of CET1 capital, was likewise imposed.

As of December 31, 2020 and 2019, the Bank maintains these ratios above minimum requirements.

The capital-to-risk assets ratio of the Bank as reported to the BSP as of December 31, 2020 and 2019 based on BASEL III are shown in the table below (in millions):

	2020	2019
Common Equity Tier 1 capital	**₱33,009**	₱32,807
Less: Regulatory Adjustments to CET1 capital	**3,942**	3,146
Total Tier 1 Capital	**29,067**	29,661
Tier 2 capital	**2,148**	1,672
Less: Regulatory Adjustments to Tier 2 capital	**-**	-
Total Tier 2 capital	**2,148**	1,672
Total qualifying capital (Note 21)	**₱31,215**	₱31,333
Credit risk-weighted assets	**₱135,726**	₱152,642
Market risk-weighted assets	**128**	147
Operational risk-weighted assets	**24,884**	23,596
Risk weighted-assets (Note 21)	**₱160,738**	₱176,385

	2020	2019
Common equity tier 1 ratio*		
Common equity tier 1 capital		
Divided by: Total Risk-weighted assets	**18.08%**	16.82%
Tier 1 capital ratio (Note 21)		
Adjusted tier 1 capital		
Divided by: Total risk-weighted assets	**18.08%**	16.82%
Total capital adequacy ratio (Note 21)		
Total qualifying capital		
Divided by: Total risk-weighted assets	**19.42%**	17.76%

*As of December 31, 2020 and 2019, the capital conservation buffer was 12.08% and 10.82%, respectively.

Regulatory qualifying capital consists of Tier 1 (going concern) capital, which comprises capital stock, surplus, surplus reserves, net unrealized gains on AFS securities, cumulative foreign currency translation and remeasurements of net defined benefit asset. Certain adjustments are made to PFRS-based results and reserves, as prescribed by the BSP. The other component of regulatory capital is Tier 2 (gone-concern) capital, which is comprised of the Bank's general loan loss provision and unsecured subordinated debt (refer to Note 17). Certain items are deducted from the regulatory Gross Qualifying Capital, such as but not limited to, outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, and unsecured loans, other credit accommodations, and guarantees granted to subsidiaries and affiliates (net of specific provisions), deferred tax assets, goodwill, other intangible assets and significant minority investments in a joint venture.

Risk-weighted assets are determined by assigning defined risk weights to amounts of on-balance sheet exposures and to the credit equivalent amounts of off-balance sheet exposures.

SUPPLEMENTARY MANAGEMENT DISCUSSION

The components of Tier 1 capital and regulatory adjustments as follow (in millions):

	December 31	
	2020	2019
	CET1	CET1
Paid-up common stock	**₱4,269**	₱3,831
Additional paid-in capital	**11,419**	9,288
Retained Earnings	**16,944**	17,133
Undivided Profits	**1,331**	3,062
Other comprehensive income		
Net unrealized gains (losses) on AFS securities	**9**	(23)
Cumulative foreign currency translation	**(26)**	(16)
Remeasurement Losses on Retirement Plan	**(937)**	(468)
Sub-total	**33,009**	32,807
Less Regulatory adjustments:		
Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	**196**	224
Deferred tax asset	**2,588**	1,707
Goodwill	**30**	30
Other intangible assets	**387**	427
Significant minority investments	**741**	758
Total deductions	**3,942**	3,146
Total Common Equity Tier 1 capital	**29,067**	29,661
Additional Tier 1 (AT1) capital	**–**	–
Total Tier 1 capital	**₱29,067**	₱29,661

Full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements as follow (in millions):

	December 31, 2020			December 31, 2019		
	Common Equity Tier 1 Capital	**Reconciling Items**	**Audited Financial Statements**	Common Equity Tier 1 Capital	Reconciling Items	Audited Financial Statements
Paid-up common stock	**₱4,269**	**₱-**	**₱4,269**	₱3,831	₱-	₱3,831
Additional paid-in capital	**11,419**	**-**	**11,419**	9,288	-	9,288
Retained Earnings	**16,944**	**1,542**	**18,486**	17,133	2,145	19,278
Undivided Profits	**1,331**	**(223)**	**1,108**	3,062	(34)	3,028
Net unrealized gains on AFS securities	**9**	**4**	**13**	(23)	4	(19)
Remeasurement Losses on Retirement Plan*	**(937)**	**175**	**(762)**	(468)	(469)	(937)
Cumulative foreign currency translation	**(26)**	**4**	**(22)**	(16)	4	(12)
Tier 1 (CET1) Capital/Total Equity	**₱33,009**	**₱1,502**	**₱34,511**	₱32,807	₱1,650	₱34,457

*Remeasurement Losses on Retirement Plan on Audited Financial Statements comprise Remeasurement Losses on Retirement Plan, Equity in Remeasurement Gains on Retirement Plan of a Joint Venture and Equity in Hedge Reserves of a Joint Venture.

Certain adjustments are made to PFRS-based results and reserves, as prescribed by the BSP and vice versa.

The components of Tier 2 capital and deductions, as reported to BSP as of December 31, 2020 and 2019 consist of the following (in millions):

	2020	2019
Unsecured subordinated debts	**₱-**	₱-
General loan loss provision	**2,148**	1,672
Less: Regulatory adjustments	**-**	-
Total Tier 2 capital	**₱2,148**	₱1,672

SUPPLEMENTARY MANAGEMENT DISCUSSION

In 2017, the General loan loss provision is limited to a maximum of 1% of credit risk-weighted assets, and any amount in excess thereof is deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio.

On August 14, 2018, the Bangko Sentral ng Pilipinas (BSP) issued Circular No. 1011 covering guidelines on the adoption of the Philippine Financial Reporting Standard (PFRS) 9 - Financial Instruments. Under the said circular, banks shall set up general loan loss provision (GLLP) equivalent to one percent (1%) of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. Banks are not required to provide a one percent (l%) GP on other credit exposures covered by PFRS 9 such as off-balance sheet accounts and investments. Banks shall use Retained Earnings Reserve-Others as temporary account of Retained Earnings-General Provision (RE-GP). As a temporary presentation in CAR reports, the Retained Earnings (RE) included in Common Equity Tier (CET)/Core Tier 1 shall be net of Retained Earnings-General Provision. In computing Tier 2 Capital, the General Loan Loss provision (GLLP), shall include the RE-GP. However, the GLLP added back to on-balance sheet assets subject to risk-weight shall not include the RE-GP since when appropriating the RE, total assets is not affected. The Bank is compliant with the BSP Circular No. 1011.

Risk weighted assets by type of exposure as of December 31, 2020 and 2019 consist of the following (in millions):

	December 31, 2020			December 31, 2019		
	Credit Risk	**Market Risk**	**Operational Risk**	Credit Risk	Market Risk	Operational Risk
On-Balance Sheet	**₱135,711**	**₱-**	**₱-**	₱152,605	₱-	₱-
Off-Balance Sheet	**15**	**-**	**-**	37	-	-
Counterparty in the Banking Book	**-**	**-**	**-**	-	-	-
Counterparty in the Trading Book	**-**	**-**	**-**	-	-	-
Interest Rate Exposures	**-**	**-**	**-**	-	-	-
Foreign Exchange Exposures	**-**	**128**	**-**	-	147	-
Basic Indicator	**-**	**-**	**24,884**	-	-	23,596
Total	**₱135,726**	**₱128**	**₱24,884**	₱152,642	₱147	₱23,596
Capital Requirements	**₱13,573**	**₱13**	**₱2,488**	₱15,264	₱15	₱2,360

In 2017, the credit-risk weighted assets is net of General loan loss provision, in excess of the amount permitted to be included in Tier 2. Meanwhile, in 2018, the computation of GLLP is in compliance with BSP Circular No. 1011, wherein the Bank developed ECL parameters and methodologies for each portfolio of its loans and receivables, using historical data as well as forward-looking inputs and assumptions.

Risk-weighted on-balance sheet assets covered by credit risk mitigants were based on collateralized transactions as well as guarantees by the Philippine National Government (PNG) and those guarantors and exposures with highest credit rating. Third party credit assessments were based on the ratings by Standard & Poor's, Moody's, Fitch and PhilRatings on exposures to Sovereigns, MDBs, Banks, LGUs, Government Corporations and Corporates. The Bank has no exposures to securitization structures. Further, it has no structured products issued or purchased.

The Bank uses the standardized approach to compute the market risk exposures for the Capital Adequacy Ratio. For each separate risk area (credit, market, operational, interest rate risk), the details of risk exposures and assessments are disclosed in Note 5 of the audited financial statements.

The Bank uses the Basic Indicator Approach in computing for the operational risk capital charge.

The description of the main features of capital instruments issued on common shares and those eligible as Tier 2 capital are presented in Note 21 and Note 17 of the audited financial statements, respectively.

SUPPLEMENTARY MANAGEMENT DISCUSSION

The Bank's total risk-weighted on-balance sheet assets, net of specific provision broken down by type of exposures as follows (in millions):

December 31, 2020				Risk Weights						
	Exposures, Net of Specific Provisions	Exposures Covered by CRM, Gross of Materiality Threshold	Exposures, not covered by CRM	0%	20%	50%	75%	100%	150%	Total
Cash on Hand	₱2,842	₱–	₱2,842	₱2,842	₱–	₱–	₱–	₱–	₱–	₱2,842
Due from Bangko Sentral ng Pilipinas (BSP)	31,695	–	31,695	31,695	–	–	–	–	–	31,695
Due from Other Banks	1,456	–	1,456	–	–	1,456	–	–	–	1,456
Financial Assets Measured at Fair Value Through Other Comprehensive Income (FVOCI)	10,069	–	10,069	7,086	2,761	–	–	222	–	10,069
Debt Securities Measured at Amortized Cost (HTM)	14,010	–	14,010	8,440	1,778	2,916	–	876	–	14,010
Loans and Receivables										
Interbank Loans Receivable	–	–	–	–	–	–	–	–	–	–
Loans and Receivables – Others	142,468	16,759	125,709	–	2,462	12,094	–	104,135	7,018	125,709
Loans and Receivables Arising from Repurchase Agreements	5,447	–	5,447	5,447	–	–	–	–	–	5,447
Sales Contract Receivable	24	–	24	–	–	–	–	4	20	24
Real and Other Properties Acquired	3,045	–	3,045	–	–	–	–	–	3,045	3,045
Total Exposures, Excluding Other Assets	211,056	16,759	194,297	55,510	7,001	16,466	–	105,237	10,083	194,297
Other Assets	5,716	–	5,716	–	–	–	–	5,716	–	5,716
Total Exposures, Including Other Assets	₱216,772	₱16,759	₱200,013	₱55,510	₱7,001	₱16,466	₱–	₱110,953	₱10,083	₱200,013
Total Risk-weighted On-Balance Sheet Assets not covered by CRM				–	1,400	8,233	–	110,953	15,125	135,711
Total risk-weighted On-Balance Sheet Assets covered by CRM				–	–	–	–	–	–	–
Total Risk-weighted On-Balance Sheet Assets				–	1,400	8,233	–	110,953	15,125	135,711
Total Risk-weighted Off-Balance Sheet Assets				–	–	–	–	15	–	15
Total Gross Risk-weighted Assets				–	1,400	8,233	–	110,968	15,125	135,726
Addition:										
Counterparty Risk-weighted Assets in the Banking Book				–	–	–	–	–	–	–
Counterparty Risk-weighted Assets in the Trading Book				–	–	–	–	–	–	–
Deduction:										
General loan loss provision				–	–	–	–	–	–	–
Total Risk-weighted On-Balance Sheet Assets				₱–	₱1,400	₱8,233	₱–	₱110,968	₱15,125	₱135,726

December 31, 2019	Exposures, Net of Specific Provisions	Exposures Covered by CRM, Gross of Materiality Threshold	Exposures, not covered by CRM	Risk Weights 0%	20%	50%	75%	100%	150%	Total
Cash on Hand	₱2,282	₱–	₱2,282	₱2,282	₱–	₱–	₱–	₱–	₱–	₱2,282
Due from Bangko Sentral ng Pilipinas (BSP)	6,815	–	6,815	6,815	–	–	–	–	–	6,815
Due from Other Banks	1,134	–	1,134	–	–	409	–	725	–	1,134
Financial Assets Measured at Fair Value Through Other Comprehensive Income (FVOCI)	4,794	–	4,794	1,876	2,691	–	–	227	–	4,794
Debt Securities Measured at Amortized Cost (HTM)	34,770	–	34,770	28,182	2,403	3,106	–	1,079	–	34,770
Loans and Receivables										
Interbank Loans Receivable	–	–	–	–	–	–	–	–	–	–
Loans and Receivables – Others	163,135	20,563	142,572	–	3,625	8,420	–	126,414	4,113	142,572
Loans and Receivables Arising from Repurchase Agreements	–	–	–	–	–	–	–	–	–	–
Sales Contract Receivable	41	–	41	–	–	–	–	23	18	41
Real and Other Properties Acquired	2,937	–	2,937	–	–	–	–	–	2,937	2,937
Total Exposures, Excluding Other Assets	215,908	20,563	195,345	39,155	8,719	11,935	–	128,468	7,068	195,345
Other Assets	5,823	–	5,823	–	–	–	–	5,823	–	5,823
Total Exposures, Including Other Assets	₱221,731	₱20,563	₱201,168	₱39,155	₱8,719	₱11,935	₱–	₱134,291	₱7,068	₱201,168
Total Risk-weighted On-Balance Sheet Assets not covered by CRM				–	1,744	5,968	–	134,291	10,602	152,605
Total risk-weighted On-Balance Sheet Assets covered by CRM				–	–	–	–	–	–	–
Total Risk-weighted On-Balance Sheet Assets				–	1,744	5,968	–	134,291	10,602	152,605
Total Risk-weighted Off-Balance Sheet Assets				–	–	–	–	37	–	37
Total Gross Risk-weighted Assets				–	1,744	5,968	–	134,328	10,602	152,642
Addition:										
Counterparty Risk-weighted Assets in the Banking Book				–	–	–	–	–	–	–
Counterparty Risk-weighted Assets in the Trading Book				–	–	–	–	–	–	–
Deduction:										
General loan loss provision				–	–	–	–	–	–	–
Total Risk-weighted On-Balance Sheet Assets				₱–	₱1,744	₱5,968	₱–	₱134,328	₱10,602	₱152,642

SUPPLEMENTARY MANAGEMENT DISCUSSION

The total other assets are computed as follows (in millions):

	December 31	
	2020	2019
Total Assets	**₱218,897**	₱224,108
General Loan Loss Provisions	**1,817**	769
Deductions:		
Total Exposures Excluding Other Assets	**211,056**	215,908
Financial Assets Held for Trading	**0**	0
Unsecured DOSRI	**196**	224
Deferred Tax Assets	**2,588**	1,707
Goodwill	**30**	30
Other Intangible Assets	**387**	427
Significant minority investments	**741**	758
Derivatives with positive fair value held for trading	**–**	–
Total Deductions	**214,998**	219,054
Total Other Assets	**₱5,716**	₱5,823

The Bank's total risk-weighted off-balance sheet assets broken down by type of exposures as follows (in millions):

December 31, 2020				**Risk Weights**						
	Notional Principal Amount	**Credit Conversion Factor (CCF)**	**Credit Equivalent Amount**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Total**
Stand-by LCs										
Trade-related contingencies arising from movement of goods	**₱20**	**20%**	**₱4**	**₱–**	**₱–**	**₱–**	**₱–**	**₱4**	**₱–**	**₱4**
Transaction-related contingencies	**22**	**50%**	**11**	**–**	**–**	**–**	**–**	**11**	**–**	**11**
Spot foreign exchange contracts sold	**24**	**0%**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other Commitments										
Late deposits/payments received	**10**	**0%**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Trust Department accounts	**8,611**	**0%**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Others	**1**	**0%**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total Notional Principal Amount	**₱8,688**									
Total Risk-Weighted Off-Balance Sheet Assets			**₱15**	**₱–**	**₱–**	**₱–**	**₱–**	**₱15**	**₱–**	**₱15**

December 31, 2019				Risk Weights						
	Notional Principal Amount	Credit Conversion Factor (CCF)	Credit Equivalent Amount	0%	20%	50%	75%	100%	150%	Total
Stand-by LCs										
Trade-related contingencies arising from movement of goods	₱18	20%	₱4	₱–	₱–	₱–	₱–	₱4	₱–	₱4
Transaction-related contingencies	66	50%	33	–	–	–	–	33	–	33
Spot foreign exchange contracts sold	51	0%	–	–	–	–	–	–	–	–
Other Commitments										
Late deposits/payments received	10	0%	–	–	–	–	–	–	–	–
Trust Department accounts	7,073	0%	–	–	–	–	–	–	–	–
Others	0	0%	–	–	–	–	–	–	–	–
Total Notional Principal Amount	₱7,218			₱–	₱–	₱–	₱–	₱37	₱–	₱37
Total Risk-Weighted Off-Balance Sheet Assets										

The Basel III Leverage Ratio is designed to act as a supplementary measure to the risk-based capital requirements. The Basel III leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), with this ratio expressed as percentage. The leverage ratio shall not be less than 5.0 percent computed on both solo (head office plus branches) and consolidated bases (including subsidiary financial allied undertakings but excluding insurance companies). As of December 31, 2020 and 2019, the Bank maintains these ratios above minimum requirements as shown in the table below (in millions):

	2020	2019
A. Capital Measure	**₱29,067**	₱29,661
B. Exposure Measure	**216,790**	221,774
C. Basel III Leverage Ratio (A/B)	**13.41%**	13.37%

Summary Comparison of Accounting Assets and Common Disclosure vs. Leverage Ratio Exposures as of December 31, 2020 and 2019 are shown in the table below (in millions):

Summary Comparison of Accounting Assets vs. Leverage Ratio Exposure	**2020**	2019	**Common Disclosure vs. Leverage Ratio Exposure**	**2020**	2019
Total consolidated assets	**₱218,897**	₱224,108	On-balance sheet exposures	**₱211,326**	₱221,732
Adjustments for derivative financial instruments	**–**	–	Derivative exposures	**–**	–
Adjustments for securities financial transactions	**–**	–	Securities financing transaction exposures	**5,446**	–
Adjustments for off-balance sheet items	**18**	43	Other off-balance sheet exposures	**18**	43
Other adjustments	**(2,125)**	(2,377)	Tier 1 capital	**29,067**	29,661
			Total Leverage Ratio exposures	**₱216,790**	₱221,774
Leverage ratio exposures	**₱216,790**	₱221,774	Basel III Leverage Ratio	**13.41%**	13.37%

SUPPLEMENTARY MANAGEMENT DISCUSSION

Meanwhile, the reconciliation requirement that details the source(s) of material differences between Banks' total balance sheet assets in its financial statements and on-balance sheet exposures in the common disclosure template is disclosed in the Bank's Annual Report (SEC 17-A).

On March 10, 2016 and February 8, 2018, the BSP issued Circular Nos. 905 and 996, respectively, which include guidelines on liquidity coverage ratio (LCR), and LCR disclosure standards that are consistent with the Basel III framework. On March 15, 2019, the BSP issued Circular No. 1035 which approved the: (1) extension of the observation period of the minimum Basel III Liquidity Coverage Ratio (LCR) requirement to December 31, 2019 for subsidiary banks and quasi-banks (QBs) of universal and commercial banks (UBs/KBs), (2) adoption of a seventy percent (70%) LCR floor for subsidiary banks and QBs during the observation period, (3) minimum requirement of one hundred (100%) starting January 1, 2020.

As of December 31, 2020 and 2019, the LCR in single currency as reported to the BSP are shown in the table below (in millions):

	2020	2019
A. Total Stock of High-Quality Liquid Assets	**₱62,432**	₱45,849
B. Total Net Cash Outflows	**38,294**	35,210
C. Liquidity Coverage Ratio [A/B]	**163.03%**	130.22%

On June 6, 2018, the BSP issued Circular No. 1007, implementing guidelines on the adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio (NSFR). The NSFR limits overreliance on short-term wholesale funding and promotes enhanced assessment of funding risk across all on and off balance sheet accounts. The NSFR complements the LCR, which promotes short term resilience of the Bank's liquidity profile. The covered bank shall maintain an NSFR of at least 100.0 percent at all times. Compliance with this requirement was phased-in effective July 1, 2018, with full implementation of the minimum NSFR on January 1, 2019.

On March 15, 2019, the BSP issued Circular No. 1034 which approved the extension of the observation period for the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio (NSFR) for subsidiary banks/quasi-banks of universal and commercial banks (UBs/KBs). Subsidiary banks/QBs of UBs/KBs shall be subject to an NSFR floor of seventy percent (70%) during the observation period. Starting January 1, 2020, the minimum NSFR for subsidiary banks/ QBs of UBs/KBs shall be 100%.

As of December 31, 2020 and 2019, the NSFR as reported to the BSP is shown in the table below (in millions):

	2020	2019
A. Available Stable Funding	**₱172,004**	₱173,998
B. Required Stable Funding	**135,806**	152,224
C. Net Stable Funding Ratio [A/B]	**126.65%**	114.30%

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

SECURITIES AND EXCHANGE COMMISSION
G/F, Secretariat Building
PICC Complex, Roxas Boulevard
Pasay City, 1307

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

In preparing the financial statements, management is responsible for assessing the company'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 company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the company'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 or members.

SyCip, Gorres, Velayo & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

JOSE T. PARDO
Chairman of the Board

JOSE VICENTE L. ALDE
President

LEAH M. ZAMORA
Controller

Signed this day of February 18, 2021.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

REPUBLIC OF THE PHILIPPINES
CITY OF MAKATI)S.S.

SUBSCRIBED AND SWORN TO before me this FEB 23 2021 affiants exhibiting to me their passports as follows:

Name	Passport No.	Date of Issue	Place of Issue
Jose T. Pardo			Manila
Jose Vicente L. Alde			Manila
Leah M. Zamora			Manila

Doc. No. 174
Page No. 36
Book No. 51
Series of 2021.

FELIPE I. ILEDAN JR.
Notary Public for and in Makati City
Until Dec. 31, 2022, Appt. No. M-09
Roll No. 27625, TIN 136897808
Rm. 412, 4th Flr. VGP Center, Ayala, Makati City
2021 PTR No.Mla 9792919, 15/7/2020
IBP No. 119432, 06/17/2020
MCLE Compliance No. VI-0012066

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Philippine Savings Bank
PSBank Center
777 Paseo de Roxas corner Sedeño Street
Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Philippine Savings Bank ("the Bank"), which comprise the statements of condition 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 to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 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 (PFRSs).

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

Adequacy of allowance for credit losses on loans and receivables

The Bank's application of the expected credit loss model in calculating the allowance for credit losses on loans and receivables is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Bank's credit risk exposures; determining the method to estimate ECL; defining default; identifying exposures with significant deterioration in credit quality, taking into account extension of payment terms and payment holidays provided as a result of the coronavirus pandemic; determining assumptions to be used in the ECL model such as the counterparty credit risk rating, the expected life of the financial asset and expected recoveries from defaulted accounts, and impact of any financial support and credit enhancements extended by any party; and incorporating forward-looking information (called overlays), including the impact of the coronavirus pandemic, in calculating ECL.

INDEPENDENT AUDITOR'S REPORT

Allowance for credit losses on loans and receivables as of December 31, 2020 amounted to ₱7.5 billion. Provision for credit losses of the Bank in 2020 amounted to ₱6.4 billion.

The disclosures related to the allowance for credit losses on loans and receivables are included in Note 15 to the financial statements.

Audit response

We obtained an understanding of the board-approved methodologies and models used for the Bank's different credit exposures and assessed whether these considered the requirements of PFRS 9 to reflect an unbiased and probability-weighted outcome, and to consider time value of money and the best available forward-looking information. We also inspected and considered the results of PFRS 9 model validation performed by management's specialist.

We (a) assessed the Bank's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) tested the definition of default and significant increase in credit risk criteria against historical analysis of accounts and credit risk management policies and practices in place; (c) tested the Bank's application of internal credit risk rating system, including the impact of the coronavirus pandemic on the borrowers, by reviewing the ratings of sample credit exposures; (d) assessed whether expected life is different from the contractual life by testing the maturity dates reflected in the Bank's records and considering management's assumptions regarding future collections, advances, extensions, renewals and modifications; (e) tested loss given default by inspecting historical recoveries and related costs, write-offs and collateral valuations, and the effects of any financial support and credit enhancements provided by any party; (f) tested exposure at default considering outstanding commitments and repayment scheme; (g) checked the reasonableness of forward-looking information used for overlay, including considerations to overlay for the impact of the coronavirus pandemic, through statistical test and corroboration using publicly available information and our understanding of the Bank's lending portfolios and broader industry knowledge; and (h) tested the effective interest rate used in discounting the expected loss.

Further, we checked the data used in the ECL models by reconciling data from source system reports to the data warehouse and from the data warehouse to the loss allowance analysis/models and financial reporting systems. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets of debt financial assets with similar risk characteristics, we traced or re-performed the disaggregation from source systems to the loss allowance analysis. We also assessed the assumptions used where there are missing or insufficient data.

We recalculated impairment provisions on a sample basis. We reviewed the completeness of the disclosures made in the financial statements.

We involved our internal specialists in the performance of the above procedures.

Recognition of deferred tax assets

As of December 31, 2020, the net deferred tax assets amounted to ₱2.1 billion. The recognition of deferred tax assets is significant to our audit because the assessment process is complex and judgmental, and is based on assumptions such as availability of future taxable income and the timing of the reversal of the temporary differences that are affected by expected future market or economic conditions and the expected performance of the Bank. The estimation uncertainty increased, as a result of the effect of coronavirus pandemic, on the macroeconomic factors used in developing the assumptions.

The disclosures in relation to deferred income taxes are included in Note 27 to the financial statements.

Audit response

We involved our internal specialists in interpreting the tax regulations, testing the temporary differences identified by the Bank and the applicable tax rate. We also reperformed the calculation of the deferred tax assets. We reviewed the management's assessment on the availability of future taxable income in reference to financial forecast and tax strategies. We evaluated management's forecast by comparing the loan portfolio and deposit growth rates to the historical performance of the Bank and the industry, taking into consideration the impact associated with coronavirus pandemic. We also reviewed the timing of the reversal of future taxable and deductible temporary differences.

Accounting for disposals of investment securities under a hold-to-collect business model

In 2020, the Bank disposed investment securities managed under the hold-to-collect (HTC) business model with aggregate carrying amount of ₱19.6 billion. The disposals resulted in a gain of ₱1.3 billion. Investment securities held under a hold-to-collect business model, which are classified as 'Investment securities at amortized cost', are managed to realize cash flows by collecting contractual payments over the life of the instrument.

The accounting for the disposals is significant to our audit because the amounts involved are material (58.6% of the total investment securities at amortized cost and 7.6% of the total operating income of the Bank). Moreover, it involves the exercise of significant judgment by management in assessing that the disposals are consistent with the HTC business model and that it would not impact the measurement of the remaining securities in the affected portfolios.

The disclosures related to the disposals of investment securities are included in Note 8 to the financial statements.

Audit response

We obtained an understanding of the Bank's objectives for disposals of investment securities at amortized cost through inquiries with management and review of approved internal documentations, including governance over the disposals. We evaluated management's assessment of the impact of the disposals on the affected portfolio/s in reference to the Bank's business models and relevant risk management policies, and the provisions of the relevant accounting standards and regulatory issuances. We also reviewed the calculation of the gains on the disposals and the measurement of the remaining securities in the affected portfolios.

We reviewed the disclosures related to the disposals based on the requirements of PFRS 7, *Financial Instruments: Disclosures* and Philippine Accounting Standard 1, *Presentation of Financial Statements*.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Other Information

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs 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 PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

INDEPENDENT AUDITOR'S REPORT

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.

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

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

Reports on the Supplementary Information Required Under Bangko Sentral ng Pilipinas (BSP) Circular No. 1074 and Revenue Regulations No. 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 36 and Revenue Regulations 15-2010 in Note 37 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 Parent Company. 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.

The engagement partner on the audit resulting in this independent auditor's report is Veronica Mae A. Arce.

SYCIP GORRES VELAYO & CO.

Veronica Arce

Veronica Mae A. Arce
Partner
CPA Certificate No. 0117208
SEC Accreditation No. 1740-A (Group A),
February 7, 2019, valid until February 6, 2022
Tax Identification No. 234-282-413
BIR Accreditation No. 08-001998-135-2018,
December 17, 2018, valid until December 16, 2021
PTR No. 8534216, January 4, 2021, Makati City

February 18, 2021

STATEMENTS OF CONDITION

	December 31	
	2020	2019
ASSETS		
Cash and Other Cash Items	**₱2,841,851,535**	₱2,281,813,055
Due from Bangko Sentral ng Pilipinas (Notes 7 and 16)	**31,688,975,820**	6,814,865,832
Due from Other Banks (Note 29)	**1,461,474,934**	1,138,642,148
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Note 7)	**5,445,979,370**	–
Fair Value Through Profit or Loss (FVTPL) Investments (Note 8)	**50,189**	43,674
Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI) (Note 8)	**10,059,232,805**	4,775,388,467
Investment Securities at Amortized Cost (Note 8)	**13,735,999,138**	34,233,974,816
Loans and Receivables (Note 9)	**142,524,344,524**	164,384,202,213
Investment in a Joint Venture (Notes 10 and 29)	**705,476,563**	755,781,369
Property and Equipment (Note 11)	**3,089,814,582**	3,312,836,126
Investment Properties (Note 12)	**3,585,971,956**	3,765,748,696
Deferred Tax Assets (Note 27)	**2,091,140,847**	1,398,136,782
Intangible Assets and Goodwill (Note 13)	**441,143,119**	480,456,498
Other Assets (Note 14)	**1,742,146,857**	1,564,931,514
	₱219,413,602,239	₱224,906,821,190
LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities (Note 16)		
Demand	**₱25,523,284,040**	₱22,490,617,234
Savings	**41,724,171,123**	35,691,639,304
Time	**91,791,490,829**	105,912,878,349
Long-term Negotiable Certificates of Deposits	**8,425,364,104**	8,409,975,273
	167,464,310,096	172,505,110,160
Bills Payable (Note 17)	**–**	4,189,736,932
Bonds Payable (Note 17)	**10,902,456,911**	6,254,701,780
Treasurer's, Cashier's and Manager's Checks	**531,318,419**	1,297,680,147
Accrued Taxes, Interest and Other Expenses (Note 18)	**1,782,919,802**	1,409,451,987
Income Tax Payable	**322,018,981**	374,977
Other Liabilities (Note 19)	**3,899,849,627**	4,792,491,744
	₱184,902,873,836	₱190,449,547,727
Equity		
Common Stock (Note 21)	**₱4,268,594,160**	₱3,831,094,160
Capital Paid in Excess of Par Value (Note 21)	**11,418,563,257**	9,287,650,873
Surplus Reserves (Note 30)	**1,039,166,094**	1,037,214,639
Surplus (Note 21)	**18,555,539,349**	21,269,544,274
Fair Value Reserves on Financial Assets at FVOCI (Note 8)	**13,058,180**	(18,931,431)
Remeasurement Losses on Retirement Plan (Note 24)	**(726,238,329)**	(937,954,589)
Equity in Remeasurement Gains on Retirement Plan of a Joint Venture (Note 10)	**(1,285,176)**	941,681
Equity in Hedge Reserves of a Joint Venture (Note 10)	**(35,097,280)**	–
Cumulative Translation Adjustment	**(21,571,852)**	(12,286,144)
	34,510,728,403	34,457,273,463
	₱219,413,602,239	₱224,906,821,190

See accompanying Notes to Financial Statements.

STATEMENTS OF INCOME

	Years Ended December 31		
	2020	2019	2018
INTEREST INCOME			
Loans and receivables (Note 9)	**₱15,666,265,787**	₱15,481,189,433	₱14,268,805,623
Financial assets at FVOCI and investment securities at amortized cost (Note 8)	**1,298,471,798**	1,896,257,446	1,985,357,651
Due from Bangko Sentral ng Pilipinas (Note 7)	**221,893,610**	831,792	16,662,587
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**85,056,319**	30,140,459	89,723,370
FVTPL investments (Note 8)	**45,039,478**	2,152	9,088,886
Due from other banks	**1,178,094**	4,066,446	4,338,859
	17,317,905,086	17,412,487,728	16,373,976,976
INTEREST EXPENSE			
Deposit liabilities (Note 16)	**2,771,606,957**	5,327,625,405	4,818,493,359
Bonds payable (Note 17)	**583,408,268**	167,596,354	–
Bills payable (Note 17)	**110,397,939**	319,718,630	55,857,635
Lease liabilities (Note 25)	**99,539,323**	113,560,729	–
Subordinated notes (Note 17)	**–**	125,118,285	167,675,686
	3,564,952,487	6,053,619,403	5,042,026,680
NET INTEREST INCOME	**13,752,952,599**	11,358,868,325	11,331,950,296
Service fees and commission income (Note 22)	**1,308,210,530**	1,951,941,673	1,721,745,423
Service fees and commission expense (Note 22)	**50,825,805**	88,437,296	96,107,664
NET SERVICE FEES AND COMMISSION INCOME	**1,257,384,725**	1,863,504,377	1,625,637,759
OTHER OPERATING INCOME (CHARGES)			
Gain on disposal of investment securities at amortized cost (Note 8)	**1,291,913,518**	–	–
Gain (loss) on foreclosure and sale of chattel mortgage properties – net (Note 14)	**(458,776,805)**	(84,902,195)	232,063,012
Trading and securities gains (losses) - net (Note 8)	**354,430,046**	223,992,445	(133,297,506)
Gain on foreclosure and sale of investment properties - net (Note 12)	**326,868,825**	611,833,898	421,975,957
Foreign exchange gain - net	**27,217,634**	65,884,165	88,032,388
Gain on sale of property and equipment (Note 11)	**2,045,386**	8,132,940	7,918,569
Miscellaneous (Notes 12, 23 and 25)	**15,466,028**	554,897,890	624,299,435
	1,559,164,632	1,379,839,143	1,240,991,855
TOTAL OPERATING INCOME	**16,569,501,956**	14,602,211,845	14,198,579,910
OTHER EXPENSES			
Provision for credit and impairment losses (Note 15)	**6,397,259,386**	2,214,989,857	2,137,972,532
Compensation and fringe benefits (Notes 24 and 29)	**3,635,622,388**	3,520,613,973	3,363,828,408
Taxes and licenses	**1,571,869,031**	1,549,754,043	1,627,741,446
Depreciation (Note 11)	**899,545,800**	910,341,824	622,182,083
Security, messengerial and janitorial services	**438,391,419**	453,062,842	493,737,524
Occupancy and equipment-related costs (Note 25)	**363,406,183**	322,330,030	763,766,590
Amortization of intangible assets (Note 13)	**128,137,358**	135,054,994	159,089,068
Miscellaneous (Notes 12 and 26)	**2,084,820,312**	2,023,191,282	2,140,897,722
	₱15,519,051,877	₱11,129,338,845	₱11,309,215,373

(Forward)

STATEMENTS OF INCOME

	Years Ended December 31		
	2020	2019	2018
INCOME BEFORE SHARE IN NET INCOME OF A JOINT VENTURE AND INCOME TAX	**₱1,050,450,079**	₱3,472,873,000	₱2,889,364,537
SHARE IN NET INCOME OF A JOINT VENTURE (Notes 10 and 29)	**40,299,304**	105,905,423	82,376,569
INCOME BEFORE INCOME TAX	**1,090,749,383**	3,578,778,423	2,971,741,106
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 27)			
Current	**766,276,709**	414,828,340	381,369,781
Deferred	**(783,739,604)**	135,612,443	(71,774,541)
	(17,462,895)	550,440,783	309,595,240
NET INCOME	**₱1,108,212,278**	₱3,028,337,640	₱2,662,145,866
Basic/Diluted Earnings Per Share (Note 28)	**₱2.60**	₱7.21*	₱9.43*

*Restated to show the effect of stock dividends in 2020.

See accompanying Notes to Financial Statements.

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2020	2019	2018
NET INCOME	**₱1,108,212,278**	₱3,028,337,640	₱2,662,145,866
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that recycle to profit or loss in subsequent periods:			
Equity in hedge reserves of a joint venture	**(35,097,280)**	–	–
Fair value reserves on debt securities at FVOCI (Note 8)	**33,528,337**	762,418,992	(713,972,048)
Cumulative translation adjustment	**(9,285,708)**	(8,452,938)	242,833
	(10,854,651)	753,966,054	(713,729,215)
Items that do not recycle to profit or loss in subsequent periods:			
Remeasurement gains (losses) on retirement plan (Note 24)	**302,451,800**	(667,632,731)	106,829,806
Equity in remeasurement gains (losses) on retirement plan of a joint venture (Note 10)	**(2,226,857)**	(2,189,754)	1,886,291
Fair value reserves on equity securities at FVOCI (Note 8)	**(1,538,726)**	1,545,856	222,501
Income tax effect (Note 27)	**(90,735,540)**	200,289,819	(32,048,942)
	207,950,677	(467,986,810)	76,889,656
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	**197,096,026**	285,979,244	(636,839,559)
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱1,305,308,304**	₱3,314,316,884	₱2,025,306,307

See accompanying Notes to Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

	Common Stock (Note 21)	Capital Paid in Excess of Par Value (Note 21)	Surplus Reserves (Note 30)	Surplus (Note 21)	Fair Value Reserves on Financial Assets at FVOCI / Net Unrealized Loss on Available-for-Sale Investments (Note 8)	Remeasurement Losses on Retirement Plan (Note 24)	Equity in Remeasurement Gains on Retirement Plan of a Joint Venture (Note 10)	Equity in Hedge Reserves of a Joint Venture (Note 10)	Cumulative Translation Adjustment	Total
Balance at January 1, 2020	**₱3,831,094,160**	**₱9,287,650,873**	**₱1,037,214,639**	**₱21,269,544,274**	**(₱18,931,431)**	**(₱937,954,589)**	**₱941,681**	**₱–**	**(₱12,286,144)**	**₱34,457,273,463**
Total comprehensive income (loss) for the year	–	–	–	**1,108,212,278**	**31,989,611**	**211,716,260**	**(2,226,857)**	**(35,097,280)**	**(9,285,708)**	**1,305,308,304**
Cash dividends (Note 21)	–	–	–	**(1,247,765,748)**	–	–	–	–	–	**(1,247,765,748)**
Stock dividends (Note 21)	**437,500,000**	**2,130,912,384**	–	**(2,572,500,000)**	–	–	–	–	–	**(4,087,616)**
Appropriation of surplus to trust business (Note 30)	–	–	**1,951,455**	**(1,951,455)**	–	–	–	–	–	–
Balance at December 31, 2020	**₱4,268,594,160**	**₱11,418,563,257**	**₱1,039,166,094**	**₱18,555,539,349**	**₱13,058,180**	**(₱726,238,329)**	**(₱1,285,176)**	**(₱35,097,280)**	**(₱21,571,852)**	**₱34,510,728,403**
Balance at January 1, 2019	₱2,402,524,910	₱2,818,083,506	₱1,035,899,409	₱19,391,850,112	(₱782,896,279)	(₱470,611,677)	₱3,131,435	–	(₱3,833,206)	₱24,394,148,210
Issuance of stock rights (Note 21)	1,428,569,250	6,469,567,367	–	–	–	–	–	–	–	7,898,136,617
Total comprehensive income (loss) for the year	–	–	–	3,028,337,640	763,964,848	(467,342,912)	(2,189,754)	–	(8,452,938)	3,314,316,884
Cash dividends (Note 21)	–	–	–	(1,149,328,248)	–	–	–	–	–	(1,149,328,248)
Appropriation of surplus to trust business (Note 30)	–	–	1,315,230	(1,315,230)	–	–	–	–	–	–
Balance at December 31, 2019	₱3,831,094,160	₱9,287,650,873	₱1,037,214,639	₱21,269,544,274	(₱18,931,431)	(₱937,954,589)	₱941,681	–	(₱12,286,144)	₱34,457,273,463
Balance at January 1, 2018	₱2,402,524,910	₱2,818,083,506	₱1,035,402,901	₱17,450,958,227	(₱69,146,732)	(₱545,392,541)	₱1,245,144	–	(₱4,076,039)	₱23,089,599,376
Total comprehensive income (loss) for the year	–	–	–	2,662,145,866	(713,749,547)	74,780,864	1,886,291	–	242,833	2,025,306,307
Cash dividends (Note 21)	–	–	–	(720,757,473)	–	–	–	–	–	(720,757,473)
Appropriation of surplus to trust business (Note 30)	–	–	496,508	(496,508)	–	–	–	–	–	–
Balance at December 31, 2018	₱2,402,524,910	₱2,818,083,506	₱1,035,899,409	₱19,391,850,112	(₱782,896,279)	(₱470,611,677)	₱3,131,435	₱–	(₱3,833,206)	₱24,394,148,210

See accompanying Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱1,090,749,383**	₱3,578,778,423	₱2,971,741,106
Adjustments to reconcile income before income tax to net cash provided by operations:			
Provision for credit and impairment losses (Note 15)	**6,397,259,386**	2,214,989,857	2,137,972,532
Depreciation (Note 11)	**899,545,800**	910,341,824	622,182,083
Loss on modification of loans (Note 9)	**426,517,396**	–	–
Amortization of premium (discount) on financial assets at fair value through other comprehensive income and investment securities at amortized cost	**615,127,658**	1,038,248,791	(565,582,794)
Loss (Gain) on foreclosure and sale of:			
Investment properties (Note 12)	**(326,868,825)**	(611,833,898)	(421,975,957)
Chattel mortgage properties (Note 14)	**458,776,805**	84,902,195	(232,063,012)
Amortization of:			
Intangible assets (Note 13)	**128,137,358**	135,054,994	159,089,068
Debt issuance costs (Note 17)	**50,742,829**	51,072,480	12,466,263
Accretion of lease liabilities (Note 25)	**99,539,323**	113,560,729	–
Realized loss (gain) on sale of financial assets at fair value through other comprehensive income (FVOCI) and amortized cost (Note 8)	**(1,539,974,948)**	(224,424,552)	92,278,733
Share in net income of a joint venture (Note 10)	**(40,299,304)**	(105,905,423)	(82,376,569)
Fair value loss (gain) on fair value through profit or loss investments (Note 8)	**(6,515)**	(9,784)	16,941,771
Gain on sale of property and equipment (Note 11)	**(2,045,386)**	(8,132,940)	(7,918,569)
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Fair value through profit or loss investments	–	7,178,059	1,512,257,295
Loans and receivables	**11,007,355,325**	(13,941,308,215)	(15,682,534,934)
Other assets	**151,134,047**	9,737,244	(177,995,072)
Increase (decrease) in:			
Deposit liabilities	**(5,045,415,314)**	(28,187,004,930)	11,765,973,830
Treasurer's, cashier's and manager's checks	**(766,361,728)**	(317,840,041)	(598,349,515)
Accrued taxes, interest and other expenses	**373,461,470**	(415,997,141)	356,099,813
Other liabilities	**(465,493,094)**	(338,670,707)	(500,120,437)
Cash generated from (used in) operations	**13,511,881,666**	(36,007,263,035)	1,378,085,635
Income taxes paid	**(444,632,705)**	(415,090,970)	(381,107,451)
Dividends received from joint venture investment (Note 10)	**53,279,973**	39,359,981	–
Net cash provided by (used in) operating activities	**13,120,528,934**	(36,382,994,024)	996,978,184
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
Financial assets at FVOCI	**(35,207,966,479)**	(1,924,784,626)	(6,318,566,676)
Property and equipment (Note 11)	**(159,221,567)**	(124,268,752)	(182,350,588)
Other intangible assets (Note 13)	**(97,105,773)**	(44,356,459)	(99,611,845)
Investment securities at amortized cost	**–**	–	(1,863,449,350)
Proceeds from sale/maturities of:			
Financial assets at FVOCI (Note 8)	**30,339,350,378**	10,879,133,032	4,919,018,184
Investment securities at amortized cost	**21,033,629,069**	557,776,500	–
Chattel mortgage properties (Note 14)	**2,857,721,303**	2,688,067,819	2,346,032,425
Investment properties (Note 12)	**698,999,099**	1,276,797,669	701,479,408
Property and equipment (Note 11)	**29,795,939**	47,736,237	45,609,973
Net cash provided by (used in) investing activities	**19,495,201,969**	13,356,101,420	(451,838,469)
CASH FLOWS FROM FINANCING ACTIVITIES			
Settlement of bills payable (Note 32)	**(9,171,495,000)**	(381,298,646,855)	(86,365,497,487)
Availments of bills payable (Note 32)	**4,971,495,000**	382,498,646,855	87,840,542,536
Issuance of bonds payable (Note 17 and 32)	**4,607,275,370**	6,243,125,419	–
Dividends paid (Note 21)	**(1,247,765,748)**	(1,149,328,248)	(720,757,473)
Payment of lease liabilities (Notes 25 and 32)	**(455,173,090)**	(439,476,020)	–
Issuance of stock dividends (Note 21)	**(4,087,616)**	–	
Issuance of stock rights (Note 21)	**–**	7,898,136,617	–
Settlement of subordinated notes (Note 17 and 32)	**–**	(3,000,000,000)	–
Net cash provided by (used in) financing activities	**(1,299,751,084)**	10,752,457,768	754,287,576
Effect of exchange rate differences	**(327,675)**	(180,999)	6,116
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**₱31,315,652,144**	(₱12,274,615,835)	₱1,299,433,407

(Forward)

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2020	2019	2018
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items	**₱2,281,813,055**	₱3,776,087,269	₱2,596,872,801
Due from Bangko Sentral ng Pilipinas – gross (Note 16)	**6,816,092,181**	15,159,012,316	15,265,387,772
Due from other banks – gross	**1,139,685,267**	1,685,106,753	1,508,489,309
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**–**	1,892,000,000	1,842,023,049
	10,237,590,503	22,512,206,338	21,212,772,931
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	**2,841,851,535**	2,281,813,055	3,776,087,269
Due from Bangko Sentral ng Pilipinas – gross (Note 16)	**31,689,964,554**	6,816,092,181	15,159,012,316
Due from other banks – gross	**1,575,447,188**	1,139,685,267	1,685,106,753
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**5,445,979,370**	–	1,892,000,000
	₱41,553,242,647	₱10,237,590,503	₱22,512,206,338

OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid	**₱3,684,720,812**	₱6,468,552,306	₱4,669,014,050
Interest received	**15,585,904,814**	18,507,292,047	15,413,717,174

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. **Corporate Information**

Philippine Savings Bank (the Bank) was incorporated in the Philippines primarily to engage in savings and mortgage banking. The Bank's shares are listed in the Philippine Stock Exchange (PSE). The Bank offers a wide range of products and services such as deposit products, loans, treasury and trust functions that mainly serve the retail and consumer markets. On September 6, 1991, the Bank was authorized to perform trust functions.

As of December 31, 2020 and 2019, the Bank had 250 branches. In 2020, the Bank had 266 Automated Teller Machines (ATMs) in the branches (on-site) and 269 in other locations (off-site) bringing its total number of ATMs to 535 as of December 31, 2020 and 557 as of December 31, 2019

The Bank's original Certificate of Incorporation was issued by the Securities and Exchange Commission (SEC) on June 30, 1959. On March 28, 2006, the Board of Directors (BOD) of the Bank approved the amendment of Article IV of its Amended Articles of Incorporation to extend the corporate term of the Bank, which expired on June 30, 2009, for another 50 years or up to June 30, 2059. This was subsequently approved by stockholders representing at least two-thirds of the outstanding capital stock of the Bank on April 25, 2006. The Amended Articles of Incorporation was approved by the SEC on September 27, 2006.

On April 27, 2010, by majority vote of the BOD and by stockholders representing two-thirds of the outstanding capital stock, the amendment of Article VI of its Amended Articles of Incorporation reducing the number of directors from a maximum of eleven (11) to a maximum of nine (9) has been approved. This was approved by the SEC on August 26, 2010.

On March 24, 2014, the BOD approved Article III of Articles of Incorporation to specify its principal address from Makati City to PSBank Center, 777 Paseo de Roxas corner Sedeño Street, Makati City 1226. The Amended Articles of Incorporation was approved by the SEC on December 22, 2014.

As of December 31, 2020 and 2019, Metropolitan Bank & Trust Company (MBTC), the Bank's ultimate parent, owned eighty-eight percent (88%) of the Bank.

2. **Significant Accounting Policies**

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities at fair value through profit or loss (FVTPL) and financial assets at fair value through other comprehensive income (FVOCI) that have been measured at fair value. All values are rounded to the nearest peso unless otherwise stated.

The financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of RBU and 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 into their equivalents in Philippine peso (see accounting policy on Foreign Currency Translation). The financial statements of these units are combined after eliminating inter-unit accounts.

The financial statements provide comparative information in respect of the previous period. In addition, the Bank presents an additional statement of condition at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements

Statement of Compliance
The financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

NOTES TO FINANCIAL STATEMENTS

Presentation of Financial Statements
The Bank presents its statements of condition in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within twelve (12) months after the statement of condition date (current) and more than 12 months after the statement of condition date (non-current) is presented in Note 20.

Financial assets and financial liabilities are offset and the net amount is reported in the statements of condition only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. The Bank assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of solvency or bankruptcy of the Bank and all of the counterparties.

Income and expenses are not offset in the statements of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective as at January 1, 2020. The Bank has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Unless otherwise indicated, adoption of these new standards did not have an impact on the consolidated financial statements of the Bank.

- Amendments to PFRS 3, *Business Combinations, Definition of a Business*

  The amendments to PFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments may impact future periods should the Bank enter into any business combinations.

- Amendments to PFRS 7, *Financial Instruments: Disclosures and PFRS 9, Financial Instruments, Interest Rate Benchmark Reform*

  The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

- Amendments to PAS 1, *Presentation of Financial Statements,* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

  The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

  The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

- Conceptual Framework for Financial Reporting issued on March 29, 2018

  The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

- Amendments to PFRS 16, *COVID-19-related Rent Concessions*

  The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

  - The rent concession is a direct consequence of COVID-19;
  - The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
  - Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
  - There is no substantive change to other terms and conditions of the lease.

  A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

  The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted.

Summary of Significant Accounting Policies

Foreign Currency Translation
The financial statements are presented in PHP, which is the Bank's functional and presentation currency.

The books of accounts of the RBU are maintained in PHP, while those of the FCDU are maintained in USD.

RBU
As at reporting date, foreign currency monetary assets and liabilities of the RBU are translated in PHP based on the Bankers Association of the Philippines (BAP) closing rate prevailing at the statement of condition date, and foreign currency-denominated income and expenses, at the exchange rates as at the dates of the transactions. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities in the RBU are credited to or charged against profit or loss in the year in which the rates change. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

FCDU
As at reporting date, the assets and liabilities of the FCDU are translated to the Bank's presentation currency (PHP) at the BAP closing rate prevailing at the statement of condition date, and its income and expenses are translated using the exchange rates as at the dates of the transactions. Exchange differences arising on translation to the presentation currency are taken to the statements of comprehensive income under 'Cumulative translation adjustment'. Upon disposal of the FCDU or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statements of comprehensive income is recognized in the statements of income.

Fair Value Measurement
The Bank measures financial instruments, such as FVTPL investments, financial assets at FVOCI and derivative financial instruments, at fair value at each statement of condition date. Also, fair values of financial instruments measured at amortized cost and non-financial assets such as investment properties are disclosed in Note 4.

Fair value is the estimated 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:

NOTES TO FINANCIAL STATEMENTS

- 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 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 economic best interest.

If an asset or a liability measured at fair value has a bid price and an ask price (e.g., an input from a dealer market), the price between the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

A 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.

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 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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.

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 and liability and the level of the fair value hierarchy as explained above.

<u>Cash and Cash Equivalents</u>
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP and other banks, interbank loans receivable and securities purchased under resale agreements (SPURA) that are convertible to known amounts of cash which have original maturities of three months or less from date of placements and that are subject to an insignificant risk of changes in value. Due from BSP includes the statutory reserves required by the BSP which the Bank considers as cash equivalents as withdrawals can be made to meet the Bank’s cash requirements as allowed by the BSP.

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>
Date of recognition
Purchases or sales of financial assets, except for derivatives, that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Derivative financial instruments are recognized on a trade date basis. Deposits, amounts due to banks and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.

Initial recognition of financial instruments
All financial instruments are initially measured at fair value. Except for financial assets and financial liabilities at FVTPL, the initial measurement of financial instruments includes transaction costs.

Day 1' difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income. In cases where the transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income 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.

Financial Instruments – Classification and Subsequent Measurement
Financial assets are measured at FVTPL unless these are measured at FVOCI or at amortized cost. Financial liabilities are classified as either financial liabilities at FVTPL or financial liabilities at amortized cost. The classification of financial assets depends on the contractual terms and the business model for managing the financial assets. Subsequent to initial recognition, the Bank may reclassify its financial assets only when there is a change in its business model for managing these financial assets. Reclassification of financial liabilities is not allowed.

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. As a second step of its classification process, the Bank assesses the contractual terms of financial assets to identify whether they pass the contractual cash flows test (SPPI test).

Investments at FVTPL
Financial assets or financial liabilities at FVTPL
Financial assets and financial liabilities at FVTPL include financial assets and financial liabilities held for trading purposes and derivative instruments.

Financial instruments held-for-trading
Financial assets or financial liabilities held for trading (HFT) are recorded in the statements of condition at fair value. Included in this classification are debt securities which have been acquired principally for the purpose of selling in the near term. Changes in fair value relating to the HFT positions are recognized in 'Trading and securities gains (losses) - net'. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded in other operating income under 'Miscellaneous' when the right to receive payment has been established.

Derivatives recorded at FVTPL
Derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as cash flow hedges) are taken directly to the statements of income and are included in 'Foreign exchange gain - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. As of December 31, 2019 and 2018, derivatives consist of foreign exchange swaps, forwards and Republic of the Philippines (ROP) paired warrants acquired to manage the Bank's foreign currency risk, lower the risk-weighted assets and improve the capital adequacy ratio of the Bank.

Financial assets at FVOCI
Financial assets at FVOCI include debt and equity securities. After initial measurement, investment securities at FVOCI are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of financial assets at FVOCI are excluded, net of tax as applicable, from the reported earnings and are included in the statements of comprehensive income as 'Fair value reserves on financial assets at FVOCI'.

Debt securities at FVOCI are those that meet both of the following conditions: (i) the asset is held within a business model whose objective is to hold the financial assets in order to both collect contractual cash flows and sell financial assets; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. The effective yield component of debt securities at FVOCI, as well as the impact of restatements on foreign currency-denominated debt securities at FVOCI, is reported in the statements of income. Interest earned on holding debt securities at FVOCI are reported as 'Interest income' using

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the effective interest method. When the debt securities at FVOCI are disposed of, the cumulative gain or loss previously recognized in the statements of comprehensive income is recognized as 'Trading and securities gain (loss) - net' in the statements of income. The ECL arising from impairment of such investments are recognized in OCI with a corresponding charge to 'Provision for credit and impairment losses' in the statements of income.

Equity securities designated at FVOCI are those that the Bank made an irrevocable election to present in OCI the subsequent changes in fair value. Dividends earned on holding equity securities at FVOCI are recognized in the statements of income as 'Dividends' when the right to receive payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. 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 the statements of comprehensive income is reclassified to 'Surplus' or any other appropriate equity account upon disposal. Equity securities at FVOCI are not subject to impairment assessment.

Financial assets at amortized cost
Financial assets at amortized cost are debt financial assets that meet both of the following conditions: (i) these are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows; and (ii) the contractual terms give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. This accounting policy relates to the statements of condition captions 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and SPURA', 'Investment securities at amortized cost' and 'Loans and receivables'.

After initial measurement, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less 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 in 'Interest income' in the statements of income. Gains and losses are recognized in statements of income when these investments are derecognized or impaired, as well as through the amortization process. The ECL are recognized in the statements of income under 'Provision for credit and impairment losses'. The effects of revaluation on foreign currency denominated investments are recognized in the statements of income.

Other financial liabilities carried at amortized cost
This category represents issued financial instruments or their components, which are not designated at FVTPL and comprises deposit liabilities, bills payable, subordinated notes, treasurer's, cashier's and manager's checks, accrued interest payable, accrued other expenses payable, accounts payable, bills purchased-contra, other credits, dividends payable, deposits for keys-safety deposit boxes (SDB), and overages, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, financial liabilities not qualified and not designated as FVTPL are subsequently measured at amortized cost using the effective interest amortization method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on quoted market prices for similar debt instruments). The residual amount determined after deducting the fair value of the debt component is assigned to the equity component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

Financial Guarantees and Undrawn Loan Commitments
The Bank issues financial guarantees and loan commitments. Financial guarantees are those issued by the Bank to creditors as allowed under existing rules and regulations whereby it guarantees third party obligations by signing as guarantor in the contract/agreement. 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 value of financial guarantees and undrawn loan

commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement 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 financial guarantees and undrawn loan commitments is recognized in 'Miscellaneous liabilities' under 'Other liabilities'.

Derecognition of Financial Assets and Liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expires;
- 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;
- the Bank has transferred its rights to receive cash flows from the asset and either:
  a. the Bank has transferred substantially all the risks and rewards of the asset or
  b. the Bank has neither transferred nor retained the risks and rewards of the asset but has transferred control over 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 the asset nor is transferred control over the asset, the asset recognized to the extent of the Bank's continuing involvement in the asset. In this case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

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 assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If a write-off is later recovered, any amounts formerly charged are credited to 'Recovery on charged-off assets' under 'Miscellaneous income' in the statements of income.

Modification of financial assets

The Bank derecognizes a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new asset, with the difference between its carrying amount and the fair value of the new asset recognized as a derecognition gain or loss in profit or loss, to the extent that an impairment loss has not already been recorded.

The Bank considers both qualitative and quantitative factors in assessing whether a modification of financial asset is substantial or not. When assessing whether a modification is substantial, the Bank considers the following factors, among others:

- Change in currency
- Introduction of an equity feature
- Change in counterparty
- If the modification results in the asset no longer considered "solely payment for principal and interest"

The Bank also performs a quantitative assessment similar to that being performed for modification of financial liabilities. In performing the quantitative assessment, the Bank considers the new terms of a financial asset to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial asset.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Bank recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows

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discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of a new financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. The newly recognized financial asset is classified as Stage 1 for ECL measurement purposes, unless the new financial asset is deemed to be originated as credit impaired (POCI).

Financial liabilities
A financial liability (or a part of 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 from the same lender on substantially different terms, or the terms of an existing liability or a part of it are substantially modified, such an exchange or modification is treated as a derecognition of the original financial liability and the recognition of a new financial liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Exchange or modification of financial liabilities
The Bank considers both qualitative and quantitative factors in assessing whether a modification of financial liabilities is substantial or not. The terms are considered substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial liability. However, under certain circumstances, modification or exchange of a financial liability may still be considered substantial, even where the present value of the cash flows under the new terms is less than 10% different from the present value of the remaining cash flows of the original financial liability. There may be situations where the modification of the financial liability is so fundamental that immediate derecognition of the original financial liability is appropriate (e.g., restructuring a financial liability to include an embedded equity component).

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the fair value of the new liability is recognized in profit or loss.

When the exchange or modification of the existing financial liability is not considered as substantial, the Bank recalculates the gross carrying amount of the financial liability as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR and recognizes a modification gain or loss in profit or loss.

If modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the financial instrument and are amortized over the remaining term of the modified financial instrument.

Repurchase and Reverse Repurchase Agreements
Securities sold under agreements to repurchase (SSURA) at a specified future date ('repos') are not derecognized from the statements of condition as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received, including accrued interest, is recognized in the statements of condition as a loan to the Bank under 'Bills payable', reflecting the economic substance of such transaction.

Conversely, SPURA at a specified future date ('reverse repos') are not recognized in the statements of condition. The consideration paid, including accrued interest, is recognized in the statements of condition as SPURA, and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest amortization method.

Reclassification of Financial Assets
The Bank reclassifies its financial assets when there is a change in its business model for managing financial assets. A change in business model occurs when the Bank either begins or ceases to perform an activity that is significant to its operations. The Bank applies the reclassification prospectively from the reclassification date and does not restate any previously recognized gains, losses or interest.

Impairment of Financial Assets
PFRS 9 requires the Bank to record ECL for all loans and other debt financial assets not classified as at FVTPL, together with loan commitments and financial guarantee contracts.

Expected credit loss methodology
ECL represent credit losses that reflect an unbiased and probability-weighted amount which 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. The objective of the new impairment standard is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk (SICR) since their initial recognition. As a result, ECL allowances are now measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that result from all possible default events over the expected life of a financial instrument. In comparison, the previous incurred loss model recognizes lifetime credit losses only when there is objective evidence of impairment.

Staging assessment
For non-credit-impaired financial instruments:
- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

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

Definition of "default" and "cure"
As a part of a qualitative assessment of whether a customer is in default, the Bank considers a variety of instances that may indicate unlikeliness to pay. The Bank's definition of default is aligned with the non-performing loan criteria as prescribed in BSP Circular No. 941. Defaults refer to loans, investments, receivables, or any financial asset, even without any missed contractual payments, that satisfy any of the following conditions (1) impaired under existing accounting standards, (2) classified as doubtful or loss, (3) in litigation, (4) 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 ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Defaults are characterized by financial assets that have objective evidence of impairment at the reporting date and as such classified under Stage 3 ECL treatment.

An instrument is considered to be no longer in default, i.e., to have cured, when it no longer meets any of the default criteria above and there is sufficient evidence to support full collection thru payments received for at least 6 months. Cured accounts are classified under Stage 1 ECL treatment.

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Significant increase in credit risk (SICR)
The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative models, the borrower or counterparty's credit rating has deteriorated by at least 2 notches. On the other hand, if based on the Bank's internal credit assessment, the borrower or counterparty is determined to require close monitoring or with well-defined credit weaknesses, then credit risk may have significantly increased as well. Moreover, if contractual payments are more than 30 days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which amortized payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL.

Restructuring
In certain circumstances, the Bank modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications can be given depending on the borrower's or counterparty's current or expected financial difficulty. The modifications may include, but are not limited to, changes in maturity date, principal amount from capitalization of accrued interest, terms and conditions from conversion/consolidation or interest rates/repricing cycle that results in an extension in the loan maturity. Distressed restructuring with indications of unlikeliness to pay are categorized as impaired accounts and are initially moved to Stage 3.

The Bank implements a curing policy for restructured accounts compliant with BSP Circular No. 1011. Restructured accounts that have exhibited improvements in creditworthiness may be moved from Stage 3 after a total of one-year probation period. These accounts are transferred to Stage 2 after six months of full payments and consequently transferred to Stage 1 after making the next six months of full payments.

ECL parameters and methodologies
ECL is a function of the probability of default (PD), exposure at default (EAD) and loss given default (LGD) with each of the parameter independently modelled.

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

EAD is modelled on historical data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet and undrawn amounts, EAD includes an estimate of any further amounts to be drawn at the time of default. LGD is the amount that may not be recovered in the event of default and is modelled based on historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate. LGD takes into consideration the amount and quality of any collateral held.

Economic overlays and multiple economic scenarios
The Bank incorporates economic overlays into the measurement of ECL to add a forward-looking risk measure parallel to multiple future macroeconomic atmosphere expectations. A broad range of economic indicators were considered for the economic inputs, such as GDP, GIR change, CPI change, PSE indices, foreign exchange rates and other BSP statistical indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To address this, quantitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

The Bank's loans and receivables consist of different portfolios, such as consumption, real estate, commercial and personal loans, as well as other receivables (e.g., sales contract receivables). In compliance with PFRS 9, the Bank developed ECL parameters and methodologies for each portfolio, using historical data as well as forward-looking inputs and assumptions.

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 on new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due.

Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subjected to an individual or collective impairment assessment, calculated using the loan's original EIR if the original loan has a fixed interest rate and the current repriced rate if the original loan is repriceable. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the applicable interest rate, is recognized in 'Provision for credit and impairment losses' in the statements of income.

<u>Investment in a Joint Venture</u>
A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Bank's investment in its joint venture is accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Bank's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of income reflects the Bank's share of the results of operations of the joint venture. Any change in OCI of those investees is presented as part of the Bank's OCI. In addition, when there has been a change recognized directly in the equity of the joint venture, the Bank recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Bank and joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Bank's share of profit or loss of a joint venture is shown on the face of the statement of income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

The financial statements of a joint venture are prepared for the same reporting period as the Bank. The length of the reporting period is the same from period to period. When necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

After application of the equity method, the Bank determines whether it is necessary to recognize an impairment loss on its investment in its joint venture. At each statement of condition date, the Bank determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Bank calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, then recognizes the loss as 'Share in net income of a joint venture' in the statements of income.

Upon loss of joint control over the joint venture, the Bank measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

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Property and Equipment
Land is stated at cost less any impairment in value, while depreciable properties, including building, furniture, fixtures and equipment, and leasehold improvements, are stated at cost less accumulated depreciation and any accumulated impairment losses. The initial cost of property and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance, are normally charged against profit or loss in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of the property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Buildings	25-50 years
Furniture, fixtures and equipment	3-5 years, depending on the type of assets
Leasehold improvements	5 years or the term of the related lease, whichever is shorter

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year-end to ensure that these are consistent with the expected pattern of economic benefits from the items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use 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 included in the statement of income in the year the asset is derecognized.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the asset is written down to its recoverable amount.

Leases
Bank as lessee
The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i. Right-of-use assets
The Bank recognizes Right-of-use assets (included in 'Property and Equipment') at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. ROU assets are depreciated on a straight line basis over the shorter of the lease term and estimated useful lives of the assets as follows:

Office space and warehouses	1 to 20 years
ATM space	1 to 3 years

ii. Lease liabilities
At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an

index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expense (unless they are incurred to produce inventories) in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Leases previously classified as operating leases
The Bank recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

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

After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that are within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Bank's lease liabilities are included in 'Other Liabilities' (Note 19)

iii. Short-term leases and leases of low-value assets
The Bank applies the short-term lease recognition exemption to its short-term leases of office equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of ATMs and office equipment that are considered of low value (i.e., ₱250,000 and below). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

<u>Investment Properties</u>
Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired unless the fair value of such 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 of real assets and other properties acquired' under 'Gain on foreclosure and sale of investment properties'. Foreclosed properties are classified under investment properties from foreclosure date. Expenditures incurred after the investment properties are recognized, such as repairs and maintenance costs, are normally charged to income in the period in which the costs are incurred.

Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation and impairment in value, except for land which is stated at cost less impairment in value. Depreciation is calculated using the straight-line method over the remaining useful lives from the time of acquisition of the investment properties.

The estimated useful life of building and condominium units ranges from 10 to 40 years.

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

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

Chattel Mortgage Properties

Chattel mortgage properties comprise of repossessed vehicles. Chattel mortgage properties are stated at cost less accumulated depreciation and impairment in value. Chattel mortgage properties acquired are initially recognized at fair value. Depreciation is calculated using the straight-line method over the remaining useful lives from the time of acquisition of the vehicles. The useful lives of chattel mortgage properties are estimated to be five years.

Chattel mortgage properties are derecognized when they have either been disposed of or when the chattel mortgage property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on disposal of chattel mortgage properties are recognized in the statements of income under 'Gain (loss) on foreclosure and sale of chattel mortgage properties- net' in the year of disposal.

Intangible Assets

The Bank's intangible assets include branch licenses and computer software. An intangible asset is recognized only when the cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statements of income in the year in which 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 useful economic 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 at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statements of income under 'Amortization of intangible assets'.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit (CGU) level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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 when the asset is derecognized.

Branch licenses

Branch licenses arise from the acquisition of branches from local banks and licenses to operate new branches from the BSP. Branch licenses have indefinite useful lives and are tested for impairment on an annual basis.

Software costs
Software costs are carried at cost less accumulated amortization and any impairment in value. Given the history of rapid changes in technology, computer software are susceptible to technological obsolescence. Therefore, it is likely that their useful life is short. Software costs are amortized on a straight-line basis over five years but maybe shorter depending on the period over which the Bank expects to use the asset.

Impairment of Non-financial Assets
Property and equipment, investment properties and chattel mortgage properties
At each statement of condition date, the Bank assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of the recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU'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 recoverable amount is assessed as part of the CGU to which it belongs. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples and other available fair value indicators.

An impairment loss is charged to operations in the year in which it arises.

An assessment is made at each statement of condition date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been previously recognized. Such reversal is recognized in the statement of income. After such 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 life.

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGU) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGU) is less than the carrying amount of the CGU (or group of CGU) to which goodwill has been allocated, an impairment loss is recognized immediately in the statements of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Bank performs its annual impairment test of goodwill as at December 31 of each year.

Intangible assets
Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 of each year, either individually or at the CGU level, as appropriate.

Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Investment in a joint venture
After application of the equity method, the Bank determines whether it is necessary to recognize an impairment loss on the Bank's investment in a joint venture. The Bank determines at each statement of condition date whether there is any objective evidence that the investment a joint venture is impaired. If this is the case, the

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Bank calculates the amount of impairment as being the difference between the fair value of the investment in the joint venture and the carrying amount and recognizes such amount in the statements of income.

Common Stock
Common stocks are recorded at par. Proceeds in excess of par value are recognized under equity as 'Capital paid in excess of par value' in the statements of condition. Incremental costs incurred which are directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Revenue Recognition
Revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services.

The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Bank concluded that it is acting as a principal in all of its revenue arrangements.
Service fees and commission income
Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. These fees include remittance fees, commissions, deposit-related and other credit-related fees.

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as financial assets at FVOCI investments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest income'.

Under PFRS 9, 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.

Income from sale of property and equipment, investment property and chattel mortgage properties
Income from sale of property and equipment, investment property and chattel mortgage properties is included in the profit or loss when the property is derecognized. The gain or loss arising from the derecognition of the property is determined as the difference between the net disposal proceeds and its carrying amount on the date of the transaction.

Trading and securities gains (losses) - net
Trading and securities gain (loss) represents results arising from trading activities, including all gains and losses from changes in the fair values of FVTPL investments. It also includes gains and losses realized from sale of debt securities at FVOCI.

Realized gains and losses on disposals of FVTPL investments are calculated using weighted average method. It represents the difference between an instrument's initial carrying amount and disposal amount.

Gain on disposal of investments securities at amortized cost
Gain on disposal of investment securities at amortized cost represents gain realized from sale of peso-denominated debt securities measured at amortized cost.

Rental income
Rental income arising from leased properties is accounted for on a straight-line basis over the lease terms of ongoing leases and is recorded in the statements of income under 'Miscellaneous' in other operating income.

Expense Recognition

Expenses are recognized when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

Interest expense

Interest expense for all interest-bearing financial liabilities are recognized in 'Interest expense' in the statements of income using the EIR of the financial liabilities to which they relate.

Other expense

Expenses encompass losses as well as those expenses that arise in the ordinary course of business of the Bank. Expenses are recognized when incurred.

Business Combination and Goodwill

Business combinations are accounted for using the acquisition method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill.

If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognized directly in the statements of income in the year of acquisition.

Goodwill is initially measured at cost being the excess of the acquisition cost over the share in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities. The Bank's goodwill arose from past purchases of branch business/offices from the Parent Company.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired is, from the acquisition date, allocated to each of the CGU or group of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether the acquired other assets or liabilities are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Retirement Cost

Defined Benefit Plan

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the statement of condition date reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The present value of the defined benefit obligation is calculated annually by an independent actuary. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

a. service cost;
b. net interest on the net defined benefit liability or asset; and
c. remeasurements of net defined benefit liability or asset.

Service costs, which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on Philippine government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Bank, nor can they be paid directly to the Bank. The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Bank's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination benefits
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

<u>Provisions</u>
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 presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as 'Interest expense'.

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

Debt Issue Costs
Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments are included in the measurement basis of the underlying debt instruments and are amortized as an adjustment to the interest on the underlying debt instruments using the effective interest method.

Income Taxes
Income tax on profit or loss for the year comprises current and deferred tax. Income tax is determined in accordance with Philippine tax law. Income tax is recognized in the statement of income, except to the extent that it relates to OCI items recognized directly in the statements of comprehensive income.

Current tax
Current income tax is the expected tax payable on the taxable income for the period, using the tax rates enacted at the statement of condition date, together with adjustments to tax payable in respect to prior years.

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

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

The carrying amount of deferred tax assets is reviewed at each statement of condition date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each statement of condition date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of condition date.

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

Current income tax and deferred income tax relating to items recognized directly in OCI is also recognized in OCI and not in the statements of income.

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

Dividends on Common Shares
Dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Bank. Dividends for the year that are approved after the statements of condition date are dealt with as subsequent events.

Segment Reporting
The Bank's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 6. The Bank's assets

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generating revenues are all located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

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.

Subsequent Events
Post year-end events that provide additional information about the Bank's position at the statement of condition 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.

Standards issued but not yet effective
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Bank does not expect the future adoption of the said pronouncements to have a significant impact on its financial statements. The Bank intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2021

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

  The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):
  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
  - Relief from discontinuing hedging relationships
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

  The Bank shall also disclose information about:
  - The about the nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
  - Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

  The amendments are effective for annual reporting periods beginning on or after January 1, 2021 and apply retrospectively, however, the Bank is not required to restate prior periods

Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

  The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine IFRIC 21, *Levies*, if incurred separately.

  At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

- Amendments to PAS 16 , *Plant and Equipment: Proceeds before Intended Use*

  The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

  The amendments are not expected to have a material impact on the Bank.

- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*

  The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Bank will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

- *Annual Improvements to PFRS Standards 2018–2020 Cycle*
- Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

  The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Bank.

- Amendments to PFRS 9, *Financial Instruments*, *Fees in the '10 per cent' test for derecognition of financial liabilities*

  The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Bank will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Bank.

- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*
  The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

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An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Bank.

Effective beginning on or after January 1, 2023

- Amendments to PAS 1*, Classification of Liabilities as Current or Non-current*

  The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

  - What is meant by a right to defer settlement
  - That a right to defer must exist at the end of the reporting period
  - That classification is unaffected by the likelihood that an entity will exercise its deferral right
  - That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Bank is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires the management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent assets and contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets and liabilities affected in future periods. The effects of any change in judgments, estimates and assumptions are reflected in the financial statements as they become reasonably determinable.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

In the process of applying the Bank's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements:

(a) Fair value of financial instruments

When the fair values of financial assets and financial liabilities in the statement of condition cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility for longer-dated derivatives and discount rates, prepayments and default rates assumptions. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

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

(b) Classification of financial assets

The Bank classifies its financial assets depending on the business model for managing those financial assets and whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

The Bank performs the business model assessment based on observable factors such as:
- Performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel
- Risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- Compensation of business units whether based on the fair value of the assets managed or on the contractual cash flows collected
- Expected frequency, value and timing of sales

In performing the SPPI test, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, the period for which the interest rate is set, contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms and other features that may modify the consideration for the time value of money.

(c) Leases

Bank as lessor

The Bank has entered into commercial property leases on its investment properties portfolio and over various items of furniture, fixtures and equipment. The Bank has determined, based on an evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

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

Extension and termination options
The Bank has several lease contracts that include extension and termination options. The Bank applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors such as leasehold improvements and location that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassess the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Estimating the IBR for lease liabilities
The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR for lease liabilities is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment. The Bank estimates the IBR for lease liabilities using observable inputs (by reference to prevailing risk-free rates) adjusted to take into account the entity's credit risk (i.e., credit spread).

The carrying values of the Bank's right-of-use assets and lease liability are disclosed in Notes 11, 19 and 25, respectively.

(d) *Evaluation of business model in managing financial assets*
The Bank manages its financial assets based on 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 investment and trading activities consistent with its risk appetite.

In determining the classification of a financial instrument under PFRS 9, 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 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). 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.

In addition, 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 certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect (HTC) business model if 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 2020, the Bank sold investment securities classified as investment securities at amortized cost with total carrying amount of ₱19.6 billion resulting in gain on disposal of investment securities at amortized cost totaling ₱1.3 billion. The sale was made as there were changes in the Bank's funding requirements given its assessment on the impact of a prolonged pandemic. In aggregate, the sale in 2020 is not inconsistent with the Bank's HTC business model as the sale was considered infrequent even if significant in value. Accordingly, the remaining investment securities in the affected HTC portfolio continue to be measured at amortized cost Further, the Bank assessed that the sale did not reflect a change in the Bank's objectives for the HTC business model.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of condition date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next period, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

(a) *Credit losses on financial assets*

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Significant factors affecting the estimates on the ECL model include:

- Segmentation of the portfolio, where the appropriate model or ECL approach is used
- The criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment. In 2020, the Bank's effected anticipatory credit downgrades for portfolios belonging to industries heavily affected by the COVID-19 pandemic situation.
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs. In 2020, review of the ECL parameters led to the modification of the Bank's LGD parameters to account for the reduced recovery experienced during the COVID-19 pandemic situation.
- Determination of associations between macroeconomic scenarios and economic inputs and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models. In 2020, the Bank initiated a revision in the probability weights to reflect the negative economic outlook brought about by the pandemic.

The gross carrying amounts of financial assets subject to ECL as of December 31, 2019 and the related allowance for credit losses are disclosed in Notes 5 and 15, respectively.

(b) *Impairment of investment properties and chattel mortgage properties*

The Bank assesses impairment on its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

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

The Bank recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the fair value less costs to sell for property and equipment, investment properties and chattel mortgage properties. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

The carrying values of the Bank's investment properties and chattel mortgage properties are disclosed in Notes 12 and 14, respectively.

(c) *Present value of retirement obligation*

The cost of defined benefit pension plans as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each statement of condition date.

In determining the appropriate discount rate, management considers the interest rates of Philippine government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

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The details of assumptions used in the actuarial valuation and carrying value of the net pension liability are disclosed in Note 24.

(e) Recognition of deferred tax assets
Deferred tax assets are recognized for all unused tax and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The estimates of future taxable income indicate that certain temporary differences will be realized in the future. The Bank have considered the impact of the COVID-19 pandemic on future taxable income and on the recognition of deferred tax assets. The recognized net deferred assets and unrecognized deferred tax assets for the Bank are disclosed in Note 27.

(f) Contingent liabilities
The Bank is a defendant in legal actions arising from its normal business activities. Management believes that the ultimate liability, if any, resulting from these cases will not have a material effect on the Bank's financial statements are disclosed in Note 31.

4. Fair Value Measurement

Financial Instruments
The following describes the methodologies and assumptions used to determine the fair values of financial instruments:

Cash and other cash items, due from BSP, due from other banks, interbank loans receivable and SPURA, accounts receivable, accrued interest receivable, bills purchased, RCOCI, shortages, and petty cash fund - Carrying amounts approximate fair values due to the relatively short-term maturities of these assets.

Debt investments - Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services, or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology, using rates currently available for debt on similar terms, credit risk and remaining maturities. The discount rates used range from 3.00% to 9.50% in 2020 and 2019.

Equity investments - Fair values are based on quoted prices published in markets.

Receivable from customers, sales contract receivables and security deposits - Fair values are estimated using the discounted cash flow methodology, using the Bank's current lending rates for similar types of loans. The discount rates used range from 5.00% to 41.76% and from 5.58% to 30.26% in 2020 and 2019, respectively.

Demand deposits, savings deposits, treasurer's, cashier's and manager's checks, accrued interest payable, accounts payable, bills purchased-contra, other credits, due to the Treasurer of the Philippines, deposits for keys-SDB, payment orders payable and overages - Carrying amounts approximate fair values due to either the demand nature or the relatively short-term maturities of these liabilities.

Bills payable, bonds payable and time deposits - Fair values are estimated using the discounted cash flow methodology using the Bank's borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rates used are the following:

Financial Instrument	Discount Rates	
	2020	2019
Bills payable	–	3.94% to 7.07%
Bonds payable	**4.50% to 5.60%**	5.60%
Time deposits	**0.13% to 6.00%**	0.25% to 6.00%

Lease liabilities - Fair values are estimated using the discounted cash flow methodology using the sum of BVAL tenor rate and credit spread rate as the discount rate, ranging from 2.68% to 5.14% in 2020 and from 3.89% to 5.56% in 2019.

The inputs used in the fair value measurement based on Level 2 are as follows:

Government securities - interpolated rates based on market rates of benchmark securities as of statement of condition date.

The inputs used in estimating fair values of financial instruments carried at amortized cost and categorized under Level 3 include risk-free rates and applicable risk premium.

Non-financial Assets
Investment properties - Fair values of the investment properties have been determined based on valuations performed by independent external and in-house appraisers using valuation technique with significant inputs that are not based on observable market data (Level 3). The valuation of investment properties was based on the Sales Comparison Approach and considered recent sales of similar or substitute properties in the same areas where the investment properties are located, taking into account the economic conditions prevailing at the time of the valuation. Other factors considered were the location and shape of the properties, environmental issues, development controls such as the height restriction, building coverage and floor area ratio restrictions among others. Other significant unobservable inputs include shape, location, time element, discount and corner influence. The fair value of investment properties is based on its highest and best use, which is its current use.

The following tables summarize the carrying amount and fair values of the Bank's financial instruments and investment properties, analyzed based on the hierarchy described in Note 2 (in thousands):

	December 31, 2020				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial Assets					
FVTPL investments					
HFT - government securities	₱50	₱50	₱–	₱–	₱50
Financial assets at FVOCI					
Government debt securities	7,093,132	7,093,123	9	–	7,093,132
Private debt securities	2,955,869	2,737,316	218,553	–	2,955,869
Equity securities	10,232	9,060	1,172	–	10,232
	₱10,059,283	₱9,839,549	₱219,734	₱–	₱10,059,283
Assets for which fair values are disclosed:					
Financial Assets					
Investment securities at amortized cost					
Government	₱11,107,727	₱12,009,243	₱322,323	₱–	₱12,331,566
Private	2,628,272	1,674,355	1,027,597	–	2,701,952
Loans and receivables					
Receivables from customers					
Consumption loans	74,803,191	–	–	86,436,050	86,436,050
Real estate loans	49,402,438	–	–	43,990,487	43,990,487
Commercial loans	10,361,220	–	–	10,905,233	10,905,233
Personal loans	2,436,079	–	–	2,686,415	2,686,415
Sales contract receivable	25,354	–	–	24,208	24,208
Security deposits	201,235	–	–	269,567	269,567
Non-Financial Assets					
Investment properties	3,585,972	–	–	5,641,461	5,641,461
	₱154,551,488	₱13,683,598	₱1,349,920	₱149,953,421	₱164,986,939,
Liabilities for which fair values are disclosed:					
Deposit liabilities - time	₱91,791,491	₱–	₱–	₱93,447,388	₱93,447,388
Deposit liabilities - LTNCD	8,425,364	–	–	8,965,224	8,965,224
Bonds payable	10,902,457	–	–	11,014,431	11,014,431
Lease liability	1,342,395	–	–	1,553,866	1,553,866
	₱112,461,707	₱–	₱–	₱114,980,909	₱114,980,909

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	December 31, 2019				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial Assets					
FVTPL investments					
HFT - government securities	₱44	₱44	₱–	₱–	₱44
Financial assets at FVOCI					
Government debt securities	1,855,048	410,230	1,444,818	–	1,855,048
Private debt securities	2,908,569	2,685,319	223,250	–	2,908,569
Equity securities	11,771	10,599	1,172	–	11,771
	₱4,775,432	₱3,106,192	₱1,669,240	₱–	₱4,775,432
Assets for which fair values are disclosed:					
Financial Assets					
Investment securities at amortized cost					
Government	₱30,784,498	₱19,577,728	₱11,922,925	₱–	₱31,500,653
Private	3,449,477	2,208,118	1,213,212	–	3,421,330
Loans and receivables					
Receivables from customers					
Consumption loans	92,395,284	–	–	103,955,304	103,955,304
Real estate loans	52,115,714	–	–	44,605,358	44,605,358
Commercial loans	13,460,577	–	–	13,676,033	13,676,033
Personal loans	3,129,085	–	–	3,192,832	3,192,832
Sales contract receivable	42,225	–	–	40,982	40,982
Security deposits	185,170	–	–	257,162	257,162
Non-Financial Assets		–	–		
Investment properties	3,765,749	–	–	5,794,685	5,794,685
	₱199,327,779	₱21,785,846	₱13,136,137	₱171,522,356	₱206,444,339
Liabilities for which fair values are disclosed:					
Deposit liabilities - time	₱105,912,878	₱–	₱–	₱108,006,266	₱108,006,266
Deposit liabilities - LTNCD	8,409,975	–	–	8,586,674	8,586,674
Bills payable	4,189,737	–	–	4,409,440	4,409,440
Bonds payable	6,254,702	–	–	6,434,550	6,434,550
Lease Liability	1,467,104	–	–	1,475,748	1,475,748
	₱126,234,396	₱–	₱–	₱128,912,678	₱128,912,678

When fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any adjustments for transaction costs, the instruments are included within Level 1 of the hierarchy.

For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models. Instruments included in Level 3 include those for which there is currently no active market.

As of December 31, 2020 and 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

As of December 31, 2020 and 2019, the Bank determined the market value of its warrants to be zero due to the absence of an active market for the Bank's ROP warrants, as evidenced by the unavailability of quoted market prices.

5. Financial Risk Management Policies and Objectives

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

- Credit risk
- Market risk
- Liquidity risk

Organization risk management structure continues to be a top-down organization, with the BOD at the helm of all major initiatives.

Discussed below are the relevant sections on roles and responsibilities from the Risk Oversight Committee (ROC) Charter:

Board of Directors (BOD)
The corporate powers of the Bank are vested in and are exercised by the BOD, who conducts its business and controls its property. The BOD approves broad risk management strategies and policies and ensures that risk management initiatives and activities are consistent with the Bank's overall objectives. The BOD appoints the members of the ROC.

Risk Oversight Committee (ROC)
The ROC is composed of at least three members of the Board, the majority of whom are independent directors including its Chairperson. The ROC Chairperson is not the Chairperson of the Board or of any other committee. Members of the ROC possess a range of expertise and adequate knowledge of the Bank's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur.

The BOD may also appoint non-directors to the ROC as part of the Metrobank Group risk oversight measures. However, only Bank directors shall be considered as voting members of the ROC. Non-voting members are appointed in an advisory capacity.
The ROC oversees the system of limits to discretionary authority that the BOD delegates to the management and ensures that the system remains effective, the limits are observed, and that immediate corrective actions are taken whenever limits are breached.

The ROC meets on a monthly basis and is supported by the Risk Management Office (RMO). In the absence of the ROC Chairman, another Independent Director shall preside. ROC resolutions, which require the concurrence of the majority of its voting members, are presented to the BOD for confirmation.

Risk Management Office (RMO)
The RMO, headed by the Chief Risk Officer, is a function that is independent from executive functions and business line responsibilities, operations and revenue-generating functions. It reports directly to the BOD, through the ROC. The RMO assists the ROC in carrying out its responsibilities by:
- analyzing, communicating, implementing, and maintaining the risk management policies approved by the ROC and the BOD;
- spearheading the regular review of the Bank's risk management policy manual and making or elevating recommendations that enhance the risk management process to the ROC and the BOD, for their approval; and
- ensuring that the risks arising from the Bank's activities are identified, measured, analyzed, reported to and understood by risk takers, management, and the board. The RMO analyzes limit exceptions and recommends enhancements to the limits structure.

The RMO does not assume risk-taking accountability nor does it have approving authority. The RMO's role is to act as liaison and to provide support to the BOD, ROC, the President, management committees, risk takers and other support and control functions on risk-related matters.

The Risk Management Function is responsible for:
- identifying the key risk exposures and assessing and measuring the extent of risk exposures of the Bank and its trust operations;
- monitoring the risk exposures and determining the corresponding capital requirement in accordance with the Basel capital adequacy framework and based on the Bank's internal capital adequacy assessment on an on-going basis;
- monitoring and assessing decisions to accept particular risks whether these are consistent with BOD-approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures; and
- reporting on a regular basis to Senior Management and the BOD the results of assessment and monitoring.

President
The President is the Chief Executive Officer of the Bank and has the primary responsibility of carrying out the policies and objectives of the BOD. The President exercises the authorities delegated to him by the BOD and may recommend such policies and objectives he deems necessary for the continuing progress of the Bank.

NOTES TO FINANCIAL STATEMENTS

Risk management
The risk management framework aims to maintain a balance between the nature of the Bank's businesses and the risk appetite of the BOD. Accordingly, policies and procedures are reviewed regularly and revised as the organization grows and as financial markets evolve. New policies or proposed changes in current policies are presented to the ROC and the BOD for approval.

a. Credit risk and concentration of assets and liabilities and off-balance sheet items

Credit risk is the risk that a counterparty will not settle its obligations in accordance with the agreed terms.

The Bank's lending business follows credit policy guidelines set by the BOD, ROC and RMO. These policies serve as minimum standards for extending credit. The people engaged in the credit process are required to understand and adhere to these policies.

Product manuals are in place for all loans and deposit products that actually or potentially expose the Bank to all types of risks that may result in financial or reputational losses. They define the product and the risks associated with the product plus the corresponding risk-mitigating controls. They embody the business plans and define the business parameters within which the product or activity is to be performed.

The system of checks around extension of credit includes approval by at least two credit approvers through the Credit Committee (CreCom), Executive Committee (ExCom) or BOD. The ROC reviews the business strategies and ensures that revenue-generating activities are consistent with the risk tolerance and standards of the Bank. The Internal Audit Group conducts regular audit across all functional units. The BOD, through the ExCom, CreCom and ROC, ensure that sound credit policies and practices are followed through all the business segments.

Credit Approval
Credit approval is the documented acceptance of credit risk in the credit proposal or application.

The Bank's credit decision-making for consumer loans utilizes the recommendation of the credit scoring and is performed at the CreCom level appropriate to the size and risk of each transaction, in conformity with corporate policies and procedures in regulating credit risk activities. The Bank's ExCom may approve deviations or exceptions, while the BOD approves material exceptions such as large exposures, loans to directors, officers, stockholders and other related interests (DOSRI) and related party transactions, and loan restructuring.

Credit delegation limits are identified, tracked and reviewed at least annually by the Bank's Head of Credit and Collections together with the Credit Risk Manager.

Borrower Eligibility
The Bank's credit processing commences when a customer expresses his intention to borrow through a credit application. The Bank gathers data on the customer; ensures they are accurate, up-to-date and adequate to meet the minimum regulatory requirements and to render credit decision. These data are used for the intended purpose only and are managed in adherence to the customer information secrecy law.

The customer's credit worthiness, repayment ability and cash flow are established before credit is extended. The Bank independently verifies critical data from the customer, ensuring compliance with Know Your Customer requirements under the anti-money laundering laws. The Bank requires that customer income be derived from legitimate sources and supported with government-accepted statements of income, assets and liabilities.

The Bank ascertains whether the customer is legally capable of entering a credit contract and of providing a charge over any asset presented as collateral for a loan. Guarantors or sureties may be accepted, provided they are a relative, partner, and have financial interest in the transaction, and they pass all credit acceptance criteria applied to the borrower.

Loan Structure
The Bank structures loans for its customers based on the customer's capability to pay, the purpose of the loan, and for a collateralized loan, the collateral's economic life and liquidation value over time.

The Bank establishes debt burden guidelines and minimum income requirements to assess the customer's capacity to pay.

The Bank utilizes credit bureau data, both external and internal, to obtain information on a customer's current commitments and credit history.

The Bank takes into account environmental and social issues when reviewing credit proposals of small businesses and commercial mortgage customers. The Bank ensures that all qualified securities pass through the BOD for approval. Assignments of securities are confirmed and insurance are properly secured.

The Bank uses credit scoring models and decision systems for consumer loans as approved by the BOD. Borrower risk rating model and facility risk rating model, on the other hand, are available for SME loans, and supported with qualitative evaluation. Regular monitoring of all these tools and their performance is carried out to ensure that they remain effective.

Initial loan limits are recommended by the CreCom and ExCom and approved by the BOD. The Bank ensures that secured loans are within ceilings set by local regulators. Succeeding loan availments are based on account performance and customer's credit worthiness.

Credit Management
The Bank maintains credit records and documents on all borrowings and captures transaction details in its loan systems. The credit risk policies and system infrastructure ensure that loans are monitored and managed at all times.

The Bank's Management Information System provides statistics that its business units need to identify opportunities for improving rewards without necessarily sacrificing risk. Statistical data on product, productivity, portfolio, profitability, performance and projection are made available regularly.

The Bank conducts regular loan review through the ROC, with the support of the RMO. The Bank examines its exposures, credit risk ratios, provisions and customer segments. The Bank's unique customer identification and unique group identification methodology enables it to aggregate credit exposures by customer or group of borrowers. Aggregate exposures of at least ₱100.0 million are put on a special monitoring.

The ROC assesses the adequacy of provisions for credit losses regularly. The Bank's automated loan grading system enables the Bank to set up provision per account. The Bank also performs impairment analyses on loans and receivables, whether on an individual or collective basis, in accordance with PFRS 9.

The Bank carries out stress testing analyses using Board-approved statistical models relating the default trends to macroeconomic indicators.

In 2019, the Bank enhanced its consumer loan acquisition scoring models. This allowed the Bank to optimize its return whilst maintaining its risk appetite. Moreover, the Bank implemented the enhancements to the PFRS 9 ECL models as a result of the regular governance and validation of the models. This aims credit models to remain accurate, effective and regulatory compliant.

In March 2020, the World Health Organization (WHO) declared the coronavirus (COVID-19) a pandemic outbreak. To prevent the spread of the virus, governments were forced to impose lockdowns, travel restrictions and border closures which had a catastrophic impact in the global economy. Under PFRS 9, impairment allowances have a forward-looking component and thus must take into account forecasted economic conditions. In response to the dramatic change in the economic outlook due to the COVID-19 pandemic, the Bank undertook a reassessment exercise of the ECL parameters. Recalibrated probability weights for the forward looking multiple economic scenarios and actual recovery levels during the pandemic were imputed into the ECL models. These enhancements aim to ensure that provisions for credit losses are sufficient and robust.

NOTES TO FINANCIAL STATEMENTS

Maximum Exposure to Credit Risk

The tables below show the analysis of the maximum exposure to credit risk of the Bank's financial instruments, excluding those where the carrying values as reflected in the statement of condition and related notes already represent the financial instrument's maximum exposure to credit risk, after taking into account collateral held or other credit enhancements (in thousands):

	2020			
	Carrying Amount	**Fair Value of Collateral**	**Maximum Exposure to Credit Risk**	**Financial Effect of Collateral or Credit Enhancement**
Due from other banks	**₱1,461,474**	**₱3,639,230**	**₱201,120**	**₱1,260,354**
Receivables from customers				
Consumption loans	**74,803,191**	**99,062,218**	**2,219,214**	**72,583,977**
Real estate loans	**49,402,238**	**69,888,779**	**13,080,835**	**36,321,603**
Commercial loans	**10,361,220**	**6,873,087**	**7,648,100**	**2,713,120**
Other receivables				
Accrued interest receivable	**3,808,108**	**2,164,656**	**1,643,452**	**2,164,656**
Sales contract receivable	**25,354**	**83,426**	**1,830**	**23,524**
Total credit exposure	**₱139,861,585**	**₱181,711,396**	**₱24,794,551**	**₱115,067,234**

	2019			
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral or Credit Enhancement
Due from other banks	₱1,138,642	₱2,915,612	₱382,979	₱755,663
Receivables from customers				
Consumption loans	92,395,284	137,311,674	2,342,869	90,052,415
Real estate loans	52,253,777	67,482,137	14,332,905	37,920,872
Commercial loans	13,322,514	6,537,019	10,276,388	3,046,126
Other receivables				
Accrued interest receivable	1,848,330	1,713,763	134,567	1,713,763
Sales contract receivable	42,225	43,118	19,425	22,800
Total credit exposure	₱161,000,772	₱216,003,323	₱27,489,133	₱133,511,639

An analysis of the maximum credit risk exposure relating to financial assets under Stage 3 as of December 31, 2020 and 2019 is shown below:

	2020			
	Carrying Amount	**Fair Value of Collateral**	**Maximum Exposure to Credit Risk**	**Financial Effect of Collateral or Credit Enhancement**
Receivables from customers				
Consumption loans	**₱4,232,285**	**₱8,678,162**	**₱2,883**	**₱4,229,402**
Real estate loans	**2,629,000**	**3,810,174**	**677,760**	**1,951,240**
Commercial loans	**482,740**	**428,773**	**246,013**	**236,727**
Other receivables				
Accrued interest receivable	**524,771**	**654,033**	–	**524,771**
Sales contract receivable	**21,412**	**74,133**	**331**	**21,081**
Total credit exposure	**₱7,890,208**	**₱13,645,275**	**₱926,987**	**₱6,963,221**

	2019			
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral or Credit Enhancement
Receivables from customers				
Consumption loans	₱2,533,355	₱4,430,838	₱58,479	₱2,474,876
Real estate loans	1,728,430	2,103,065	606,860	1,121,570
Commercial loans	274,345	250,029	175,662	98,683
Other receivables				
Accrued interest receivable	64,544	352,272	–	64,544
Sales contract receivable	19,319	16,326	10,922	8,397
Total credit exposure	₱4,619,993	₱7,152,530	₱851,923	₱3,768,070

Collateral and Other Credit Enhancements
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding acceptability of types of collateral and valuation parameters.

The main types of collaterals obtained are as follows:
- For Due from other banks: investment securities
- For SPURA: investment securities
- For commercial lending: mortgages over real estate properties, deposit accounts and securities
- For consumer lending: mortgages over real estate and chattel

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for credit and impairment losses.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion and proceeds are used to repay or reduce the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

The Bank holds collateral against loans and receivables in the form of real estate and chattel mortgages, guarantees, and other registered securities over assets. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing and generally are updated every two years and when a loan is assessed to be impaired, whenever applicable. The Bank is not allowed to sell or re-pledge collateral held under SPURA in the absence of default by the counterparty. Collateral is usually not held against holdings in investment securities, and no such collateral was held as of December 31, 2020 and 2019.

Concentration of risk is managed by borrower, by group of borrowers, by geographical region and by industry sector. As of December 31, 2020 and 2019, the maximum credit exposure to any borrower, before taking into account any collateral or other credit enhancement amounted to ₱1.0 billion and ₱1.9 billion, respectively.

The distribution of the Bank's financial assets before taking into account any collateral held or other credit enhancements can be analyzed by the following geographical regions (in thousands):

	2020				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Others*****	**Total**
Luzon	**₱128,307,060**	**₱38,711,391**	**₱23,817,729**	**₱254,755**	**191,090,935**
Visayas	**10,430,384**				**10,430,384**
Mindanao	**11,306,645**				**11,306,645**
	150,044,089	**38,711,391**	**23,817,729**	**254,755**	**212,827,964**
Less allowance for credit and impairment losses	**7,519,744**	**114,961**	**22,447**		**7,657,152**
Total	**₱142,524,345**	**₱38,596,430**	**₱23,795,282**	**₱254,755**	**₱205,170,812**

* Composed of due from BSP and due from other banks, interbank loans receivable and SPURA
** Composed of FVTPL investments, financial assets at FVOCI (excluding equity securities not exposed to credit risk) and investment securities at amortized cost.
*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines amounting to ₱41.8 Million

	2019				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Luzon	₱143,566,455	₱7,955,777	₱39,034,932	₱298,231	₱190,855,395
Visayas	11,849,260	–	–	–	11,849,260
Mindanao	12,900,392	–	–	–	12,900,392
	168,316,107	7,955,777	39,034,932	298,231	215,605,047
Less allowance for credit and impairment losses	3,931,905	2,269	25,525	–	3,959,699
Total	₱164,384,202	₱7,953,508	₱39,009,407	₱298,231	₱211,645,348

* Composed of due from BSP, due from other banks
** Composed of FVPL investments, financial assets at FVOCI (excluding equity securities not exposed to credit risk) and investment securities at amortized cost.
*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines amounting to ₱84.04 million.

NOTES TO FINANCIAL STATEMENTS

Additionally, the tables below show the distribution of the Bank's financial assets and off-balance sheet items before taking into account any collateral or other credit enhancements analyzed by industry sector as of December 31, 2020 and 2019 (in thousands):

	2020				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Others*****	**Total**
Activities of private households as employers and undifferentiated goods and services and producing activities of households for own use	**₱86,934,485**	**₱–**	**₱–**	**₱–**	**₱86,934,485**
Real estate activities	**46,103,857**	**–**	**–**	**–**	**46,103,857**
Financial and insurance activities	**2,857,267**	**38,711,391**	**23,817,729**	**212,973**	**65,599,360**
Wholesale and retail trade; repair of motor vehicles and motorcycles	**2,407,121**	**–**	**–**	**–**	**2,407,121**
Electricity, gas, steam and air-conditioning supply	**1,793,815**	**–**	**–**	**–**	**1,793,815**
Transportation and storage	**980,657**	**–**	**–**	**–**	**980,657**
Manufacturing	**681,869**	**–**	**–**	**–**	**681,869**
Construction	**674,066**	**–**	**–**	**22,000**	**696,066**
Administrative and support service activities	**579,402**	**–**	**–**	**–**	**579,402**
Information and communication	**540,381**	**–**	**–**	**–**	**540,381**
Accommodation and food service activities	**320,009**	**–**	**–**	**–**	**320,009**
Human health and social work activities	**195,083**	**–**	**–**	**–**	**195,083**
Water supply, sewage, waste management and remediation activities	**43,315**	**–**	**–**	**–**	**43,315**
Education	**146,876**	**–**	**–**	**–**	**146,876**
Professional, scientific and technical services	**159,974**	**–**	**–**	**–**	**159,974**
Arts, entertainment and recreation	**92,510**	**–**	**–**	**–**	**92,510**
Agricultural, forestry and fishing	**105,281**	**–**	**–**	**–**	**105,281**
Mining and quarrying	**18,100**	**–**	**–**	**–**	**18,100**
Other service activities	**5,410,021**	**–**	**–**	**19,782**	**5,429,803**
	150,044,089	**38,711,391**	**23,817,729**	**254,755**	**212,827,964**
Less allowance for credit and impairment losses	**7,519,744**	**114,961**	**22,447**	**–**	**7,657,152**
Total	**₱142,524,345**	**₱38,596,430**	**₱23,795,282**	**₱254,755**	**₱205,170,812**

* Composed of due from BSP and due from other banks, interbank loans receivable and SPURA

** Composed of FVTPL investments, financial assets at FVOCI (excluding equity securities not exposed to credit risk) and investment securities at amortized cost.

*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines amounting to ₱41.8 million.

	2019				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Activities of private households as employers and undifferentiated goods and services and producing activities of households for own use	₱99,430,419	₱–	₱–	₱–	₱99,430,419
Real estate activities	47,809,592	–	–	–	₱47,809,592
Financial and insurance activities	3,149,739	7,955,777	39,034,932	214,231	50,354,679
Wholesale and retail trade; repair of motor vehicles and motorcycles	2,941,130	–	–	–	2,941,130
Electricity, gas, steam and air-conditioning supply	1,897,393	–	–	–	1,897,393
Transportation and storage	1,049,382	–	–	–	1,049,382
Manufacturing	811,145	–	–	–	811,145
Construction	754,287	–	–	53,000	807,287
Administrative and support service activities	709,873	–	–	–	709,873
Information and communication	547,246	–	–	–	547,246
Accommodation and food service activities	335,984	–	–	–	335,984
Human health and social work activities	252,290	–	–	–	252,290
Water supply, sewage, waste management and remediation activities	246,735	–	–	–	246,735
Education	175,171	–	–	–	175,171
Professional, scientific and technical services	160,628	–	–	–	160,628
Arts, entertainment and recreation	79,879	–	–	–	79,879
Agricultural, forestry and fishing	75,280	–	–	–	75,280
Mining and quarrying	13,281	–	–	–	13,281
Other service activities	7,876,654	–	–	31,000	7,907,654
	168,316,108	7,955,777	39,034,932	298,231	215,605,048
Less allowance for credit and impairment losses	3,931,906	2,269	25,525	–	3,959,700
Total	₱164,384,202	₱7,953,508	₱39,009,407	₱298,231	₱211,645,348

* Composed of due from BSP, due from other banks

** Composed of FVTPL investments, financial assets at FVOCI (excluding equity securities not exposed to credit risk) and investment securities at amortized cost.

*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines amounting to ₱84.0 million.

Credit Quality
The Bank uses the standard below in defining credit quality.

High Grade exposures show low levels of expected loss. For loans, these accounts should neither be past due nor impaired. The Bank classifies those accounts under current or 1 to 30 days past due status and are not impaired (Stage 1 & 2).

Standard Grade exposures show moderate levels of expected loss. For loans, these accounts should neither be past due nor impaired.

Sub Standard Grade requires a special degree of attention given the increased risk of default. For loans, these accounts should neither be past due nor impaired.

Past Due but Not Credit Impaired are applicable to loan accounts which are classified as delinquent (31-90 days past due) but are not subject to impairment (Stage 2) as of statement of condition date.

Past Due and Credit Impaired. These include loan accounts considered to be delinquent (91+ days past due), non-performing as defined by BSP Circular No. 941.
Description of the internal credit rating system for loans, receivables and stand-by credit lines:

Internal Credit Rating System (ICRS)
The Bank rates accounts on a scale of 1 to 10, with 1 being the best, based on the Board-approved credit ratings which utilize the expected credit loss and qualitative assessments. ICRS rating assessment considers both borrower and facility features.

Neither Past Due nor Impaired
The Bank classifies those accounts under current or 1 to 30 days past due status and are not impaired (Stage 1 & 2) having the following credit ratings:

High Grade (ICRS Rating 1 - 4)
1 - Excellent
An excellent rating is given to a borrower with a very low probability of going into default and/or low loss given default. The Bank's internal rating system has given an outstanding rating to the borrower, indicative of excellent ability to meet credit obligation in full and consistently meet payment commitments. Accounts with excellent rating may have collateral, further diminishing any losses in case of a default.

2 - Strong
This rating is given to borrowers with low probability of going into default in the coming year with low to moderate loss given default. The Bank's internal rating system has given a high rating to the borrower. The borrower has the ability to meet credit obligation in full, except that the borrower may have a history of missing a payment.

3 – Good
This rating is given to borrowers with low to moderate probability of going into default in the coming year with moderate loss given default. These are largely characterized by borrowers with good rating and have historically missed several payments.

4 – Satisfactory
A 'satisfactory' rating is given to a borrower where clear risk elements exist and probability of default is somewhat greater with moderate to high loss given default. These are characterized by borrowers with good rating with a history of default.

Standard Grade (ICRS Rating 5 - 6)
5 – Acceptable
An 'acceptable' rating is given to a borrower whose risk elements are sufficiently pronounced although borrower should still be expected to meet their credit obligations in full. These are characterized by borrowers with moderate rating.

NOTES TO FINANCIAL STATEMENTS

6 - Loan Especially Mentioned
An account assessed to have potential weaknesses which when left uncorrected, may affect the repayment of the account and thus increase credit risk to the Bank, will be assigned this rating.

<u>Substandard Grade (ICRS Rating 7 - 8)</u>
7 - 8 Substandard
These accounts or portion thereof involves a substantial and an unreasonable degree of risk to the Bank because of unfavorable record or unsatisfactory characteristics. These accounts show possibility of future loss to the Bank unless given closer supervision and well-defined weaknesses that jeopardize the account liquidation.

Past Due but Not Credit Impaired
These are accounts which are classified as delinquent (31-90 days past due) but are not subject to impairment (Stage 2) as of statement of condition date regardless of ICRS rating.

Past Due and Credit Impaired
These include accounts considered to be delinquent (91+ days past due), non-performing as defined by BSP Circular No. 941 regardless of ICRS rating. The following credit ratings will always be classified as credit impaired:

9 - Doubtful
Given to an account assessed to have characteristics where collection and liquidation in full is highly improbable and in which substantial loss is probable.

10 - Loss
Given to an account assessed to loans or portions thereof are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted.

The credit quality of receivables from customers, gross of allowance for credit losses, as of December 31, 2020 and 2019 follows (in thousands):

	2020						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Consumption Loans:							
High Grade	₱–	₱51,220,909	₱–	₱17,069,262	₱–	₱–	₱68,290,171
Standard Grade	–	436,864	–	1,335,983	–	–	1,772,847
Sub-standard Grade	–	–	–	622,339	–	–	622,339
Past due but not Impaired	–	–	–	2,240,490	–	–	2,240,490
Non-performing Individually Impaired	–	–	–	–	5,574,364	–	5,574,364
	–	51,657,773	–	21,268,074	5,574,364	–	78,500,211
Real Estate Loans:							
High Grade	–	31,025,062	–	13,141,037	–	–	44,166,099
Standard Grade	–	275	–	1,792,499	–	–	1,792,774
Sub-standard Grade	–	–	–	295,714	–	–	295,714
Past due but not Impaired	–	–	–	1,144,782	–	–	1,144,782
Non-performing Individually Impaired	–	–	–	–	3,016,169	–	3,016,169
		31,025,337		16,374,032	3,016,169	-	50,415,538
Commercial Loans:							-
High Grade	–	8,341,313	–	1,097,091	–	–	9,438,404
Standard Grade	–	94,539	–	574,671	–	–	669,210
Sub-standard Grade	–	–	–	100,215	–	–	100,215
Past due but not Impaired	–	–	–	89,114	–	–	89,114
Non-performing Individually Impaired	–	–	–	–	758,188	–	758,188
	–	8,435,852	–	1,861,091	758,188	–	11,055,131
Personal Loans:							
High Grade	–	707,529	–	1,154,114	–	–	1,861,643
Standard Grade	–	13,688	–	261,403	–	–	275,091
Sub-standard Grade	–	2,978	–	389,973	–	–	392,951
Past due but not Impaired	–		–	19,697	–	–	19,697
Non-performing Individually Impaired	–	–	–	–	626,190	–	626,190
	–	724,195	–	1,825,187	626,190	–	3,175,572

(Forward)

	2020						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Total Receivables from Customer:							
High Grade	–	91,294,813	–	32,461,504	–	–	123,756,317
Standard Grade	–	545,366	–	3,964,556	–	–	4,509,922
Sub-standard Grade	–	2,978	–	1,408,241	–	–	1,411,219
Past due but not Impaired	–	–	–	3,494,083	–	–	3,494,083
Non-performing Individually Impaired	–	–	–	–	9,974,911	–	9,974,911
	₱–	₱91,843,157	₱–	₱41,328,384	₱9,974,911	₱–	₱143,146,452

	2019						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Consumption Loans:							
High Grade	₱–	₱79,374,254	₱–	₱5,066,818	₱–	₱–	₱84,441,072
Standard Grade	–	23,912	–	2,503,990	–	–	2,527,902
Sub-standard Grade	–	–	–	–	–	–	–
Past due but not Impaired	–	–	–	4,039,059	–	–	4,039,059
Non-performing Individually Impaired	–	–	–	–	3,217,461	–	3,217,461
	–	79,398,166	–	11,609,867	3,217,461	–	94,225,494
Real Estate Loans:							
High Grade	–	41,049,925	–	7,239,979	–	–	48,289,904
Standard Grade	–	–	–	583,491	–	–	583,491
Sub-standard Grade	–	–	–	–	–	–	–
Past due but not Impaired	–	–	–	1,733,587	–	–	1,733,587
Non-performing Individually Impaired	–	–	–	–	1,872,205	–	1,872,205
	–	41,049,925	–	9,557,057	1,872,205	–	52,479,187
Commercial Loans:							
High Grade	–	11,380,725	–	570,364	–	–	11,951,089
Standard Grade	–	776,863	–	463,733	–	–	1,240,596
Sub-standard Grade	–	26,849	–	–	–	–	26,849
Past due but not Impaired	–	–	–	98,373	–	–	98,373
Non-performing Individually Impaired	–	–	–	–	369,079	–	369,079
	–	12,184,437	–	1,132,470	369,079	–	13,685,986
Personal Loans:							
High Grade	–	773,850	–	237,921	–	–	1,011,771
Standard Grade	–	2,099	–	2,109,273	–	–	2,111,372
Sub-standard Grade	–	47,646	–	54,845	–	–	102,491
Past due but not Impaired	–	–	–	39,207	–	–	39,207
Non-performing Individually Impaired	–	–	–	–	458,350	–	458,350
	–	823,595	–	2,441,246	458,350	–	3,723,191
Total Receivables from Customer:							
High Grade	–	132,578,754	–	13,115,082	–	–	145,693,836
Standard Grade	–	802,874	–	5,660,487	–	–	6,463,361
Sub-standard Grade	–	74,495	–	54,845	–	–	129,340
Past due but not Impaired	–	–	–	5,910,226	–	–	5,910,226
Non-performing Individually Impaired	–	–	–	–	5,917,095	–	5,917,095
	₱–	₱133,456,123	₱–	₱24,740,640	₱5,917,095	₱–	₱164,113,858

The credit quality of other receivables, gross of allowance for credit losses, as of December 31, 2020 and 2019 follows (in thousands):

	2020						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Accrued Interest Receivable:							
High Grade	₱–	₱2,374,534	₱–	₱938,880	₱–	₱–	₱3,313,414
Standard Grade	–	15,711	–	110,109	–	–	125,820
Sub-standard Grade	–	29	–	61,613	–	–	61,642
Past due but not Impaired	–	–	–	131,141	–	–	131,141
Non-performing Individually Impaired	–	–	–	–	967,920	–	967,920
	–	2,390,274	–	1,241,743	967,920	–	4,599,937
Accounts Receivable:							
High Grade	–	1,359,593	–	266,448	–	–	1,626,041
Standard Grade	–	5,059	–	30,194	–	–	35,253
Sub-standard Grade	–	–	–	12,848	–	–	12,848
Past due but not Impaired	–	–	–	39,923	–	–	39,923

(Forward)

NOTES TO FINANCIAL STATEMENTS

	2020						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Non-performing Individually Impaired	–	–	–	–	553,230	–	553,230
	–	1,364,652	–	349,413	553,230	–	2,267,295
Sales Contract Receivable:							
High Grade	–	3,945	–	–	–	–	3,945
Standard Grade	–	–	–	–	–	–	-
Sub-standard Grade	–	–	–	–	–	–	-
Past due but not Impaired	–	–	–	–	–	–	-
Non-performing Individually Impaired	–	–	–	–	21,864	–	21,864
	–	3,945	–	–	21,864	–	25,809
Bills Purchased:							
High Grade	–	4,596	–	–	–	–	4,596
Standard Grade	–	–	–	–	–	–	–
Sub-standard Grade	–	–	–	–	–	–	–
Past due but not Impaired	–	–	–	–	–	–	–
Non-performing Individually Impaired	–	–	–	–	–	–	
	–	4,596	–	–	–	–	4,596
Total Other Receivables:							
High Grade	–	3,742,668	–	1,205,328	–	–	4,947,996
Standard Grade	–	20,770	–	140,303	–	–	161,073
Sub-standard Grade	–	29	–	74,461	–	–	74,490
Past due but not Impaired	–	–	–	171,064	–	–	171,064
Non-performing Individually Impaired	–	–	–	–	1,543,014	–	1,543,014
	₱–	₱3,763,467	₱–	₱1,591,156	₱1,543,014	₱–	₱6,897,637

	2019						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Accrued Interest Receivable:							
High Grade	₱–	₱1,438,603	₱–	₱134,006	₱–	₱–	₱1,572,609
Standard Grade	–	62,753	–	148,797	–	–	211,550
Sub-standard Grade	–	295	–	4,001	–	–	4,296
Past due but not Impaired	–	–	–	–	–	–	–
Non-performing Individually Impaired	–	84	–	–	460,955	–	461,039
	–	1,501,735	–	286,804	460,955	–	2,249,494
Accounts Receivable:							
High Grade	–	1,340,815	–	11,097	–	–	1,351,912
Standard Grade	–	28,615	–	3,772	–	–	32,387
Sub-standard Grade	–	5,912	–	484	–	–	6,396
Past due but not Impaired	–	–	–	11,232	–	–	11,232
Non-performing Individually Impaired	–	–	–	–	499,383	–	499,383
	–	1,375,342	–	26,585	499,383	–	1,901,310
Sales Contract Receivable:							
High Grade	–	22,921	–	–	–	–	22,921
Standard Grade	–	–	–	–	–	–	–
Sub-standard Grade	–	–	–	–	–	–	–
Past due but not Impaired	–	–	–	–	–	–	–
Non-performing Individually Impaired	–	–	–	–	19,726	–	19,726
	–	22,921	–	–	19,726	–	42,647
Bills Purchased:							
High Grade	–	8,799	–	–	–	–	8,799
Standard Grade	–	–	–	–	–	–	–
Sub-standard Grade	–	–	–	–	–	–	–
Past due but not Impaired	–	–	–	–	–	–	–
Non-performing Individually Impaired	–	–	–	–	–	–	–
	–	8,799	–	–	–	–	8,799
Total Other Receivables:							
High Grade	₱–	₱2,811,138	₱–	₱145,103	₱–	₱–	₱2,956,241
Standard Grade	–	91,368	–	152,569	–	–	243,937
Sub-standard Grade	–	6,207	–	4,485	–	–	10,692
Past due but not Impaired	–	–	–	11,232	–	–	11,232
Non-performing Individually Impaired	–	84	–	–	980,064	–	980,148
	₱–	₱2,908,797	₱–	₱313,389	₱980,064	₱–	₱4,202,250

The credit quality of other financial assets which include RCOCI, security deposits and shortage, gross of allowance for credit losses amounting as of December 31, 2020 and 2019 follows (in thousands):

	2020						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Other Financial Assets							
High Grade	₱–	₱–	₱–	₱–	₱–	₱–	₱–
Standard Grade	–	254,755	–	–	–	–	254,755
Sub-standard Grade	–	–	–	–	–	–	–
Past due but not Impaired	–	–	–	–	–	–	–
Non-performing Individually Impaired	–	–	–	–	–	–	–
Total	₱–	254,755	–	–	–	–	254,755

	2019						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Other Financial Assets							
High Grade	₱–	₱–	₱–	₱–	₱–	₱–	₱–
Standard Grade	–	298,231	–	–	–	–	298,231
Sub-standard Grade	–	–	–	–	–	–	–
Past due but not Impaired	–	–	–	–	–	–	–
Non-performing Individually Impaired	–	–	–	–	–	–	–
Total	₱–	₱298,231	₱–	₱–	₱–	₱–	₱298,231

Movements of receivables from customers as of December 31, 2020 and 2019 follow (in thousands):

	2020						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Consumption Loans							
Balance as of January 1, 2020	₱–	₱79,398,166	₱–	₱11,609,867	₱3,217,461	₱–	₱94,225,494
New assets originated	–	17,078,503	–	42,185	–	–	17,120,688
Assets derecognized or repaid	–	(26,019,116)	–	(4,935,631)	(1,144,915)	–	(32,099,662)
Amounts written off	–	–	–	–	(746,309)	–	(746,309)
Transfers to Stage 1	–	564,353	–	(508,945)	(55,408)	–	–
Transfers to Stage 2	–	(16,677,607)	–	16,986,609	(309,002)	–	–
Transfers to Stage 3	–	(2,686,526)	–	(1,926,011)	4,612,537	–	–
Balance at December 31, 2020	–	51,657,773	–	21,268,074	5,574,364	–	78,500,211
Real Estate Loans							
Balance as of January 1, 2020	–	41,049,925	–	9,557,057	1,872,205	–	52,479,187
New assets originated	–	4,117,313	–	39,147	–	–	4,156,460
Assets derecognized or repaid	–	(4,493,599)	–	(1,395,102)	(247,083)	–	(6,135,784)
Amounts written off	–	–	–	–	(84,325)	–	(84,325)
Transfers to Stage 1	–	1,204,764	–	(1,126,708)	(78,056)	–	–
Transfers to Stage 2	–	(9,872,502)	–	10,374,189	(501,687)	–	–
Transfers to Stage 3	–	(980,564)	–	(1,074,551)	2,055,115	–	–
Balance at December 31, 2020	–	31,025,337	–	16,374,032	3,016,169	–	50,415,538
Commercial Loans							
Balance as of January 1, 2020	–	12,184,437	–	1,132,470	369,079	–	13,685,986
New assets originated	–	4,225,129	–	29,174	21,756	–	4,276,059
Assets derecognized or repaid	–	(6,764,528)	–	(129,759)	–	–	(6,894,287)
Amounts written off	–	–	–	–	(12,627)	–	(12,627)
Transfers to Stage 1	–	62,308	–	(53,278)	(9,030)	–	–
Transfers to Stage 2	–	(1,013,744)	–	1,032,085	(18,341)	–	–
Transfers to Stage 3	–	(257,750)	–	(149,601)	407,351	–	–
Balance at December 31, 2020	–	8,435,852	–	1,861,091	758,188	–	11,055,131
Personal Loans							
Balance as of January 1, 2020	–	823,595	–	2,441,246	458,350	–	3,723,191
New assets originated	–	196,552	–	494,254	98,852	–	789,658
Assets derecognized or repaid	–	(258,947)	–	(846,781)	–	–	(1,105,728)
Amounts written off	–	–	–	(104)	(231,445)	–	(231,549)
Transfers to Stage 1	–	96,952	–	(96,393)	(559)	–	–
Transfers to Stage 2	–	(117,307)	–	121,739	(4,432)	–	–
Transfers to Stage 3	–	(16,650)	–	(288,774)	305,424	–	–
Balance at December 31, 2020	–	724,195	–	1,825,187	626,190	–	3,175,572
Total Receivable from Customer							
Balance at January 1, 2020	–	133,456,123	–	24,740,640	5,917,095	–	164,113,858
New assets originated	–	25,617,497	–	604,760	120,608	–	26,342,865
Assets derecognized or repaid	–	(37,536,190)	–	(7,307,273)	(1,391,998)	–	(46,235,461)
Amounts written off	–	–	–	(104)	(1,074,706)	–	(1,074,810)
Transfers to Stage 1	–	1,928,377	–	(1,785,324)	(143,053)	–	0
Transfers to Stage 2	–	(27,681,160)	–	28,514,622	(833,462)	–	(0)
Transfers to Stage 3	–	(3,941,490)	–	(3,438,937)	7,380,427	–	–
Balance at December 31, 2020	₱–	₱91,843,157	₱–	₱41,328,384	₱9,974,911	₱–	₱143,146,452

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	2019						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Consumption Loans							
Balance as of January 1, 2019	₱–	₱67,601,847	₱–	₱18,853,276	₱3,836,615	₱–	₱90,291,738
New assets originated	–	33,761,304	–	1,130,553	750,727	–	35,642,584
Assets derecognized or repaid	–	(20,290,720)	–	(8,389,391)	(2,138,047)	–	(30,818,158)
Amounts written off	–	(887)	–	(96,334)	(793,449)	–	(890,670)
Transfers to Stage 1	–	8,318,780	–	(8,031,786)	(286,994)	–	–
Transfers to Stage 2	–	(8,990,013)	–	9,624,255	(634,242)	–	–
Transfers to Stage 3	–	(1,002,145)	–	(1,480,706)	2,482,851	–	–
Balance at December 31, 2019	–	79,398,166	–	11,609,867	3,217,461	–	94,225,494
Real Estate Loans							
Balance as of January 1, 2019	–	39,454,721	–	8,890,978	1,626,947	–	49,972,646
New assets originated	–	9,696,243	–	313,396	62,745	–	10,072,384
Assets derecognized or repaid	–	(4,856,753)	–	(2,196,036)	(513,054)	–	(7,565,843)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	2,427,300	–	(2,328,290)	(99,010)	–	–
Transfers to Stage 2	–	(5,257,588)	–	5,600,145	(342,557)	–	–
Transfers to Stage 3	–	(413,998)	–	(723,136)	1,137,134	–	–
Balance at December 31, 2019	–	41,049,925	–	9,557,057	1,872,205	–	52,479,187
Commercial Loans							
Balance as of January 1, 2019	–	11,697,990	–	989,443	215,534	–	12,902,967
New assets originated	–	8,917,394	–	60,822	11,423	–	8,989,639
Assets derecognized or repaid	–	(7,904,145)	–	(220,067)	(82,408)	–	(8,206,620)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	186,641	–	(183,010)	(3,631)	–	–
Transfers to Stage 2	–	(596,200)	–	596,200	–	–	–
Transfers to Stage 3	–	(117,243)	–	(110,918)	228,161	–	–
Balance at December 31, 2019	–	12,184,437	–	1,132,470	369,079	–	13,685,986
Personal Loans							
Balance as of January 1, 2019	₱–	₱866,969	₱–	₱2,269,682	₱389,272	₱–	₱3,525,923
New assets originated	–	386,313	–	937,524	29,349	–	1,353,186
Assets derecognized or repaid	–	(507,349)	–	(464,548)	(31,305)	–	(1,003,202)
Amounts written off	–	(1,084)	–	(44,782)	(106,850)	–	(152,716)
Transfers to Stage 1	–	201,953	–	(200,954)	(999)	–	–
Transfers to Stage 2	–	(111,590)	–	113,010	(1420)	–	–
Transfers to Stage 3	–	(11,617)	–	(168,686)	180,303	–	–
Balance at December 31, 2019	–	823,595	–	2,441,246	458,350	–	3,723,191
Total Receivable from Customer							
Balance at January 1, 2019	–	119,621,527	–	31,003,379	6,068,368	–	156,693,274
New assets originated	–	52,761,254	–	2,442,295	854,244	–	56,057,793
Assets derecognized or repaid	–	(33,558,967)	–	(11,270,042)	(2,764,814)	–	(47,593,823)
Amounts written off	–	(1,971)	–	(141,116)	(900,299)	–	(1,043,386)
Transfers to Stage 1	–	11,134,674	–	(10,744,040)	(390,634)	–	–
Transfers to Stage 2	–	(14,955,391)	–	15,933,610	(978,219)	–	–
Transfers to Stage 3	–	(1,545,003)	–	(2,483,446)	4,028,449	–	–
Balance at December 31, 2019	₱–	₱133,456,123	₱–	₱24,740,640	₱5,917,095	₱–	₱164,113,858

Movements of other receivables as of December 31, 2020 and 2019 follow (in thousands):

	2020						
	Stage 1		**Stage 2**				
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**POCI**	**Total**
Accrued Interest Receivable							
Balance as of January 1, 2020	**₱–**	**₱1,501,735**	**–**	**₱286,804**	**₱460,955**	**₱–**	**₱2,249,494**
New assets originated	**–**	**703,055**	**–**	**2,357,153**	**472,593**	**–**	**3,532,801**
Assets derecognized or repaid	**–**	**(262,412)**	**–**	**(891,385)**	**(28,561)**	**–**	**(1,182,358)**
Amounts written off	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfers to Stage 1	**–**	**1,137,420**	**–**	**(820,476)**	**(316,944)**	**–**	**–**
Transfers to Stage 2	**–**	**(44,242)**	**–**	**357,006**	**(312,764)**	**–**	**–**
Transfers to Stage 3	**–**	**(645,282)**	**–**	**(47,359)**	**692,641**	**–**	**–**
Balance at December 31, 2020	**–**	**2,390,274**	**–**	**1,241,743**	**967,920**	**–**	**4,599,937**
Sales Contract Receivable							
Balance at January 1, 2020	**–**	**22,921**	**–**	**–**	**19,726**	**–**	**42,647**
New assets originated	**–**	**–**	**–**	**–**	**–**	**–**	
Assets derecognized or repaid	**–**	**(1,056)**	**–**	**–**	**(15,782)**	**–**	**(16,838)**
Amounts written off	**–**	**–**	**–**	**–**	**–**	**–**	
Transfers to Stage 1	**–**	**3,945**	**–**	**–**	**(3,945)**	**–**	**–**
Transfers to Stage 2	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfers to Stage 3	**–**	**(21,865)**	**–**	**–**	**21,865**	**–**	**–**
Balance at December 31, 2020	**–**	**3,945**	**–**	**–**	**21,864**	**–**	**25,809**
Total Other Receivables							
Balance at January 1, 2020	**–**	**1,524,656**	**–**	**286,804**	**480,681**	**–**	**2,292,141**
New assets originated	**–**	**703,055**	**–**	**2,357,153**	**472,593**	**–**	**3,532,801**
Assets derecognized or repaid	**–**	**(263,468)**	**–**	**(891,385)**	**(44,343)**	**–**	**(1,199,196)**

(Forward)

	2020						
	Stage 1		**Stage 2**				
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**POCI**	**Total**
Amounts written off	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**
Transfers to Stage 1	**–**	**1,141,365**	**–**	**(820,476)**	**(320,889)**	**–**	**–**
Transfers to Stage 2	**–**	**(44,242)**	**–**	**357,006**	**(312,764)**	**–**	**–**
Transfers to Stage 3	**–**	**(667,147)**	**–**	**(47,359)**	**714,506**	**–**	**–**
Balance at December 31, 2020	**₱–**	**₱2,394,219**	**₱–**	**₱1,241,743**	**₱989,784**	**₱–**	**₱4,625,746**

	2019						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Accrued Interest Receivable							
Balance as of January 1, 2019	₱–	₱1,552,290	₱–	₱339,605	₱414,154	₱–	₱2,306,049
New assets originated	–	600,714	–	119,949	337,023	–	1,057,686
Assets derecognized or repaid	–	(640,761)	–	(145,345)	(328,135)	–	(1,114,241)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	99,677	–	(96,697)	(2,980)	–	–
Transfers to Stage 2	–	(96,995)	–	103,196	(6,201)	–	–
Transfers to Stage 3	–	(13,190)	–	(33,904)	47,094	–	–
Balance at December 31, 2019	–	1,501,735	–	286,804	460,955	–	2,249,494
Sales Contract Receivable							
Balance at January 1, 2019	–	44,600	–	–	26,908	–	71,508
New assets originated	–	22,475	–	–	–	–	22,475
Assets derecognized or repaid	–	(46,030)	–	–	(5,306)	–	(51,336)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	5,320	–	–	(5,320)	–	–
Transfers to Stage 2	–	–	–	–	–	–	–
Transfers to Stage 3	–	(3,444)	–	–	3,444	–	–
Balance at December 31, 2019	–	22,921	–	–	19,726	–	42,647
Total Other Receivables							
Balance at January 1, 2019	–	1,596,890	–	339,605	441,062	–	2,377,557
New assets originated	–	623,189	–	119,949	337,023	–	1,080,161
Assets derecognized or repaid	–	(686,791)	–	(145,345)	(333,441)	–	(1,165,577)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	104,997	–	(96,697)	(8,300)	–	–
Transfers to Stage 2	–	(96,995)	–	103,196	(6,201)	–	–
Transfers to Stage 3	–	(16,634)	–	(33,904)	50,538	–	–
Balance at December 31, 2019	₱–	₱1,524,656	₱–	₱286,804	₱480,681	₱–	₱2,292,141

External Ratings

For investment securities, in ensuring quality investment portfolio, the Bank uses the credit risk rating from published data providers like Moody's, Standard & Poor's (S&P) or other reputable rating agencies.

Presented here is Moody's rating – equivalent S&P rating and other rating agencies applies:

Credit Quality	**External Rating**									
High grade	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3
Standard grade	Ba1	Ba2	Ba3	B1	B2	B3				
Substandard grade	Caa1	Caa2	Caa3	Ca	C					

High grade - represents those investments which fall under any of the following grade:

Aaa - fixed income obligations are judged to be of the highest quality, with the smallest degree of risk.

Aa1, Aa2, Aa3 - fixed income are judged to be of high quality and are subject to very low credit risk, but their susceptibility to long-term risks appears somewhat greater.

A1, A2, A3 - fixed income obligations are considered upper-medium grade and are subject to low credit risk, but have elements present that suggest a susceptibility to impairment over the long term.
Baa1, Baa2, Baa3 - fixed income obligations are subject to moderate credit risk. They are considered medium grade and as such protective elements may be lacking or may be characteristically unreliable.
Standard grade - represents those investments which fall under any of the following grade:

Ba1, Ba2, Ba3 - obligations are judged to have speculative elements and are subject to substantial credit risk.

B1, B2, B3 - obligations are considered speculative and are subject to high credit risk.

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Substandard grade - represents those investments which fall under any of the following grade:

Caa1, Caa2, Caa3 - are judged to be of poor standing and are subject to very high credit risk.

Ca - are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

C - are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

As of December 31, 2020 and 2019 the following tables show the credit quality of loans and advances to banks (in thousands).

	2020						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Due from BSP							
High Grade	**₱31,689,965**	–	–	–	–	–	**₱31,689,965**
Due from other banks							
High Grade	**1,575,447**	–	–	–	–	–	**1,575,447**
Total Loans and Advances to Banks							
High Grade	**₱33,265,412**	–	–	–	–	–	**₱33,265,412**

	2019						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Due from BSP							
High Grade	₱6,816,092	₱–	₱–	₱–	₱–	₱–	₱6,816,092
Due from other banks							
High Grade	1,139,685	–	–	–	–	–	1,139,685
Total Loans and Advances to Banks							
High Grade	₱7,955,777	₱–	₱–	₱–	₱–	₱–	₱7,955,777

As of December 31, 2020 and 2019, the following table shows the credit quality of the Bank's investment securities (in thousands):

	2020						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
FVTPL – Government Debt Securities							
High Grade	**₱50**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱50**
FVTPL – Derivative Asset							
High Grade	–	–	–	–	–	–	–
	50	–	–	–	–	–	**50**
FVOCI – Government Debt Securities							
High Grade	**7,093,132**	–	–	–	–	–	**7,093,132**
	7,093,132	–	–	–	–	–	**7,093,132**
yFVOCI – Private Debt Securities							
Standard Grade	**2,955,869**	–	–	–	–	–	**2,955,869**
	2,955,869	–	–	–	–	–	**2,955,869**
Investment Securities at Amortized Cost							
Government Debt Securities							
High Grade	**11,115,902**	–	–	–	–	–	**11,115,902**
	11,115,902	–	–	–	–	–	**11,115,902**
Investment Securities at Amortized Cost							
Private Debt Securities							
Standard Grade	**2,642,544**	–	–	–	–	–	**2,642,544**
	2,642,544	–	–	–	–	–	**2,642,544**
Total Investment Securities							
High Grade	**18,209,084**	–	–	–	–	–	**18,209,084**
Standard Grade	**5,598,413**	–	–	–	–	–	**5,598,413**
	₱23,807,497	–	–	–	–	–	**₱23,807,497**

	2019						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
FVTPL – Government Debt Securities							
High Grade	₱44	₱–	₱–	₱–	₱–	₱–	₱44
FVTPL – Derivative Asset							
High Grade	–	–	–	–	–	–	–
	44	–	–	–	–	–	44
FVOCI – Government Debt Securities							
High Grade	1,855,048	–	–	–	–	–	1,855,048
	1,855,048	–	–	–	–	–	1,855,048
FVOCI – Private Debt Securities							
Standard Grade	2,908,569	–	–	–	–	–	2,908,569
	2,908,569	–	–	–	–	–	2,908,569
Investment Securities at Amortized Cost– Government Debt Securities							
High Grade	30,806,854	–	–	–	–	–	30,806,854
	30,806,854	–	–	–	–	–	30,806,854
Investment Securities at Amortized Cost Private Debt Securities							
Standard Grade	3,452,646	–	–	–	–	–	3,452,646
	3,452,646	–	–	–	–	–	3,452,646
Total Investment Securities							
High Grade	32,661,946	–	–	–	–	–	32,661,946
Standard Grade	6,361,215	–	–	–	–	–	6,361,215
	₱39,023,161	₱–	₱–	₱–	₱–	₱–	₱39,023,161

All of the Bank’s loan commitments and financial guarantees amounting to ₱41.8 million and ₱84.0 million as of December 31, 2020 and 2019, respectively, are classified as high grade under Stage 1.

ECL Methodology Overview

ECL represent credit losses that reflect an unbiased and probability-weighted amount which 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.

The objective of the new impairment standard is to record lifetime losses on all financial instruments which have experienced a SICR since their initial recognition. As a result, ECL allowances will be measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument. In comparison, the incurred loss model recognizes lifetime credit losses only when there is objective evidence of impairment.

Staging assessment

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

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

Two modelling approaches were employed to build a consistent framework for the development of all ECL models of the Bank. Both modeling approaches consider past events, current conditions and forecast of economic conditions in assessing impairment.

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The complex model approach is used for portfolios with a significant number of historical defaults. This approach was applied to the consumer loan portfolios. These quantitative models are built by applying statistical, economic, financial or mathematical theories, techniques and assumptions to calculate provisions. Where historical data are insufficient to develop statistical models, such as for Business Loans, Account Receivables, Sales Contract Receivables, etc. the simplified ECL approach was employed. The Bank observed the historical PD and LGD of the portfolio and applied forward looking economic data on PD to calculate the ECL.

Classification of Individual/Collective Impairment
The Bank calculates provisions either in a collective or individual basis.

Collective impairment calculates risk provisions by grouping exposures into smaller homogeneous portfolios based on a combination of borrower and account characteristics. Accounts with similar risk attributes (i.e. facility, security, credit rating, months-on-books, utilization and collateral type, etc.) are pooled together for calculating provisions based on the expected credit loss models. All Stage 1 and 2 accounts of the Bank are categorized under collective impairment.

Individual impairment is applicable for all accounts under Stage 3 or accounts deemed as significant exposures and show objective evidence of impairment. The indicators may be default in payment, restructuring, litigation or probable foreclosure.

As of December 31, 2020 and 2019, an analysis by past due status of receivables from customers wherein the SICR is based only on the past due information is as follows:

	2020					
	Number of days past due					
	Up to 30 days	**31-60 days**	**61-90 days**	**91-180 days**	**180 days**	**Total**
Receivables from customers						
Consumption loans	**₱924,127**	**₱2,091,203**	**₱631,221**	**₱1,157,703**	**₱3,074,401**	**₱7,878,655**
Real estate loans	**848,587**	**1,159,972**	**268,275**	**532,054**	**1,531,130**	**4,340,018**
Commercial loans	**865,217**	**125,668**	**90,676**	**61,573**	**332,496**	**1,475,630**
Personal loans	**255,260**	**24,277**	**16,164**	**97,700**	**344,168**	**737,569**
Total	**₱2,893,191**	**₱3,401,120**	**₱1,006,336**	**₱1,849,030**	**₱5,282,195**	**₱14,431,872**

	2019					
	Number of days past due					
	Up to 30 days	31-60 days	61-90 days	91-180 days	180 days	Total
Receivables from customers						
Consumption loans	₱360,449	₱3,200,910	₱1,301,109	₱1,381,059	₱1,010,401	₱7,253,928
Real estate loans	449,432	1,718,691	405,482	317,712	675,717	3,567,034
Commercial loans	635,520	52,688	80,300	15,607	171,120	955,235
Personal loans	125,988	30,957	19,514	41,404	321,394	539,257
Total	₱1,571,389	₱5,003,246	₱1,806,405	₱1,755,782	₱2,178,632	₱12,315,454

b. Market risk

Market risk management covers the areas of trading and interest rate risks. The Bank utilizes various measurement and monitoring tools to ensure that risk-taking activities are managed within instituted market risk parameters. The Bank revalues its trading portfolios on a daily basis and checks the revenue or loss generated by each portfolio in relation to their level of market risk.

The Bank's risk policies and implementing guidelines are regularly reviewed by the Assets and Liabilities Committee (ALCO), ROC and BOD to ensure that these are up-to-date and in line with changes in the economy, environment and regulations. The ROC and the BOD set the comprehensive market risk limit structure and define the parameters of market activities that the Bank can engage in.

Market risk is the risk to earnings and capital arising from changes in the value of traded portfolios of financial instruments (trading market risk) and from movements in interest rates (interest rate risk). The Bank's market risk originates primarily from holding peso and dollar-denominated debt securities. The Bank utilizes Value-at-Risk (VaR) to measure and manage market risk exposure. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, for a given confidence level over a specified holding period.

Trading activities
The Bank's trading portfolios are currently composed of peso and dollar-denominated fixed income securities that are marked-to-market daily. The Bank also uses VaR to measure the extent of market risk exposure arising from these portfolios.

VaR is a statistical measure that calculates the maximum potential loss from a portfolio over a holding period, within a given confidence level. The Bank's current VaR model uses historical simulation for Peso and USD HFT portfolios with confidence level at 99.00% and a 1 day holding period. It utilizes a 250 days rolling data most recently observed daily percentage changes in price for each asset class in its portfolio.

VaR reports are prepared on a daily basis and submitted to Treasury Group and RMO. VaR is also reported to the ROC and BOD on a monthly basis. The President, ROC and BOD are advised of potential losses that exceed prudent levels or limits.

When there is a breach in VaR limits, Treasury Group is expected to close or reduce their position and bring it down within the limit unless approval from the President is obtained to retain the same. All breaches are reported to the President for regularization. In addition to the regularization and approval of the President, breaches in VaR limits and special approvals are likewise reported to the ROC and BOD for their information and confirmation.

Back-testing is employed to verify the effectiveness of the VaR model. The Bank performs back-testing to validate the VaR model and stress testing to determine the impact of extreme market movements on the portfolios. Results of backtesting are reported to the ROC and BOD on a monthly basis. Stress testing is also conducted, based on historical maximum percentage daily movement and on an ad-hoc rate shock to estimate potential losses in a crisis situation.

The Bank has established limits, VaR, stop loss limits and loss triggers, for its trading portfolios. Daily profit or losses of the trading portfolios are closely monitored against loss triggers and stop-loss limits.

Responsibility for managing the Bank's trading market risk remains with the ROC. With the support of RMO, the ROC recommends to the BOD changes in market risk limits, approving authorities and other activities that need special consideration.

Discussed below are the limitations and assumptions applied by the Bank on its VaR methodology:

a. VaR is a statistical estimate and thus, does not give the precise amount of loss;
b. VaR is not designed to give the probability of bank failure, but only attempts to quantify losses that may arise from a bank's exposure to market risk;
c. Historical simulation does not involve any distributional assumptions, scenarios that are used in computing VaR are limited to those that occurred in the historical sample; and
d. VaR systems are backward-looking. It attempts to forecast likely future losses using past data. As such, this assumes that past relationships will continue to hold in the future. Major shifts therefore (i.e., an unexpected collapse of the market) are not captured and may inflict losses much bigger than anything the VaR model may have calculated.

The Bank's interest rate VaR follows (in thousands):

	December 31, 2020		December 31, 2019	
	Peso	**USD**	Peso	USD
Year-end	**4**	**–**	1	–
Average	**4,978**	**–**	2	–
High	**27,431**	**–**	2	–
Low	**1**	**–**	1	–

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Non-trading activities
The Bank follows a prudent policy on managing its assets and liabilities to ensure that fluctuations in interest rates are kept within acceptable limits.

One method by which the Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of "gap" analysis. This analysis provides the Bank with a static view of the maturity and repricing characteristics of the positions in its statement of condition. An interest rate gap report is prepared by classifying all assets and liabilities into various time period categories according to contracted maturities or anticipated repricing dates, whichever is earlier. Non-maturing deposits are considered as rate sensitive liabilities; no loan pre-payments assumptions are used. The difference in the amount of assets and liabilities maturing or being repriced in any time period category would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The interest rate sensitivity gap report measures interest rate risk by identifying gaps between the repricing dates of assets and liabilities. The Bank's sensitivity gap model calculates the effect of possible rate movements on its interest rate profile.

The Bank uses sensitivity gap model to estimate Earnings-at-Risk (EaR) should interest rates move against its interest rate profile. The Bank's EaR limits are based on a percentage of the Bank's projected earnings for the year or capital whichever is lower. The Bank also performs stress-testing to measure the impact of various scenarios based on interest rate volatility and shift in the yield curve. The EaR and stress testing reports are prepared on a monthly basis.

The ALCO is responsible for managing the Bank's structural interest rate exposure. The ALCO's goal is to achieve a desired overall interest rate profile while remaining flexible to interest rate movements and changes in economic conditions. The RMO and ROC review and oversee the Bank's interest rate risks.

The table below demonstrates the sensitivity of equity. Equity sensitivity was computed by calculating mark-to-market changes of debt securities at FVOCI, assuming a parallel shift in the yield curve.

	2020		2019	
	Change in basis points	**Sensitivity of equity**	Change in basis points	Sensitivity of equity
Currency				
PHP	**+10**	**(₱6,872,062)**	+10	(₱11,182,809)
USD	**+10**	**(908,854)**	+10	(988,516)
Currency				
PHP	**-10**	**6,890,109**	-10	11,232,671
USD	**-10**	**913,361**	-10	994,210

The table below demonstrates the sensitivity of net interest income using the EAR model. Net interest income sensitivity was computed by calculating the changes in the banking book gaps assuming a parallel shift in the yield curve.

	2020		2019	
	Change in basis points	**Sensitivity of NII**	Change in basis points	Sensitivity of NII
Currency				
PHP	**+10**	**(₱7,785,315)**	+10	(₱52,113,451)
USD	**+10**	**(9,288,433)**	+10	(9,332,602)
Currency				
PHP	**-10**	**7,785,315**	-10	52,113,451
USD	**-10**	**9,288,433**	-10	9,332,602

Foreign Currency Risk
Foreign currency risk is the risk of an investment's value changing due to an adverse movement in currency exchange rates. It arises due to a mismatch in the Bank's foreign currency assets and liabilities.

The Bank's policy is to maintain foreign currency exposure within the approved position, stop loss, loss trigger, VaR limits and to remain within existing regulatory guidelines. To compute for VaR, the Bank uses historical simulation model for USD/PHP FX position, with confidence level at 99.00% and a 1 day holding period. The Bank's VaR for its foreign exchange position for trading and non-trading activities are as follows (in thousands):

	2020[1]	2019[1]
As of year-end	**₱848**	₱978
Average	**900**	751
High	**1,627**	1,326
Low	**2**	8

[1]*Using METRISK Historical Simulation VaR*

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

	2020	2019
Assets		
Cash	**$822**	$1,080
Due from other banks	**18,939**	1,463
Financial assets at FVOCI	**4,551**	8,818
Investment at amortized cost	**251,384**	259,332
Other assets	**10,394**	10,872
Total assets	**286,090**	281,565
Liabilities		
Deposit liabilities		
Savings	**55,857**	52,619
Time	**222,463**	224,198
Other liabilities	**1,088**	2,675
Total liabilities	**279,408**	279,492
Net exposure	**$6,682**	$2,073

c. *Liquidity risk*

The Bank's policy on liquidity management emphasizes on three elements of liquidity, namely, cashflow management, ability to borrow in the interbank market, and maintenance of a stock of high-quality liquid assets. These three approaches complement one another with greater weight being given to a particular approach, depending upon the circumstances. The Bank's objective in liquidity management is to ensure that the Bank has sufficient liquidity to meet obligations under normal and adverse circumstances and is able to take advantage of lending and investment opportunities as they arise.

The main tool that the Bank uses for monitoring its liquidity is the Maximum Cumulative Outflow (MCO) reports, which is also called liquidity gap or maturity matching gap reports. The MCO is a useful tool in measuring and analyzing the Bank's cash flow projections and monitoring liquidity risks. The liquidity gap report shows the projected cash flows of assets and liabilities representing estimated funding sources and requirements under normal conditions, which also forms the basis for the Bank's Liquidity Contingency Funding Plan (LCFP). The LCFP projects the Bank's funding position during stress to help evaluate the Bank's funding needs and strategies under various stress conditions.

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The Bank discourages dependence on Large Funds Providers (LFPs) and monitors the deposit funding concentrations so that it will not be vulnerable to a substantial drop in deposit level should there be an outflow of large deposits and there is enough high-quality liquid assets to fund LFP withdrawals. ALCO is responsible for managing the liquidity of the Bank while RMO and ROC review and oversee the Bank's overall liquidity risk management.

To mitigate potential liquidity problems caused by unexpected withdrawals of significant deposits, the Bank takes steps to cultivate good business relationships with clients and financial institutions, maintains high level of high-quality liquid assets, monitors the deposit funding concentrations and regularly updates the Liquidity Contingency Funding Plan. Beginning 2019, the Bank manages and monitors its Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) on a daily basis to ensure compliance with the required regulatory ratios.

Financial assets
Analysis of equity and debt securities at FVTPL and financial assets at FVOCI into maturity groupings is based on the expected date on which these assets will be realized. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

Financial liabilities
The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date and does not consider the behavioral pattern of the creditors. When the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Bank can be required to pay.

Analysis of Financial Assets and Liabilities by Remaining Maturities
The tables below show the maturity profile of the Bank's financial assets and liabilities based on contractual undiscounted repayment obligations (in millions):

	2020							
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	Total
Financial Assets								
Financial assets at FVOCI								
Government securities	₱–	₱4,000	₱10	₱1,826	₱1,284	₱7,120	₱1	₱7,121
Private securities	–	1	699	216	92	1,008	2,362	3,370
Quoted equity securities	–	–	–	–	–	–	10	10
Investment securities at amortized cost								
Government bonds	–	10	25	24	303	362	14,000	14,362
Private securities	–	1	7	839	48	895	2,094	2,989
Loans and receivables								
Loans and advances to banks	–	–	–	–	–	–	–	–
Due from BSP	5,493	26,207	–	–	–	31,700	–	31,700
Due from other banks	1,575	–	–	–	–	1,575	–	1,575
Interbank loans receivable and SPURA	–	5,447	–	–	–	5,447	–	5,447
Receivables from customers								
Consumption loans	2	2,326	4,735	7,244	16,164	30,471	65,565	96,036
Real estate loans	88	601	1,624	2,420	4,749	9,482	67,052	76,534
Commercial loans	1,278	1,215	981	1,074	1,662	6,210	6,871	13,081
Personal loans	157	121	397	647	1,303	2,625	756	3,381
Other receivables								
Accrued interest receivable	3,132	489	196	143	450	4,410	190	4,600
Accounts receivable	1,538	167	43	8	20	1,776	492	2,268
Sales contract receivable	21	2	0	0	0	23	2	25
Bills purchased	5	–	–	–	–	5	–	5
Other assets								
Security deposits	–	1	2	2	15	20	182	202
RCOCI	12	–	–	–	–	12	–	12
Overages	–	–	–	–	–	–	–	–
	₱13,301	₱40,588	₱8,719	₱14,443	₱26,090	₱103,141	₱159,577	₱262,718
Financial Liabilities								
Deposit liabilities								
Demand	₱25,523	₱–	₱–	₱–	₱–	₱25,523	₱–	₱25,523
Savings	41,724	–	–	–	–	41,724	–	41,724
Time	–	57,709	13,994	3,522	2,667	77,892	15,555	93,447
LTNCD	–	29	63	93	185	370	8,940	9,310
	67,247	57,738	14,057	3,615	2,852	145,509	24,495	170,004
Bills payable	–	–	–	–	–	–	–	–
Treasurer's, cashier's and manager's checks	531	–	–	–	–	531	–	531
Bonds payable	–	38	87	146	6,300	6,571	4,910	11,481
Accrued interest payable	–	–	163	–	101	264	–	264
Accrued other expenses payable	–	1,161	193	–	165	1,519	–	1,519
Other liabilities								
Accounts payable	2,073	–	–	–	–	2,073	–	2,073
Lease liability	–	37	72	106	197	412	1,190	1,602
Other credits	179	–	–	–	–	179	–	179
Bills purchased - contra	5	–	–	–	–	5	–	5
Due to Treasurer of the Philippines	20	–	–	–	–	20	–	20
Deposit for keys	1	–	–	–	–	1	–	1
Payment order payable and overages	2	–	–	–	–	2	–	2
	₱70,058	₱58,974	₱14,572	₱3,867	₱9,615	₱157,086	₱30,595	₱187,681

	2019							
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	Total
Financial Assets								
Financial assets at FVOCI								
Government securities	₱–	₱61	₱3	₱865	₱83	₱1,012	₱1,123	₱2,135
Private securities	–	–	30	25	79	134	3,407	3,541
Quoted equity securities	–	–	–	–	–	–	12	12
Investment securities at amortized cost								
Government bonds	–	25	109	159	1,890	2,183	38,484	40,667
Private securities	–	1	37	49	236	323	3,692	4,015
Loans and receivables								
Loans and advances to banks								
Due from BSP	6,816	–	–	–	–	6,816	–	6,816
Due from other banks	1,140	–	–	–	–	1,140	–	1,140
Interbank loans receivable and SPURA	–	–	–	–	–	–	–	–
Receivables from customers								
Consumption loans	–	2,641	5,373	8,246	18,184	34,444	81,745	116,189
Real estate loans	72	601	1,524	2,417	5,259	9,873	69,746	79,619
Commercial loans	182	732	1,562	1,604	3,103	7,183	9,389	16,572
Personal loans	107	112	366	757	1,778	3,120	901	4,021
Other receivables								
Accrued interest receivable	726	1,182	251	90	–	2,249	–	2,249
Accounts receivable	500	9	7	10	1,375	1,901	–	1,901
Sales contract receivable	4	–	–	1	1	6	37	43
Bills purchased	9	–	–	–	–	9	–	9
Other assets								
Security deposits	–	–	1	4	8	13	172	185
RCOCI	29	–	–	–	–	29	–	29
	₱9,585	₱5,364	₱9,263	₱14,227	₱31,996	₱70,435	₱208,708	₱279,143
Financial Liabilities								
Deposit liabilities								
Demand	₱22,491	₱–	₱–	₱–	₱–	₱22,491	₱–	₱22,491
Savings	35,692	–	–	–	–	35,692	–	35,692
Time	–	72,496	11,071	4,438	2,490	90,495	17,511	108,006
LTNCD	–	–	–	–	–	–	9,647	9,647
	58,183	72,496	11,071	4,438	2,490	148,678	27,158	175,836
Bills payable	–	1,201	–	3,219	–	4,420	–	4,420
Bonds payable	–	–	–	–	353	353	6,653	7,006
Treasurer's, cashier's and manager's checks	1,298	–	–	–	–	1,298	–	1,298
Accrued interest payable	–	–	366	–	68	434	–	434
Accrued other expenses payable	–	666	–	–	178	844	–	844
Other liabilities								
Accounts payable	–	–	–	2,384	–	2,384	–	2,384
Lease liability	–	38	75	110	209	432	1,378	1,810
Other credits	171	–	–	–	–	171	–	171
Bills purchased - contra	9	–	–	–	–	9	–	9
Deposit for keys	1	–	–	–	–	1	–	1
Payment order payable and overages	15	–	–	–	–	15	2	17
	₱59,677	₱74,401	₱11,512	₱10,151	₱3,298	₱159,039	₱35,191	₱194,230

6. Segment Information

The Bank's operating segments are organized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit that offers different products and serves different markets. The Bank's reportable segments are as follows:

a. Consumer Banking - principally provides consumer-type loans generated by the Home Office;
b. Branch Banking - serves as the Bank's main customer touch point which offers consumer and corporate banking products; and
c. Treasury - principally handles institutional deposit accounts, providing money market, trading and treasury services, as well as managing the Bank's funding operations by use of government securities and placements and acceptances with other banks.

These segments are the bases on which the Bank reports its primary segment information. The Bank evaluates performance on the basis of information about the components of the Bank that senior management uses to make decisions about operating matters. There are no other operating segments than those identified by the Bank as reportable segments. There were no inter-segment revenues and expenses included in the financial information. The Bank has no single customer with revenues from which is 10.00% or more of the Bank's total revenue.

NOTES TO FINANCIAL STATEMENTS

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Primary segment information (by business segment) for the years ended December 31, 2020, 2019 and 2018 follows (in thousands):

	2020				
	Consumer Banking	**Corporate Banking**	**Branch Banking**	**Treasury**	**Total**
Operating income					
Interest income	**₱5,590,536**	**₱338,152**	**₱9,506,438**	**₱1,882,779**	**₱17,317,905**
Service fees and commission	**491,090**	**26,410**	**790,710**	–	**1,308,210**
Other operating income	**(626,805)**	**2,529**	**509,880**	**1,673,561**	**1,559,165**
Total operating income	**5,454,821**	**367,091**	**10,807,028**	**3,556,340**	**20,185,280**
Non-cash expenses					
Provision for credit and impairment losses	**5,380,020**	**946**	**903,364**	**112,929**	**6,397,259**
Depreciation	**291,537**	**2,981**	**603,670**	**1,358**	**899,546**
Amortization of intangible assets	**46,810**	**1,620**	**78,217**	**1,490**	**128,137**
Total non-cash expenses	**5,718,367**	**5,547**	**1,585,251**	**115,777**	**7,424,942**
Interest expense	–	–	**2,305,181**	**1,259,771**	**3,564,952**
Service fees and commission expense	**19,080**	**1,026**	**30,720**	–	**50,826**
Subtotal	**19,080**	**1,026**	**2,335,901**	**1,259,771**	**3,615,778**
Compensation and fringe benefits	**919,959**	**66,207**	**2,608,604**	**40,853**	**3,635,623**
Taxes and licenses	**463,297**	**26,388**	**654,844**	**427,340**	**1,571,869**
Occupancy and equipment-related costs	**91,401**	**1,408**	**269,682**	**915**	**363,406**
Security, messengerial and janitorial services	**140,600**	**2,111**	**294,558**	**1,122**	**438,391**
Miscellaneous	**647,377**	**20,911**	**1,311,052**	**105,481**	**2,084,821**
Subtotal	**2,262,634**	**117,025**	**5,138,740**	**575,711**	**8,094,110**
Income (loss) before share in net income of a joint venture and income tax	**(₱2,545,260)**	**₱243,493**	**₱1,747,136**	**₱1,605,081**	**₱1,050,450**
Share in net income of a joint venture					**40,299**
Income before income tax					**1,090,749**
Benefit from income tax					**17,463**
Net income					**₱1,108,212**
Segment assets	**₱105,751,619**	**₱5,937,683**	**₱49,680,287**	**₱55,247,395**	**₱216,616,984**
Investment in a joint venture					**705,477**
Deferred tax assets					**2,091,141**
Total assets					**₱219,413,602**
Segment liabilities	**₱1,166,309**	**₱61,816**	**₱145,381,035**	**₱38,293,714**	**₱184,902,874**

	2019				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱5,683,072	₱636,212	₱7,944,839	₱3,148,365	₱17,412,488
Service fees and commission	751,205	46,520	1,154,217	–	1,951,942
Other operating income	402,361	39,901	647,700	289,877	1,379,839
Total operating income	6,836,638	722,633	9,746,756	3,438,242	20,744,269
Non-cash expenses					
Provision for credit and impairment losses	1,705,844	203,450	305,696	–	2,214,990
Depreciation	239,093	3,768	666,070	1,411	910,342
Amortization of intangible assets	47,584	1,833	83,938	1,700	135,055
Total non-cash expenses	1,992,521	209,051	1,055,704	3,111	3,260,387
Interest expense	–	–	3,256,615	2,797,004	6,053,619
Service fees and commission expense	34,035	2,107	52,295	–	88,437
Subtotal	34,035	2,107	3,308,910	2,797,004	6,142,056
Compensation and fringe benefits	902,472	74,994	2,503,848	39,300	3,520,614
Taxes and licenses	485,330	32,038	651,230	381,156	1,549,754
Occupancy and equipment-related costs	81,561	966	239,196	607	322,330
Security, messengerial and janitorial services	147,003	3,072	301,961	1,027	453,063
Miscellaneous	646,978	24,432	1,219,616	132,165	2,023,191
Subtotal	2,263,344	135,502	4,915,851	554,255	7,868,952
Income (loss) before share in net income of a joint venture and income tax	₱2,546,738	₱375,973	₱466,291	₱83,872	₱3,472,874
Share in net income of a joint venture					105,905
Income before income tax					3,578,778
Provision for income tax					550,441
Net income					₱3,028,338
Segment assets	₱121,477,767	₱7,663,702	₱53,884,306	₱39,727,128	₱222,752,903
Investment in a joint venture					755,781
Deferred tax assets					1,398,137
Total assets					₱224,906,821
Segment liabilities	₱1,133,833	₱70,337	₱134,505,605	₱54,739,773	₱190,449,548

7. Due from Bangko Sentral ng Pilipinas, Interbank Loans Receivable and Securities Purchased Under Resale Agreements

Due from Bangko Sentral ng Pilipinas
This account consists of the following:

	2020	2019
Demand deposit	**₱5,492,964,554**	₱6,816,092,181
Term deposit facility	**15,000,000,000**	–
Overnight deposit facility	**11,197,000,000**	–
	31,689,964,554	6,816,092,181
Less allowance for impairment losses (Note 15)	**(988,734)**	(1,226,349)
	₱31,688,975,820	₱6,814,865,832

Interbank Loans Receivable and Securities Purchased Under Resale Agreements
This account consists of securities purchased under resale agreements (SPURA) amounting to ₱5.4 billion and nil as of December 31, 2020 and 2019, respectively.

SPURA are lending to counterparties collateralized by government securities ranging from one to six days. As of December 31, 2020, the fair value of government securities held as collateral amounted to ₱5.4 billion. The Bank is not permitted to sell or repledge the related collateral in the absence of default by the counterparty.

Interbank call loans (IBCL) represents short-term lending with counterparty banks and other financial institutions. These are highly liquid instruments which mature within one to five days.

Interest income on Due from BSP, SPURA and IBCL are as follows:

	2020	2019	2018
Due from BSP	**₱221,893,610**	₱831,792	₱16,662,587
IBCL and SPURA			
IBCL (Note 29)	**7,425,187**	24,821,923	57,403,569
SPURA	**77,631,132**	5,318,536	32,319,801
	85,056,319	30,140,459	89,723,370
	₱306,949,929	₱30,972,251	₱106,385,957

SPURA of the Bank bears annual interest rate ranging from 2.00% to 4.00% in 2020, and from 4.00% to 4.75% in 2019, while peso-denominated IBCL of the Bank bear annual interest rate ranging from 2.41% to 3.91% in 2020, and from 4.00% to 5.16% in 2019. Foreign currency-denominated IBCL bear annual interest rates ranging from 0.02% to 2.48% in 2019.

8. Investment Securities

Fair Value Through Profit or Loss (FVTPL) Investments
Fair value through profit or loss investments consist of the following:

	2020	2019
Derivatives with positive fair value	**₱–**	₱–
Investment securities at FVTPL	**50,189**	43,674
Financial assets at FVTPL	**₱50,189**	₱43,674
Derivatives with negative fair value	**₱–**	₱–
Financial liabilities at FVTPL	**₱–**	₱–

NOTES TO FINANCIAL STATEMENTS

On August 19, 2009, the BSP approved the Bank's application for Type 3 Limited User Authority for plain vanilla foreign exchange (FX) forwards, which is limited to outright buying or selling of FX forwards at a specific price and date in the future and do not include non-deliverable forwards.

Movements in fair value changes of derivative with positive fair value are as follows:

	2020	2019
Balance at beginning of year	**₱–**	₱10,073,132
Fair value changes during the year	**–**	–
Settled transactions	**–**	(10,073,132)
Balance at end of year	**₱–**	₱–

Movements in fair value changes of derivative with negative fair value are as follows:

	2020	2019
Balance at beginning of year	**₱–**	(₱2,895,073)
Fair value changes during the year	**–**	–
Settled transactions	**–**	2,895,073
Balance at end of year	**₱–**	₱–

The unrealized portion of the trading securities gains (losses) on FVTPL investments amounted to (₱0.1 million), ₱0.01 million and (₱16.9 million) for 2020, 2019 and 2018, respectively.

Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)
Financial assets at FVOCI consist of the following:

	2020	2019
Debt securities		
Government	**₱7,093,131,657**	₱1,855,048,199
Private	**2,955,868,653**	2,908,569,047
Equity securities		
Quoted	**10,232,495**	11,771,221
	₱10,059,232,805	₱4,775,388,467

As of December 31, 2020 and 2019, the ECL on financial assets at FVOCI (included in 'Fair value reserves on financial assets at FVOCI') amounted to ₱4.9 million and ₱3.4 million (Note 15), respectively.

Movements in the fair value reserves on financial assets at FVOCI follow:

	2020	2019
Balance at beginning of year	**(₱18,931,431)**	(782,896,279)
Gain from sale of financial assets at FVOCI realized in profit or loss	**(248,061,431)**	(224,424,552)
Changes in allowance for ECL (Note 15)	**1,473,605**	(6,538,008)
Fair value gain recognized in OCI	**278,577,437**	994,927,408
Balance at end of year	**₱13,058,180**	(₱18,931,431)

As of December 31, 2020 and 2019, the Bank deposited financial assets at FVOCI with total carrying value of ₱114.1 million and ₱143.2 million, respectively, in the form of government bonds with BSP, in compliance with trust regulations (Note 30).

Investment Securities at Amortized Cost
Investment securities at amortized cost consist of the following:

	2020	2019
Debt securities		
Government	**₱11,115,902,457**	₱30,806,854,231
Private	**2,642,544,034**	3,452,645,653
	13,758,446,491	34,259,499,884
Less allowance for credit losses (Note 15)	**22,447,353**	25,525,068
	₱13,735,999,138	₱34,233,974,816

As of December 31, 2020 and 2019, investment securities at amortized cost include Bureau of Treasury bonds pledged by the Bank to MBTC to secure its payroll account with MBTC with total carrying value of ₱59.6 million and ₱66.3 million, respectively.

In 2020, the Bank sold investment securities classified as investment securities at amortized cost with total carrying amount of ₱19.6 billion resulting in gain on disposal of investment securities at amortized cost totaling ₱1.3 billion. The sale was made as there were changes in the Bank's funding requirements given its assessment on the impact of a prolonged pandemic. In aggregate, the sale in 2020 is not inconsistent with the Bank's HTC business model as the sale was considered infrequent even if significant in value. Accordingly, the remaining investment securities in the affected HTC portfolio continue to be measured at amortized cost. Further, the Bank assessed that the sale did not reflect a change in the Bank's objectives for the HTC business model.

Interest income on investment securities consists of:

	2020	2019	2018
Interest income recognized using EIR			
Investment securities at amortized cost	**₱954,314,757**	₱1,424,666,633	₱1,429,497,897
Financial assets at FVOCI	**344,157,041**	471,590,813	555,859,754
	1,298,471,798	1,896,257,446	1,985,357,651
Interest income recognized using nominal interest rates			
FVTPL investments	**45,039,478**	2,152	9,088,886
	₱1,343,511,276	₱1,896,259,598	₱1,994,446,537

Peso-denominated financial assets at FVOCI investments bear nominal annual interest rates ranging from 4.00% to 8.13% in 2020 and 2019, and from 2.13% to 8.13% in 2018 while foreign currency-denominated FVOCI investments bear nominal annual interest rates of 5.88% in 2020 and 2019, and ranging from 3.00% to 10.63% in 2018. EIR on financial assets at FVOCI investments as of December 31, 2020, 2019, and 2018, range from 4.00% to 8.00%, from 4.08% to 8.46%, and from 2.47% to 8.14%, respectively.

On the other hand, peso-denominated investment securities at amortized cost bear EIR ranging from 4.82% to 6.88% in 2020, from 3.43% to 14.74% in 2019, and from 3.70% to 4.87% in 2018 , while foreign currency-denominated amortized cost investments bear EIR ranging from 3.00% to 9.50%, from 3.05% to 9.97%, and from 3.00% to 4.75%, in 2020, 2019 and 2018, respectively.

Trading and securities gains (losses) - net on investment securities consist of:

	2020	2019	2018
FVTPL investments (Note 29)	**₱106,368,615**	(₱432,107)	(₱41,018,773)
Financial assets at FVOCI	**248,061,431**	224,424,552	(92,278,733)
	₱353,430,046	₱223,992,445	(₱133,297,506)

NOTES TO FINANCIAL STATEMENTS

9. Loans and Receivables

This account consists of:

	2020	2019
Receivables from customers		
Consumption loans	**₱78,774,777,476**	₱94,226,205,291
Real estate loans	**50,568,710,722**	52,479,186,928
Commercial loans	**11,055,130,498**	13,685,986,537
Personal loans (Note 29)	**3,175,571,735**	3,723,190,784
	143,574,190,431	164,114,569,540
Less unearned discounts and capitalized interest	**(427,738,496)**	711,180
	143,146,451,935	164,113,858,360
Other receivables		
Accrued interest receivable	**4,599,937,201**	2,249,493,941
Accounts receivable (Note 29)	**2,267,294,584**	1,901,309,701
Sales contract receivables	**25,809,417**	42,646,790
Bills purchased (Note 19)	**4,595,741**	8,798,803
	150,044,088,878	168,316,107,595
Less allowance for credit losses (Note 15)	**7,519,744,354**	3,931,905,382
	₱142,524,344,524	₱164,384,202,213

Personal loans comprise deposit collateral loans, employee salary and consumer loan products such as money card, multi-purpose loan and flexi-loan.

As of December 31, 2020, 2019 and 2018, 42.92%, 33.74%, and 39.93%, respectively, of the total receivables from customers are subject to periodic interest repricing with average EIR of 7.68%, 7.66%, and 7.41% in 2020, 2019 and 2018. Remaining receivables earn average annual fixed interest rates of 16.69%, 15.78%, and, 14.90% in 2020, 2019 and 2018, respectively.

Interest income on loans and receivables consists of:

	2020	2019	2018
Receivables from customers			
Consumption loans	**₱9,276,969,797**	₱9,144,507,633	₱8,608,117,368
Real estate loans	**4,122,505,005**	3,974,463,324	3,482,931,036
Personal loans (Note 29)	**1,356,660,047**	1,422,610,233	1,388,759,417
Commercial loans	**905,767,767**	932,004,186	781,469,660
Other receivables			
Sales contract receivables	**4,363,171**	7,604,057	7,528,142
	₱15,666,265,787	₱15,481,189,433	₱14,268,805,623

Interest income from restructured loans amounted to ₱7.1 million, ₱8.3 million and ₱8.9 million in 2020, 2019 and 2018, respectively.

On March 25, 2020, Republic Act No. 11469, otherwise known as the Bayanihan to Heal as One Act ("Bayanihan 1 Act") was enacted. Bayanihan 1 Act provides that all covered institutions shall implement a 30-day grace period for all loans with principal and/or interest and lease amortization falling due within the ECQ Period without incurring interest on interest, penalties, fees and other charges. Subsequently, on September 11, 2020, Republic Act No. 11494, otherwise known as the Bayanihan to Recover as One Act ("Bayanihan 2 Act"), was enacted. Under Bayanihan 2 Act, a one-time sixty (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 interests, penalties, fees, or other charges and thereby extending the maturity of the said loans. Furthermore, a minimum 30-day grace period shall also be granted by covered institutions to all payments due within the period of community quarantine on rent and utility-related expenditures without incurring penalties, interest and other charges.

Total modification loss recognized in the statement of income under 'Miscellaneous income' amounted to ₱426.52 million (Note 23).

10. **Investment in a Joint Venture**

The Bank's investment in a joint venture represents its 30.00% interest in Sumisho Motor Finance Corporation (SMFC) as of December 31, 2020 and 2019.

SMFC was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on November 26, 2009 and started commercial operations in March 2010. Its principal office is located at 12th Floor, PSBank Center, 777 Paseo de Roxas corner Sedeño Street, Makati City.

SMFC is engaged in the business of lending or leasing to retail customers for their purchase of motorcycles.

Management has assessed that the Bank continues to have joint control over SMFC together with GT Capital, Sumitomo Japan and Sumitomo Corporation of the Philippines (Sumitomo Group), as all investors are bound by all terms and conditions of the original Joint Venture Agreement between the Bank and Sumitomo Group, where unanimous consent is required from all the parties for SMFC's relevant activities.

The investment is measured using the equity method. As of December 31, 2020 and 2019, the Bank's investment in a joint venture amounted to ₱705.5 million and ₱755.8 million, respectively.

Movement in this account follows (in thousands):

	2020	2019
Balance at beginning of year	**₱755,781**	₱691,426
Share in net income (Note 29)	**40,299**	105,905
Share in unrealized gain on remeasurement of retirement liability (Note 29)	**(2,227)**	(2,190)
Share in hedge reserves	**(35,097)**	–
Dividends received	**(53,280)**	(39,360)
Ending balance	**₱705,477**	₱755,781

The following table illustrates the summarized financial information of SMFC (in thousands):

	2020	2019
Current assets	**₱7,277,686**	₱6,870,631
Non-current assets	**370,236**	254,305
Current liabilities	**(5,146,438)**	(4,502,607)
Non-current liabilities	**(149,896)**	(103,061)
Net assets	**₱2,351,588**	₱2,519,268

	2020	2019	2018
Revenues	**₱1,955,338**	₱1,684,260	₱1,104,277
Costs and expenses	**1,732,393**	1,174,697	701,455
	222,945	509,563	402,822
Provision for income tax	**88,614**	156,545	128,231
Net income	**134,331**	353,018	274,591
Other comprehensive income	**(124,414)**	(7,299)	6,288
Total comprehensive income	**₱9,917**	₱345,719	₱280,879

Cost of the investment as of December 31, 2020 and 2019 amounted to ₱600.0 million.

On June 26, 2020, SMFC declared dividends of ₱8.88 per share amounting to a total of ₱177.6 million. The same was paid to shareholders on July 17, 2020.

NOTES TO FINANCIAL STATEMENTS

On, June 21, 2019 SMFC declared dividends of ₱6.56 per share amounting to a total of ₱131.2 million. The same was paid to shareholders on July 1, 2019.

SMFC is a private company and there is no quoted market price available for its shares. The net assets of SMFC consist mainly of financial assets and financial liabilities.

The Bank has no share in any contingent liabilities or capital commitments of SMFC as of December 31, 2020 and 2019. There are also no agreements entered into by SMFC that may restrict dividends and other capital contributions to be paid, loans and advances to be made or repaid to or from the Bank as of the said dates.

Movement in equity in remeasurement gains (losses) on retirement plan of a joint venture amounted to (₱2.2 million) in 2020 and 2019, and ₱1.9 million in 2018.

Movement in equity in hedge reserves of a joint venture amounted to ₱35.1 million in 2020.

11. Property and Equipment

The composition of and movements in this account follow:

	2020					
	Land	**Building**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Right-of-use Assets: Building**	**Total**
Cost						
Balance at beginning of the period	**₱976,443,676**	**₱1,130,831,484**	**₱2,836,318,148**	**₱1,029,895,946**	**₱1,596,365,909**	**₱7,569,855,163**
Acquisitions/Additions	**–**	**9,866,646**	**119,531,739**	**29,823,182**	**243,849,256**	**403,070,823**
Disposals/Retirement	**–**	**–**	**(54,913,785)**	**–**	**(129,196,922)**	**(184,110,707)**
Balance at end of the period	**976,443,676**	**1,140,698,130**	**2,900,936,102**	**1,059,719,128**	**1,711,018,243**	**7,788,815,279**
Accumulated Depreciation						
Balance at beginning of the period	**–**	**490,393,692**	**2,519,274,130**	**899,092,622**	**348,258,593**	**4,257,019,037**
Depreciation	**–**	**36,056,578**	**112,102,437**	**66,694,859**	**370,563,533**	**585,417,407**
Disposals	**–**	**–**	**(26,558,205)**	**–**	**(116,877,541)**	**(143,435,746)**
Balance at end of the period	**–**	**526,450,270**	**2,604,818,362**	**965,787,480**	**601,944,585**	**4,699,000,697**
Net Book Value	**₱976,443,676**	**₱614,247,860**	**₱296,117,740**	**₱93,931,648**	**₱1,109,073,658**	**₱3,089,814,582**

	2019					
	Land	Building	Furniture, Fixtures and Equipment	Leasehold Improvements	Right-of-use Assets: Building	Total
Cost						
Balance at beginning of the period	₱976,443,676	₱1,125,200,479	₱2,814,449,530	₱1,012,800,699	₱–	₱5,928,894,384
Effect of the adoption of PFRS 16 (Note 2)	–	–	–	–	1,442,283,639	1,442,283,639
Balance at beginning of the period	976,443,676	1,125,200,479	2,814,449,530	1,012,800,699	1,442,283,639	7,371,178,023
Acquisitions/Additions	–	5,631,005	101,542,500	17,095,247	186,062,195	310,330,947
Disposals/Retirement	–	–	(79,673,882)	–	(31,979,925)	(111,653,807)
Balance at end of the period	976,443,676	1,130,831,484	2,836,318,148	1,029,895,946	1,596,365,909	7,569,855,163
Accumulated Depreciation						
Balance at beginning of the period	–	454,610,927	2,401,654,413	815,249,139	–	3,671,514,479
Depreciation	–	35,782,765	157,690,302	83,843,483	373,133,483	650,450,033
Disposals	–	–	(40,070,585)	–	(24,874,890)	(64,945,475)
Balance at end of the period	–	490,393,692	2,519,274,130	899,092,622	348,258,593	4,257,019,037
Net Book Value	₱976,443,676	₱640,437,792	₱317,044,018	₱130,803,324	₱1,248,107,316	₱3,312,836,126

Gain on sale of property and equipment amounted to ₱2.0 million, ₱8.1 million and ₱7.9 million in 2020, 2019 and 2018 respectively.

The details of depreciation under the statements of income follow:

	2020	2019	2018
Property and equipment	**₱585,417,407**	₱650,450,033	₱367,291,633
Chattel mortgage properties (Note 14)	**229,409,304**	166,109,603	155,549,227
Investment properties (Note 12)	**84,719,089**	93,782,188	99,341,223
	₱899,545,800	₱910,341,824	₱622,182,083

As of December 31, 2020 and 2019, property and equipment of the Bank with gross carrying amounts of ₱2.2 billion and ₱2.1 billion, respectively, are fully depreciated but are still being used.

12. Investment Properties

The composition of and movements in this account follow:

	2020		
	Land	**Building Improvements**	**Total**
Cost			
Balance at beginning of year	**₱1,478,459,480**	**₱2,900,297,172**	**₱4,378,756,652**
Additions (Note 32)	**152,994,179**	**304,719,097**	**457,713,276**
Disposals	**(224,107,267)**	**(418,169,163)**	**(642,276,430)**
Balance at end of year	**1,407,346,392**	**2,786,847,106**	**4,194,193,498**
Accumulated Depreciation			
Balance at beginning of year	**–**	**433,180,137**	**433,180,137**
Depreciation (Note 11)	**–**	**84,719,089**	**84,719,089**
Disposals	**–**	**(61,688,020)**	**(61,688,020)**
Balance at end of year	**–**	**456,211,206**	**456,211,206**
Allowance for Impairment Losses			
Balance at beginning of year	**66,674,125**	**113,153,694**	**179,827,819**
Provisions (reversals) for the year (Note 15)	**(568,693)**	**(1,064,506)**	**(1,633,199)**
Disposals	**(3,766,451)**	**(22,417,833)**	**(26,184,284)**
Balance at end of year	**62,338,981**	**89,671,355**	**152,010,336**
Net Book Value	**₱1,345,007,411**	**₱2,240,964,545**	**₱3,585,971,956**

	2019		
	Land	Building Improvements	Total
Cost			
Balance at beginning of year	₱1,656,342,069	₱3,061,707,089	₱4,718,049,158
Additions (Note 32)	208,639,635	526,642,782	735,282,417
Disposals	(386,522,224)	(688,052,699)	(1,074,574,923)
Balance at end of year	1,478,459,480	2,900,297,172	4,378,756,652
Accumulated Depreciation			
Balance at beginning of year	–	438,004,523	438,004,523
Depreciation (Note 11)	–	93,782,188	93,782,188
Disposals	–	(98,606,574)	(98,606,574)
Balance at end of year	–	433,180,137	433,180,137
Allowance for Impairment Losses			
Balance at beginning of year	76,490,196	167,236,723	243,726,919
Provisions (reversals) for the year (Note 15)	(7,730,797)	7,975,841	245,044
Disposals	(2,085,274)	(62,058,870)	(64,144,144)
Balance at end of year	66,674,125	113,153,694	179,827,819
Net Book Value	₱1,411,785,355	₱2,353,963,341	₱3,765,748,696

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The details of the net book value of investment properties follow:

	2020	2019
Real estate properties acquired in settlement of loans and receivables	**₱3,499,490,423**	₱3,675,428,253
Bank premises leased to third parties and held for capital appreciation	**86,481,533**	90,320,443
	₱3,585,971,956	₱3,765,748,696

As of December 31, 2020 and 2019, the aggregate fair value of investment properties amounted to ₱5.6 billion and ₱5.8 billion, respectively. Fair value of the properties was determined using sales comparison approach. Fair values are based on valuations performed by accredited external and in-house appraisers.

Gain on foreclosure of investment properties amounted to ₱182.3 million, ₱246.8 million and ₱278.0 million in 2020, 2019 and 2018, respectively. The Bank realized gain on sale of investment properties amounting to ₱144.6 million, ₱365.0 million and ₱144.0 million in 2020, 2019 and 2018, respectively.

Rental income on investment properties included in miscellaneous income amounted to ₱45.5 million, ₱37.5 million, and ₱49.9 million in 2020, 2019 and 2018, respectively (Notes 23 and 25).

Operating expenses incurred in maintaining investment properties (included under miscellaneous expense - 'Repairs and maintenance') amounted to ₱16.2 million, ₱20.1 million, and ₱21.4 million in 2020, 2019 and 2018, respectively (Note 26).

13. Intangible Assets and Goodwill

This account consists of:

	2020	2019
Goodwill	**₱53,558,338**	₱53,558,338
Intangible assets		
Software costs	**350,461,044**	389,774,423
Branch licenses	**37,123,737**	37,123,737
	387,584,781	426,898,160
	₱441,143,119	₱480,456,498

Movements in intangible assets follow:

	2020		
	Software Costs	**Branch Licenses**	**Total**
Balance at beginning of year	**₱389,774,423**	**₱37,123,737**	**₱426,898,160**
Additions	**97,105,773**	–	**97,105,773**
Retirement and others	**(8,281,794)**	–	**(8,281,794)**
Amortization	**(128,137,358)**	–	**(128,137,358)**
Balance at end of year	**₱350,461,044**	**₱37,123,737**	**₱387,584,781**

	2019		
	Software Costs	Branch Licenses	Total
Balance at beginning of year	₱564,764,758	₱37,123,737	₱601,888,495
Additions	44,356,459	–	44,356,459
Retirement and others	(84,291,800)	–	(84,291,800)
Amortization	(135,054,994)	–	(135,054,994)
Balance at end of year	₱389,774,423	₱37,123,737	₱426,898,160

14. Other Assets

This account consists of:

	2020	2019
Chattel mortgage properties - net	**₱1,215,977,923**	₱895,829,635
Security deposits (Note 29)	**201,234,920**	185,170,313
Prepayments (Note 29)	**191,060,787**	264,701,030
Documentary stamps on hand	**68,226,337**	146,202,615
Stationeries and supplies on hand	**41,924,920**	43,430,240
RCOCI	**11,626,483**	28,942,603
Sundry debits	**11,547,954**	1,853
Creditable withholding tax	**–**	49,149
Others	**547,533**	604,076
	₱1,742,146,857	₱1,564,931,514

Prepayments represent prepaid insurance, rent, taxes and other prepaid expenses.

Creditable withholding tax (CWT) pertains to the excess credits after applying CWT against income tax payable.

Movements in chattel mortgage properties - net follow:

	2020	2019
Cost		
Balance at beginning of year	**₱979,658,138**	₱813,592,771
Additions (Note 32)	**3,753,346,148**	3,304,131,638
Disposals	**(3,391,686,551)**	(3,138,066,271)
Balance at the end of year	**1,341,317,735**	979,658,138
Accumulated Depreciation		
Balance at beginning of year	**83,626,821**	92,569,663
Depreciation (Note 11)	**229,409,304**	166,109,603
Disposals	**(188,644,066)**	(175,052,445)
Balance at the end of year	**124,392,059**	83,626,821
Balance at beginning of year	**201,682**	415,837
Provision (Note 15)	**3,426,518**	856,288
Disposals	**(2,680,447)**	(1,070,443)
Balance at end of year	**947,753**	201,682
Net Book Value	**₱1,215,977,923**	₱895,829,635

Gain(loss) on foreclosure of chattel mortgage properties amounted to (₱116.1 million), ₱189.0 million and ₱313.5 million in 2020, 2019 and 2018, respectively.

The Bank realized loss on sale of chattel mortgage properties amounting to ₱342.7 million, ₱273.9 million and ₱81.4 million in 2020, 2019 and 2018, respectively.

15. Allowance for Credit and Impairment Losses

An analysis of changes in the ECL allowances for loans and advances to banks as of December 31, 2020 and 2019 follows (in thousands):

	2020						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Due from BSP							
Balance as of January 1, 2020	₱1,226	₱–	₱–	₱–	₱–	₱–	₱1,226
New assets originated or purchased	–	–	–	–	–	–	–
Assets derecognized or repaid	(237)	–	–	–	–	–	(237)
Balance at December 31, 2020	989	–	–	–	–	–	989

(Forward)

NOTES TO FINANCIAL STATEMENTS

	2020						
	Stage 1		Stage 2				
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**POCI**	**Total**
Due from other banks							
Balance at January 1, 2020	**₱1,043**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,043**
New assets originated or purchased	**112,929**	–	–	–	–	–	**112,929**
Assets derecognized or repaid	–	–	–	–	–	–	–
Balance at December 31, 2020	**113,972**	–	–	–	–	–	**113,972**
Interbank loans receivable							
Balance at January 1, 2020	–	–	–	–	–	–	–
New assets originated or purchased	–	–	–	–	–	–	–
Assets derecognized or repaid	–	–	–	–	–	–	–
Balance at December 31, 2020	–	–	–	–	–	–	–
Total loans and advances to banks							
Balance at January 1, 2020	**2,269**	–	–	–	–	–	**2,269**
New assets originated or purchased	**112,929**	–	–	–	–	–	**112,929**
Assets derecognized or repaid	**(237)**	–	–	–	–	–	**(237)**
Balance at December 31, 2020	**₱114,961**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**114,961**

	2019						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Due from BSP							
Balance as of January 1, 2019	₱2,828	₱–	₱–	₱–	₱–	₱–	₱2,828
New assets originated or purchased	1,226	–	–	–	–	–	1,226
Assets derecognized or repaid	(2,828)	–	–	–	–	–	(2,828)
Balance at December 31, 2019	1,226	–	–	–	–	–	1,226
Due from other banks							
Balance at January 1, 2019	2,301	–	–	–	–	–	2,301
New assets originated or purchased	1,043	–	–	–	–	–	1,043
Assets derecognized or repaid	(2,301)	–	–	–	–	–	(2,301)
Balance at December 31, 2019	1,043	–	–	–	–	–	1,043
Interbank loans receivable							
Balance at January 1, 2019	180	–	–	–	–	–	180
New assets originated or purchased	–	–	–	–	–	–	–
Assets derecognized or repaid	(180)	–	–	–	–	–	(180)
Balance at December 31, 2019	–	–	–	–	–	–	–
Total loans and advances to banks							
Balance at January 1, 2019	5,309	–	–	–	–	–	5,309
New assets originated or purchased	2,269	–	–	–	–	–	2,269
Assets derecognized or repaid	(5,309)	–	–	–	–	–	(5,309)
Balance at December 31, 2019	₱2,269	₱–	₱–	₱–	₱–	₱–	₱2,269

An analysis of changes in the ECL allowances for investment securities as of December 31, 2020 and 2019 follows (in thousands):

	2020						
	Stage 1		Stage 2				
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**POCI**	**Total**
Financial assets at FVOCI							
Balance at January 1, 2020	**₱3,419**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**3,419**
New assets originated or purchased	**6,318**	–	–	–	–	–	**6,318**
Assets derecognized or repaid	**(4,844)**	–	–	–	–	–	**(4,844)**
Balance at December 31, 2020	**4,893**	–	–	–	–	–	**4,893**
Investment at amortized cost							
Balance at January 1, 2020	**25,525**	–	–	–	–	–	**25,525**
New assets originated or purchased	–	–	–	–	–	–	
Assets derecognized or repaid	**(3,078)**	–	–	–	–	–	**(3,078)**
Balance at December 31, 2020	**22,447**	–	–	–	–	–	**22,447**
Total investment securities							
Balance at January 1, 2020	**28,944**	–	–	–	–	–	**28,944**
New assets originated or purchased	**6,318**	–	–	–	–	–	**6,318**
Assets derecognized or repaid	**(7,922)**	–	–	–	–	–	**(7,922)**
Balance at December 31, 2020	**₱27,340**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱27,340**

	2019						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Financial assets at FVOCI							
Balance at January 1, 2019	₱9,957	₱–	₱–	₱–	₱–	₱–	₱9,957
New assets originated or purchased	2	–	–	–	–	–	2
Assets derecognized or repaid	(6,540)	–	–	–	–	–	(6,540)
Balance at December 31, 2019	3,419	–	–	–	–	–	3,419
Investment at amortized cost							
Balance at January 1, 2019	29,046	–	–	–	–	–	29,046
New assets originated or purchased	–	–	–	–	–	–	–
Assets derecognized or repaid	(3,521)	–	–	–	–	–	(3,521)
Balance at December 31, 2019	25,525	–	–	–	–	–	25,525
Total investment securities							
Balance at January 1, 2019	39,003	–	–	–	–	–	39,003
New assets originated or purchased	2	–	–	–	–	–	2
Assets derecognized or repaid	(10,061)	–	–	–	–	–	(10,061)
Balance at December 31, 2019	₱28,944	₱–	₱–	₱–	₱–	₱–	₱28,944

An analysis of changes in the ECL allowances for receivables from customers as of December 31, 2020 and 2019 follows (in thousands):

	2020						
	Stage1		**Stage2**				
	Individual	**Collective**	**Individual**	**Collective**	**Stage3**	**POCI**	**Total**
Consumption Loans							
Balance at January 1, 2020	**₱–**	**₱612,245**	**₱–**	**₱533,857**	**₱684,108**	**₱–**	**₱1,830,210**
New assets originated or purchased	–	**1,410,109**	–	**61,374**	**150,416**	–	**1,621,899**
Assets derecognized or repaid	–	**(531,248)**	–	**(116,643)**	**(484,618)**	–	**(1,132,509)**
Amounts written off	–	–	–	–	**(746,309)**	–	**(746,309)**
Transfers to Stage 1	–	**39,073**	–	**(25,523)**	**(13,550)**	–	–
Transfers to Stage 2	–	**(153,565)**	–	**225,561**	**(71,996)**	–	–
Transfers to Stage 3	–	**(43,008)**	–	**(147,572)**	**190,580**	–	–
Impact on change in assumptions	–	**589,658**	–	**640,153**	**893,918**	–	**2,123,729**
Balance at December 31, 2020	–	**1,923,264**	**-**	**1,171,207**	**602,549**	–	**3,697,020**
Real Estate Loans							
Balance at January 1, 2020	–	**54,044**	–	**165,655**	**143,774**	–	**363,473**
New assets originated or purchased	–	**244,352**	–	**9,318**	**8,166**	–	**261,836**
Assets derecognized or repaid	–	**(154,714)**	–	**(8,548)**	**(26,687)**	–	**(189,949)**
Amounts written off	–	–	–	–	**(84,325)**	–	**(84,325)**
Transfers to Stage 1	–	**38,064**	–	**(31,519)**	**(6,545)**	–	–
Transfers to Stage 2	–	**(12,969)**	–	**52,402**	**(39,433)**	–	–
Transfers to Stage 3	–	**(2,156)**	–	**(33,140)**	**35,296**	–	–
Impact on change in assumptions	–	**23,128**	–	**301,536**	**337,401**	–	**662,065**
Balance at December 31, 2020	–	**189,749**	–	**455,704**	**367,647**	–	**1,013,100**
Commercial Loans							
Balance at January 1, 2020	–	**96,604**	–	**34,071**	**94,734**	–	**225,409**
New assets originated or purchased	–	**175,020**	–	**49,368**	**104,117**	–	**328,505**
Assets derecognized or repaid	–	**(116,757)**	–	**(5,366)**	**(17,015)**	–	**(139,138)**
Amounts written off	–	–	–	–	**(12,627)**	–	**(12,627)**
Transfers to Stage 1	–	**5,723**	–	**(2,250)**	**(3,473)**	–	–
Transfers to Stage 2	–	**(15,255)**	–	**18,539**	**(3,284)**	–	–
Transfers to Stage 3	–	**(2,722)**	–	**(16,399)**	**19,121**	–	–
Impact on change in assumptions	–	**68,966**	–	**73,640**	**149,156**	–	**291,762**
Balance at December 31, 2020	–	**211,579**	–	**151,603**	**330,729**	–	**693,911**
Personal Loans							
Balance at January 1, 2020	–	**6,582**	–	**195,130**	**392,394**	–	**594,106**
New assets originated or purchased	–	**5,140**	–	**103,824**	**218,305**	–	**327,269**
Assets derecognized or repaid	–	**(2,127)**	–	**(37,498)**	**(118,666)**	–	**(158,291)**
Amounts written off	–	**-–**	–	**(104)**	**(231,445)**	–	**(231,549)**
Transfers to Stage 1	–	**14,277**	–	**(12,863)**	**(1,414)**	–	–
Transfers to Stage 2	–	**(1,920)**	–	**7,651**	**(5,731)**	–	–
Transfers to Stage 3	–	**(260)**	–	**(28,221)**	**28,481**	–	–
Impact on change in assumptions	–	**(11,226)**	–	**11,280**	**208,680**	–	**208,734**
Balance at December 31, 2020	–	**10,466**	–	**239,199**	**490,604**	–	**740,269**
Total Receivable from Customer							
Balance at January 1, 2020	–	**769,475**	–	**928,713**	**1,315,010**	–	**3,013,198**
New assets originated or purchased	–	**1,834,621**	–	**223,884**	**481,004**	–	**2,539,509**
Assets derecognized or repaid	–	**(804,846)**	–	**(168,055)**	**(646,986)**	–	**(1,619,887)**
Amounts written off	–	–	–	**(104)**	**(1,074,706)**	–	**(1,074,810)**
Transfers to Stage 1	–	**97,137**	–	**(72,155)**	**(24,982)**	–	–
Transfers to Stage 2	–	**(183,709)**	–	**304,153**	**(120,444)**	–	–
Transfers to Stage 3	–	**(48,146)**	–	**(225,332)**	**273,478**	–	–
Impact on change in assumptions	–	**670,526**	–	**1,026,609**	**1,589,155**	–	**3,286,290**
Balance at December 31, 2020	**₱–**	**₱2,335,058**	**₱–**	**₱2,017,713**	**₱1,791,529**	**₱–**	**₱6,144,300**

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	2019						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Consumption Loans							
Balance at January 1, 2019	₱–	₱370,495	₱–	₱990,265	₱1,066,421	₱–	₱2,427,181
New assets originated or purchased	–	896,795	–	99,972	462,158	–	1,458,925
Assets derecognized or repaid	–	(25,592)	–	(154,132)	(352,824)	–	(532,548)
Amounts written off	–	(887)	–	(96,334)	(793,449)	–	(890,670)
Transfers to Stage 1	–	498,391	–	(452,170)	(46,221)	–	–
Transfers to Stage 2	–	(48,561)	–	149,544	(100,983)	–	–
Transfers to Stage 3	–	(9,101)	–	(93,246)	102,347	–	–
Impact on change in assumptions	–	(1,069,295)	–	89,958	346,659	–	(632,678)
Balance at December 31, 2019	–	612,245	–	533,857	684,108	–	1,830,210
Real Estate Loans							
Balance at January 1, 2019	–	54,989	–	173,876	164,536	–	393,401
New assets originated or purchased	–	(32,382)	–	46,544	27,150	–	41,312
Assets derecognized or repaid	–	(2,947)	–	(17,237)	(33,808)	–	(53,992)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	59,377	–	(51,511)	(7,866)	–	–
Transfers to Stage 2	–	(6,893)	–	35,955	(29,062)	–	–
Transfers to Stage 3	–	(873)	–	(21,951)	22,824	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(17,227)	–	(21)	–	–	(17,248)
Balance at December 31, 2019	–	54,044	–	165,655	143,774	–	363,473
Commercial Loans							
Balance at January 1, 2019	–	41,166	–	5,381	85,801	–	132,348
New assets originated or purchased	–	73,594	–	28,398	101,458	–	203,450
Assets derecognized or repaid	–	(15,178)	–	(190)	(12,452)	–	(27,820)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	1,545	–	(1,437)	(108)	–	–
Transfers to Stage 2	–	(2,430)	–	2,430	–	–	–
Transfers to Stage 3	–	(793)	–	(511)	1,304	–	–
Impact on change in assumptions	–	(1,300)	–	–	(81,269)	–	(82,569)
Balance at December 31, 2019	–	96,604	–	34,071	94,734	–	225,409
Personal Loans							
Balance at January 1, 2019	–	15,589	–	204,084	351,842	–	571,515
New assets originated or purchased	–	237,792	–	62,225	114,892	–	414,909
Assets derecognized or repaid	–	(3,862)	–	(30,975)	(17,429)	–	(52,266)
Amounts written off	–	(1,084)	–	(44,782)	(106,850)	–	(152,716)
Transfers to Stage 1	–	(13,346)	–	12,557	789	–	–
Transfers to Stage 2	–	4,106	–	(4,996)	890	–	–
Transfers to Stage 3	–	260	–	25,729	(25,989)	–	–
Impact on change in assumptions	–	(232,873)	–	(28,712)	74,249	–	(187,336)
Balance at December 31, 2019	–	6,582	–	195,130	392,394	–	594,106
Total Receivable from Customer							
Balance at January 1, 2019	–	482,239	–	1,373,606	1,668,600	–	3,524,445
New assets originated or purchased	–	1,175,799	–	237,139	705,658	–	2,118,596
Assets derecognized or repaid	–	(47,579)	–	(202,534)	(416,513)	–	(666,626)
Amounts written off	–	(1,971)	–	(141,116)	(900,299)	–	(1,043,386)
Transfers to Stage 1	–	545,967	–	(492,561)	(53,406)	–	–
Transfers to Stage 2	–	(53,778)	–	182,933	(129,155)	–	–
Transfers to Stage 3	–	(10,507)	–	(89,979)	100,486	–	–
Impact on change in assumptions	–	(1,320,695)	–	61,225	339,639	–	(919,831)
Balance at December 31, 2019	₱–	₱769,475	₱–	₱928,713	₱1,315,010	₱–	₱3,013,198

An analysis of changes in the ECL allowances for other receivables as of December 31, 2020 and 2019 follows (in thousands):

	2020						
	Stage 1		**Stage 2**				
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**POCI**	**Total**
Accrued Interest Receivable							
Balance as of January 1, 2020	**₱–**	**₱302**	**₱**	**₱6,962**	**₱393,900**	**₱–**	**₱401,164**
New assets originated or purchased	–	–	–	**5,083**	**224,713**	–	**229,796**
Assets derecognized or repaid	–	–	–	–	–	–	–
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	–	–	–	–	–	–
Transfers to Stage 2	–	–	–	**3,001**	**(3,001)**	–	–
Transfers to Stage 3	–	–	–	**(387)**	**387**	–	–
Impact on change in assumptions	–	**44,968**	–	**(2,533)**	**118,434**	–	**160,869**
Balance at December 31, 2020		**45,270**	–	**12,126**	**734,433**		**791,829**
Sales Contract Receivable							
Balance as of January 1, 2020	–	**14**	–	–	**408**	–	**422**
New assets originated or purchased	–	–	–	–	–	–	–
Assets derecognized or repaid	–	–	–	–	–	–	–
Amounts written off	–	–	–	–	–	–	–

(Forward)

	2020						
	Stage 1		**Stage 2**				
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**POCI**	**Total**
Transfers to Stage 1	₱–	₱151	₱–	₱–	(₱151)	₱–	₱–
Transfers to Stage 2	–	–	–	–	–	–	–
Transfers to Stage 3	–	(1)	–	–	1	–	–
Impact on change in assumptions	–	(163)	–	–	196	–	33
Balance at December 31, 2020	–	1	–	–	454	–	455
Total Other Receivables							
Balance as of January 1, 2019	–	316	–	6,962	394,308	–	401,586
New assets originated or purchased	–	–	–	5,083	224,713	–	229,796
Assets derecognized or repaid	–	–	–	–	–	–	–
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	151	–	–	(151)	–	–
Transfers to Stage 2	–	–	–	3,001	(3,001)	–	–
Transfers to Stage 3	–	(1)	–	(387)	388	–	–
Impact on change in assumptions	–	44,805	–	(2,533)	118,630	–	160,902
Balance at December 31, 2020	₱–	₱45,271	₱–	₱12,126	₱734,887	₱–	792,284

	2019						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Accrued Interest Receivable							
Balance as of January 1, 2019	₱–	₱–	₱–	₱16,012	₱340,322	₱–	₱356,334
New assets originated or purchased	–	12,290	–	4,108	28,431	–	44,829
Assets derecognized or repaid	–	(12,987)	–	(34,407)	(46,867)	–	(94,261)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	120	–	(118)	(2)	–	–
Transfers to Stage 2	–	(27)	–	29	(2)	–	–
Transfers to Stage 3	–	(2)	–	(15)	17	–	–
Impact on change in assumptions	–	908	–	21,353	72,001	–	94,262
Balance at December 31, 2019	–	302	–	6,962	393,900	–	401,164
Sales Contract Receivable							
Balance as of January 1, 2019	–	402	–	–	563	–	965
New assets originated or purchased	–	–	–	–	–	–	–
Assets derecognized or repaid	–	(363)	–	–	(434)	–	(797)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	110	–	–	(110)	–	–
Transfers to Stage 2	–	–	–	–	–	–	–
Transfers to Stage 3	–	(2)	–	–	2	–	–
Impact on change in assumptions	–	(133)	–	–	387	–	254
Balance at December 31, 2019	–	14	–	–	408	–	422
Total Other Receivables							
Balance as of January 1, 2019	–	402	–	16,012	340,885	–	357,299
New assets originated or purchased	–	12,290	–	4,108	28,431	–	44,829
Assets derecognized or repaid	–	(13,350)	–	(34,407)	(47,301)	–	(95,058)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	230	–	(118)	(112)	–	–
Transfers to Stage 2	–	(27)	–	29	(2)	–	–
Transfers to Stage 3	–	(4)	–	(15)	19	–	–
Impact on change in assumptions	–	775	–	21,353	72,388	–	94,516
Balance at December 31, 2019	₱–	₱316	₱–	₱6,962	₱394,308	₱–	₱401,586

The global pandemic situation is the primary driver for increased ECL allowances in the Bank's portfolio. The significantly depressed macroeconomic indicators, the Bank's anticipatory credit downgrades and adjustments to projected recovery rates resulting in increased LGD's accounted for the effects of the COVID-19 pandemic on the Bank's credit risk exposures.

The details of provisions (reversals) under the statements of income follow:

	2020	2019
Loans and receivables	**₱6,282,536,932**	₱2,213,888,525
Due from other banks	**112,929,135**	–
Chattel mortgage	**3,426,518**	856,288
Investment properties	**(1,633,199)**	245,044
	₱6,397,259,386	₱2,214,989,857

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16. Deposit Liabilities

Interest expense on deposit liabilities consists of:

	2020	2019	2018
Time (Note 29)	**₱2,136,446,710**	₱4,594,981,252	₱4,239,706,713
LTNCD	**393,944,665**	392,214,948	230,861,749
Demand (Note 29)	**150,040,647**	205,871,472	195,685,212
Savings	**91,174,935**	134,557,733	152,239,685
	₱2,771,606,957	₱5,327,625,405	₱4,818,493,359

Peso-denominated deposit liabilities earn annual fixed interest rates ranging from 0.25% to 6.00% in 2020 and 2019, and from 0.25% to 7.56% in 2018, while foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.18% to 2.00% in 2020, from 0.25% to 3.00% in 2019, and 0.25% to 3.05% in 2018. Effective interest rates on deposit liabilities range from 0.24% to 3.60% in 2020, from 1.09% to 3.68% in 2019 and from 1.94% to 3.28% in 2018.

In 2020, the Bangko Sentral ng Pilipinas issued BSP Circular No 1092 reducing the reserve requirements against deposit and deposit liabilities to 3% from 7%. In 2019, the Bangko Sentral ng Pilipinas issued BSP Circular Nos. 1041, 1056, and 1063 reducing the reserve requirements against non-FCDU deposit and deposit substitute liabilities to 4% from 8%. As of December 31, 2020 and 2019, Due from BSP amounting to ₱5.5 billion and ₱6.3 billion, respectively, was set aside as reserves for deposit liabilities, as reported to the BSP. The Bank is in compliance with such regulations as of December 31, 2020 and 2019.

On December 8, 2016, the BSP authorized the Bank to issue LTNCDs up to 10.0 billion through one or multiple tranches over a period of one year. On January 30, 2017, the Bank issued the first tranche of LTNCDs amounting to ₱3.4 billion with a tenor of five (5) years and three (3) months and due on April 30, 2022 with interest rate of 3.50% per annum payable quarterly. The minimum investment size for the LTNCDs is 50,000 with increments of ₱50,000 thereafter. Subject to BSP Rules, the Bank has the option to pre-terminate the LTNCDs as a whole but not in part, prior to maturity and on any interest payment date at face value plus accrued interest covering the accrued and unpaid interest.

On July 13, 2018, the BSP authorized the Bank to issue LTNCDs up to 15.0 billion through one or multiple tranches over a period of one year. On August 9, 2018, the Bank issued the first tranche of LTNCDs amounting to ₱5.08 billion with a tenor of five (5) years and six (6) months and due on February 9, 2024 with interest rate of 5.00% per annum payable quarterly. The minimum investment size for the LTNCDs is 50,000 with increments of ₱50,000 thereafter. Subject to BSP Rules, the Bank has the option to pre-terminate the LTNCDs as a whole but not in part, prior to maturity and on any interest payment date at face value plus accrued interest covering the accrued and unpaid interest.

As of December 31, 2020 and 2019, deferred financing cost on LTNCDs amounted to ₱34.1 million and ₱49.5 million, respectively. Amortization of deferred financing cost amounted to ₱15.4 million in 2020 and ₱14.7 million in 2019.

17. Bills Payable, Bonds Payable and Subordinated Notes

<u>Bills payable</u>
This account consists of the following:

	2020	2019
Medium term fixed rate notes (MTFNs)	**₱–**	₱2,989,736,932
Interbank borrowings	–	1,200,000,000
	₱–	₱4,189,736,932

On December 10, 2018, the Bank issued MTFNs amounting to ₱3.0 billion with a tenor of one (1) year and six (6) months and due on June 10, 2020 with interest rate of 7.07% per annum payable quarterly. Interest payment dates shall commence on March 10, 2019 and up to and including the maturity date. The minimum investment size for the MTFNs is ₱10.0 million with increments of ₱0.1 million thereafter.

On June 10, 2020, the Bank paid its outstanding MTFNs.

Peso-denominated interbank borrowings of the Bank bear annual interest ranging from 3.97% to 4.00% in 2020, from 3.94% to 5.25% in 2019 and 3.00% to 4.69% in 2018. Foreign currency-denominated interbank borrowings bear annual interest ranging from 1.00% to 1.60%, from 2.35% to 2.50%, and 1.28% to 2.38% in 2020, 2019 and 2018, respectively. Annual interest rate on dollar-denominated securities sold under resale agreement (SSURA) ranges from 1.90% to 2.00%, from 2.70% to 2.79%, and 1.00% to 2.35%, in 2020, 2019 and 2018, respectively.

As of December 31, 2020 and 2019, deferred financing cost on MTFNs amounted to nil and ₱10.3 million, respectively. Amortization of deferred financing cost amounted to ₱10.3 million and ₱21.2 million in 2020 and 2019, respectively.

Interest expense on bills payable in 2020, 2019, and 2018 amounted to ₱110.4 million, ₱319.7 million and ₱55.9 million, respectively (Note 29).

Bonds payable

On February 04, 2020, the Bank issued fixed rate bonds amounting to ₱4.65 billion with a tenor of three (3) years and due on February 4, 2023 with interest rate of 4.5% per annum payable quarterly. The minimum investment size for the bonds payable is ₱0.5 million with increments of ₱0.1 million thereafter. As of December 31, 2020, the carrying amount of the bonds payable is ₱4.62 billion. Debt issuance cost related to the issuance amounted to ₱42.7 million.

Interest expense incurred on bonds due in 2023 amounted to ₱202.3 million in 2020. Amortization of debt issuance costs amounted to ₱12.1 million in 2020.

On July 24, 2019, the Bank issued fixed rate bonds amounting to ₱6.3 billion with a tenor of two (2) years and due on July 24, 2021 with interest rate of 5.6% per annum payable quarterly. The minimum investment size for the bonds payable is 0.5 million with increments of 0.1 million thereafter. As of December 31, 2020 and 2019, the carrying amount of the bonds payable is ₱6.3 billion. Debt issuance cost related to the issuance amounted to ₱56.9 million.

Interest expense incurred on bonds due in 2021 amounted to ₱381.1 million in 2020, and ₱167.6 million in 2019. Amortization of debt issuance costs amounted to ₱28.3 million, and ₱11.6 million, in 2020 and 2019, respectively.

Subordinated notes

On February 15, 2019, the BOD approved the Bank's option to call the Tier 2 Notes issued in 2014 on its fifth year anniversary or on August 23, 2019. The request of the Bank to exercise the same was approved by the BSP on April 24, 2019. The redemption falls under the call provisions of the Tier 2 Notes worth ₱3.0 Billion, which had an original maturity of ten years or until 2024.

On August 23, 2019 the Bank exercised its call option and paid ₱3.0 billion to all noteholders.
Interest expense incurred on these notes amounted to ₱125.1 million and ₱167.7 million in 2019 and 2018, respectively.

NOTES TO FINANCIAL STATEMENTS

18. Accrued Taxes, Interest and Other Expenses

This account consists of:

	2020	2019
Accrued interest payable	**₱263,688,878**	₱434,200,032
Accrued other taxes and licenses payable	**193,293,668**	130,618,997
Accrued other expenses payable (Note 29)	**1,325,937,256**	844,632,958
	₱1,782,919,802	₱1,409,451,987

Accrued other expenses payable consist of:

	2020	2019
Litigation	**₱554,078,518**	₱276,305,828
Compensation and fringe benefits	**191,280,204**	196,783,477
Insurance (Note 29)	**165,918,523**	178,230,395
Security, messengerial and janitorial	**113,168,923**	51,608,230
Information technology (Note 29)	**68,583,689**	55,897,969
Advertising	**46,318,803**	9,077,992
ATM maintenance	**22,094,221**	10,469,566
Membership, fees & dues	**3,773,951**	5,161,321
Professional and consultancy fees	**2,410,891**	10,552,469
Miscellaneous	**158,309,533**	50,545,711
	₱1,325,937,256	₱844,632,958

Compensation and fringe benefits include salaries and wages, as well as medical, dental and hospitalization benefits.

Miscellaneous include accruals for ATM rentals, utilities and maintenance and other expenses.

19. Other Liabilities

This account consists of:

	2020	2019
Accounts payable (Note 29)	**₱2,073,100,382**	₱2,383,631,295
Lease liability (Note 25)	**1,342,394,905**	1,467,103,825
Other credits	**179,132,827**	171,091,034
Sundry credits	**78,121,495**	101,382,063
Undrawn portion of committed credit lines	**56,862,211**	57,321,764
Net retirement liability (Note 24)	**49,023,221**	440,394,816
Withholding taxes payable	**44,551,177**	90,033,709
Due to the Treasurer of the Philippines	**20,491,276**	20,491,276
SSS, Medicare, ECP and HDMF premium payable	**12,320,821**	11,734,970
Bills purchased - contra (Note 9)	**4,595,741**	8,798,803
Miscellaneous (Note 29)	**39,255,571**	40,508,189
	₱3,899,849,627	₱4,792,491,744

Accounts payable includes payable to suppliers and service providers, and loan payments and other charges received from customers in advance.

Other credits represent long-outstanding unclaimed cashier's checks.

Sundry credits represent various items or transactions which cannot be classified immediately under any credit account.

Miscellaneous liabilities include incentives for housing loan customers that are compliant with the payment terms amounting to ₱21.97 million, and ₱20.60 million as of December 31, 2020 and 2019, respectively.

20. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from the statement of condition dates (in thousands):

	December 31					
	2020			2019		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and other cash items	**₱2,841,852**	**₱–**	**₱2,841,852**	₱2,281,813	₱–	₱2,281,813
Due from BSP - gross	**31,689,965**	–	**31,689,965**	6,816,092	–	6,816,092
Due from other banks - gross	**1,575,447**	–	**1,575,447**	1,139,685	–	1,139,685
Interbank loans receivable and SPURA		–				
- gross (Note 7)	**5,445,979**		**5,445,979**	–	–	–
FVTPL investments (Note 8)	**50**	–	**50**	44	–	44
Financial assets at FVOCI (Note 8)	**8,008,381**	**2,050,852**	**10,059,233**	976,272	3,799,116	4,775,388
Investment securities at amortized cost (Note 8)	**800,001**	**12,958,446**	**13,758,447**	1,267,247	32,992,253	34,259,500
Loans and receivables - gross (Note 9)	**48,430,300**	**102,041,527**	**150,471,827**	46,023,350	118,091,219	168,316,819
Other assets - gross* (Note 14)	**31,244**	**181,729**	**212,973**	42,486	171,745	214,231
	98,823,219	**117,232,554**	**216,055,773**	58,546,989	155,054,333	217,803,572
Nonfinancial Assets						
Investment in a joint venture (Note 10)	–	**705,477**	**705,477**	–	755,781	755,781
Property and equipment - gross (Note 11)	–	**7,788,815**	**7,788,815**	–	7,569,855	7,569,855
Investment properties - gross (Note 12)	–	**4,194,193**	**4,194,193**	–	4,378,757	4,378,757
Deferred tax assets (Note 27)	–	**2,091,141**	**2,091,141**	–	1,398,137	1,398,137
Goodwill and intangible assets-gross (Note 13)	–	**569,280**	**569,280**	–	615,511	615,511
Other assets - gross** (Note 14)	**313,196**	**1,341,318**	**1,654,514**	454,870	979,658	1,434,528
	313,196	**16,690,224**	**17,003,420**	454,870	15,697,699	16,152,569
Less: Allowance for credit and impairment losses (Note 15)			**7,810,111**			4,139,729
Accumulated depreciation (Notes 11, 12, 13 and 14)			**5,407,742**			4,908,880
Unearned discounts and capitalized interest (Note 9)			**427,738**			711
			13,645,591			9,049,320
			₱219,413,602			₱224,906,821

* Others assets under financial assets comprise petty cash fund, shortages, RCOCI and security deposits.
** Other assets under nonfinancial assets comprise inter-office float items, prepaid expenses, stationery and supplies on hand, sundry debits, documentary stamps on hand, deferred charges, postages stamps and chattel mortgage properties.

	December 31					
	2020			2019		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Liabilities						
Deposit liabilities (Note 16)	**₱145,042,499**	**₱22,421,811**	**₱167,464,310**	₱148,468,691	₱24,036,419	₱172,505,110
Bills payable (Note 17)	–	–	–	4,189,737	–	4,189,737
Bonds payable	**6,283,068**	**4,619,389**	**10,902,457**	–	6,254,702	6,254,702
Treasurer's, cashier's and manager's checks	**531,318**	–	**531,318**	1,297,680	–	1,297,680
Accrued other expenses payable (Note 18)	**1,325,937**	–	**1,325,937**	844,633	–	844,633
Accrued interest payable (Note 18)	**263,689**	–	**263,689**	434,200	–	434,200
Other liabilities (Note 19)					–	–
Accounts payable	**2,073,100**	–	**2,073,100**	2,383,631	–	2,383,631
Bills purchased - contra	**4,596**	–	**4,596**	171,091	–	171,091
Lease liability	**333,603**	**1,008,792**	**1,342,395**	39,803	1,427,301	1,467,104
Other credits	**179,133**	–	**179,133**	8,799	–	8,799
Deposits for keys - SDB	**777**	–	**777**	791	–	791
Others*	**2,144**	–	**2,144**	15,332	1,760	17,092
	156,039,864	**28,049,992**	**184,089,856**	157,854,388	31,720,182	189,574,570
Nonfinancial Liabilities						
Accrued other taxes and licenses payable (Note 18)	**193,294**	–	**193,294**	130,619	–	130,619
Income tax payable	**322,019**	–	**322,019**	375	–	375
Withholding taxes payable (Note 19)	**44,551**	–	**44,551**	90,034	–	90,034
Other liabilities (Note 19)**	**183,640**	**69,514**	**253,154**	213,555	440,395	653,950
	743,504	**69,514**	**813,018**	434,583	440,395	874,978
	₱156,783,368	**₱28,119,506**	**₱184,902,874**	₱158,288,971	₱32,160,577	₱190,449,548

* Others under financial liabilities comprise payment orders payable and overages.
** Other liabilities under nonfinancial liabilities comprise advance rentals on bank premises, sundry credits, SSS, Medicare, ECP & HDMF premium payable, net retirement liability, and miscellaneous liabilities.

NOTES TO FINANCIAL STATEMENTS

21. **Equity**

Issued Capital
As of December 31, 2020 and 2019, the Bank's capital stock consists of:

	2020		2019	
	Shares	**Amount**	Shares	Amount
Authorized common stock - ₱10 par value	**600,000,000**	**₱6,000,000,000**	600,000,000	₱6,000,000,000
Issued and outstanding				
Beginning Balance	**383,109,416**	**₱3,831,094,160**	240,252,491	₱2,402,524,910
Stock right issuance	**–**	**–**	142,856,925	1,428,569,250
Stock dividend	**43,750,000**	**437,500,000**	–	–
Ending Balance	**426,859,416**	**₱4,268,594,160**	383,109,416	₱3,831,094,160

The Bank became listed in the Philippine Stock Exchange (PSE) on October 10, 1994. Subsequently, the SEC approved the increase in the capital stock of the Bank. The summarized information on the Bank's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Type	Authorized Shares	Par Value
August 16, 1995	Common	300,000,000	₱10
October 8, 1997	Common	425,000,000	₱10

As of December 31, 2020 and 2019, the total number of stockholders is 1,453 and 1,458, respectively, with share price closed at ₱54.6 and ₱57.5 a share, respectively.

On November 28, 2018, the PSE approved the application of the Bank for the listing of additional 142,856,925 common shares to cover the Bank's 1:1.68177 stock rights offering at an offer price of ₱56.0 per share or additional capital of ₱8.0 billion. The Bank successfully completed ₱8.0 billion stock rights offer and shares were listed on January 18, 2019 in the PSE. Capital paid in excess of par related to the offering amounted to ₱6.5 billion, net of transactions costs of ₱101.5 million.

On March 12, 2019, the BOD approved (a) the amendment of the AOI to increase the authorized capital stock from ₱4.25 billion to ₱6.00 billion and (b) the declaration of a 11.42% stock dividend equivalent to 43,750,000 shares amounting to ₱2.57 billion representing the minimum 11.42% subscription and paid-up capital for the increase in the authorized capital stock of the Bank which were ratified by the stockholders representing at least 2/3 of the outstanding capital stock on April 15, 2019. These were approved by BSP on August 8, 2019 and by the SEC on November 20, 2019. Following this, the authorized capital stock of the Bank increased from ₱4.25 billion to ₱6.00 billion consisting of 600.00 million common shares with par value of ₱10.00 per share.

On January 16, 2020, the Bank received the SEC order fixing the record date of the 11.42% stock dividend on January 31, 2020. The 11.42% stock dividend was issued on February 21, 2020 with record date on January 31, 2020. On February 17, 2020, the PSE approved the listing of such stock dividend. Capital paid in excess of par related to the issuance of stock dividend amounted to ₱2.1billion.

Dividends Paid and Proposed
Details of the Bank's dividend distributions as approved by the Bank's BOD and the BSP follow:

	Cash Dividends			
Date of declaration	**Per share**	**Total amount**	**Record date**	**Payment date**
January 18, 2018	0.75	180,189,368.3	February 02, 2018	February 19, 2018
April 23, 2018	0.75	180,189,368.3	May 9, 2018	May 23, 2018
July 20, 2018	0.75	180,189,368.3	August 6, 2018	August 20, 2018
October 15, 2018	0.75	180,189,368.3	October 30, 2018	November 14, 2018
January 17, 2019	0.75	287,332,062.0	February 1, 2019	February 18, 2019
April 15, 2019	0.75	287,332,062.0	May 3, 2019	May 15, 2019
July 19, 2019	0.75	287,332,062.0	August 5, 2019	August 19, 2019

(Forward)

Cash Dividends				
Date of declaration	**Per share**	**Total amount**	**Record date**	**Payment date**
October 14, 2019	0.75	287,332,062.0	October 29, 2019	November 13, 2019
January 16, 2020	0.75	287,332,062.0	January 31, 2020	February 17, 2020
April 21, 2020	0.75	320,144,562.0	May 7, 2020	May 21, 2020
July 23, 2020	0.75	320,144,562.0	August 7, 2020	August 24, 2020
October 22, 2020	0.75	320,144,562.0	November 9, 2020	November 23, 2020

Stock Dividends				
Date of declaration	**Per share**	**Total amount**	**Record date**	**Payment date**
March 12, 2019	11.42%	₱–	January 31, 2020	February 21, 2020

On October 9, 2015, the BSP issued Circular No. 888, *Amendments to Regulations on Dividend Declaration and Interest Payments on Tier 1 Capital Instruments*, which liberalized said rules in the sense that prior BSP verification and approval is no longer required except for banks with major supervisory concerns. However, banks are bound to comply with the provisions of Section X136 of the Manual of Regulations for Banks (MORB) and its subsections, including the submission of documentary requirements under Subsection X136.4 of the MORB. Otherwise, banks, subsequently found to have violated the provisions on dividend declaration or have falsely certified/submitted misleading statements shall be reverted to the prior BSP verification wherein the bank can only make an announcement or communication on the declaration of the dividends or payment of dividends thereon upon receipt of BSP advice thereof. The Bank is compliant with the said circular.

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines.

In compliance with BSP regulations, 10.00% of the Bank's profit from trust business is appropriated to surplus reserves. This annual appropriation is required until the surplus reserves for trust business equals 20.00% of the Bank's authorized capital stock.

A portion of the surplus corresponding to the accumulated net earnings of a joint venture is not available for dividend declaration (Note 10) until receipt of cash dividends from the investee.

Capital Management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements, as mandated by the BSP, and that the Bank maintains healthy capital ratios in order to support its business and maximize returns for its shareholders. The Bank considers its paid in capital and surplus as its capital.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders or issue capital securities. The major activities in this area include the following:

- The Bank issued additional common shares for its qualified stockholders in 2008 and 2006 through stock rights offerings that raised ₱2.0 billion and ₱750.0 million in capital, respectively.

- On October 21, 2016, the BOD approved the Bank's updated Dividend Policy which provides, among others, the declaration and payment of cash dividends at a rate of ₱0.75 per share on a quarterly basis unless approved by a majority vote of the BOD at a different rate or otherwise restricted/prohibited from declaring/paying dividends.

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 capital) as reported to the BSP. This is determined on the basis of regulatory accounting policies which differ from PFRS in some respects.

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In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis and consolidated basis. Qualifying capital and risk-weighted assets are computed based on BSP regulations.

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

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements,* which states the implementing guidelines on the revised risk-based capital adequacy framework, particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The Circular took effect on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50%. It also introduces a capital conservation buffer of 2.50% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10.00% and these ratios shall be maintained at all times.

The CAR of the Bank as of December 31, as reported to the BSP, based on BSP Circular No. 781 and BSP Circular No. 538, respectively, are shown in the table below (amounts in millions).

	2020	2019
Tier 1 capital	**₱33,009**	₱32,807
CET1 capital	**33,009**	32,807
Less: Required deductions	**3,942**	3,146
Total Tier 1 Capital	**29,067**	29,661
Total Tier 2 capital	**2,148**	1,672
Total qualifying capital	**31,215**	31,333
Risk weighted assets	**160,738**	₱176,385
Tier 1 ratio	**18.08%**	16.82%
CET1 ratio	**18.08%**	16.82%
Capital adequacy ratio	**19.42%**	17.76%

Regulatory qualifying capital consists of Tier 1 (going concern) capital, which comprises capital stock, surplus, surplus reserves, net unrealized gains on FVOCI securities, cumulative foreign currency translation and remeasurements of net defined benefit asset. Certain adjustments are made to PFRS-based results and reserves, as prescribed by the BSP. The other component of regulatory capital is Tier 2 (gone-concern) capital, which is comprised of the Bank's general loan loss provision and unsecured subordinated debt (refer to Note 17). Certain items are deducted from the regulatory Gross Qualifying Capital, such as but not limited to, outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, and unsecured loans, other credit accommodations, and guarantees granted to subsidiaries and affiliates (net of specific provisions), deferred tax assets, goodwill, other intangible assets and significant minority investments in a joint venture.

Risk-weighted assets are determined by assigning defined risk weights to amounts of on-balance sheet exposures and to the credit equivalent amounts of off-balance sheet exposures.

As of December 31, 2020 and 2019, the Bank has complied with the requirements of BSP Circular No. 781 and BSP Circular No. 538.

On October 29, 2014, the BSP issued Circular No. 856 which covers the implementing guidelines on the framework for dealing with domestic systemically important banks (DSIBs) in accordance with the Basel III standards. Banks identified as DSIBs shall be required to have higher loss absorbency, on top of the minimum CET1 capital and capital conservation buffer. Compliance with this requirement was phased-in starting January 1, 2017, with full compliance on January 1, 2019. On September 27, 2019, the BSP issued Circular No. 1051 which covers the enhancements in the assessment methodology of D-SIBs. The Bank has complied with this requirement.

The issuance of BSP Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) in 2009 supplements the BSP's risk-based capital adequacy framework under BSP Circular No. 538. In compliance with this new circular, the Metrobank Group has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Group. 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 Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget, as well as regulatory directives. The Bank follows the Group's ICAAP framework and submits the result of its assessment to the Parent Company. Per BSP Circular No. 869, effective January 31, 2015, submission of an ICAAP document is required by BSP every March 31 of each year. The Bank has complied with this requirement.

The Bank has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

BASEL III Leverage Ratio (BLR)

On June 9, 2015, the BSP issued Circular No. 881 covering the implementing guidelines on the Basel III Leverage Ratio Framework which is designed to act as a supplementary measure to the risk-based capital requirements and shall not be less than 5.0 percent. The monitoring period has been set every quarter starting December 31, 2014 and extended until June 30, 2018 under BSP Circular No. 990 issued on January 22, 2018. Effective July 1, 2018, the monitoring of the leverage ratio was implemented as a Pillar I minimum requirement.

The Basel III Leverage Ratio is designed to act as a supplementary measure to the risk-based capital requirements. The Basel III Leverage Ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), with this ratio expressed as percentage. Capital measure id the Tier 1 capital. Exposure measure is the sum of on-balance sheet exposures, derivative exposures, security financing exposures and off-balance sheet items. The leverage ratio shall not be less than 5.0 percent computed on both solo (head office plus branches) and consolidated bases (including subsidssiary financial allied undertakings but excluding insurance companies).

As of December 31, 2020 and December 31, 2019, the Bank maintains these ratios above minimum requirements as shown in the table below (in millions):

	December 31, 2020	December 31, 2019
A. Capital Measure	**₱29,067**	₱29,661
B. Exposure Measure	**216,790**	221,774
C. Basel III Leverage Ratio (A/B)	**13.41%**	13.37%

Liquidity Coverage Ratio

On March 10, 2016 and February 8, 2018, the BSP issued Circular Nos. 905 and 996, respectively, which include guidelines on liquidity coverage ratio (LCR), and LCR disclosure standards that are consistent with the Basel III framework. The LCR is the ratio of high-quality liquid assets (HQLAs) to total net cash outflows. To promote the short-term resilience of the liquidity risk profile of the Bank, it shall maintain an adequate stock of unencumbered HQLAs that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs under stressed conditions. The stock of liquid assets should enable the Bank to withstand significant liquidity shocks for at least thirty (30) calendar days, which would give time for corrective actions to be taken by the Bank's management and/or the BSP.

On March 15, 2019, the BSP issued Circular No. 1035 which approved the: (1) extension of the observation period of the minimum Basel III LCR requirement to December 31, 2019 for subsidiary banks and quasi-banks (QBs) of universal and commercial banks (U/KBs), (2) adoption of a seventy percent (70%) LCR floor for subsidiary banks and QBs during the observation period, (3) minimum requirement of one hundred (100%) starting January 1, 2020. As of December 31, 2020 and 2019, the LCR in single currency as reported to the BSP, is 163.03% and 130.22%, respectively.

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Net Stable Funding Ratio
On June 6, 2018, the BSP issued Circular No. 1007, lmplementing Guidelines on the adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio (NSFR). The NSFR limits overreliance on short-term wholesale funding and promotes enhanced assessment of funding risk across all on and off balance sheet accounts. The NSFR complements the LCR, which promotes short term resilience of the Bank's liquidity profile. The covered bank shall maintain an NSFR of at least 100.0 percent at all times. Compliance with this requirement was phased-in effective July 1, 2018, with full implementation of the minimum NSFR on January 1, 2019.

On March 15, 2019, the BSP issued Circular No. 1034 which approved the extension of the observation period for the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio (NSFR) for subsidiary banks/quasi-banks.

The implementation of the minimum NSFR shall be phased in to help ensure that the covered banks/QBs can meet the standard through reasonable measures without disrupting credit extension and financial market activities. In order to facilitate compliance, covered banks/QBs shall undergo an observation period before the NSFR becomes a minimum requirement. Subsidiary banks/QBs of U/KBs shall be subject to an NSFR floor of seventy percent (70%) during the observation period. Starting January 1, 2020, the minimum NSFR for subsidiary banks/quasi-banks of universal and commercial banks (UBs/KBs) shall be 100%. As of December 31, 2020 and 2019, the NSFR as reported to the BSP is at 126.65% and 114.30%, respectively.

Basel III Countercyclical Capital Buffer
On December 6, 2018, the BSP issued Circular No. 1024 covering the Philippine adoption of the Basel III Countercyclical Capital Buffer (CCyB) which imposed the following capital buffers:

- Capital Conservation buffer (CCB) of two and a half percent (2.5%); and
- Countercyclical capital buffer (CCyB) of zero percent (0%) subject to upward adjustment to a rate determined by the Monetary Board of the BSP when systemic conditions warrant but not to exceed two and a half percent (2.5%). Any increase in the CCyB rate shall be effective 12 months after its announcements. Decreases shall be effective immediately.

The prescribed ratios shall be maintained at all times.

22. Net Service Fees and Commission Income

This account consists of:

	2020	2019	2018
Service Fees and Commission Income			
Credit-related fees and commissions	**₱890,934,914**	₱1,383,966,509	₱1,147,242,321
Deposit-related and other fees received (Note 29)	**374,192,384**	531,415,495	542,791,633
Trust fees	**43,083,232**	36,559,669	31,711,469
	1,308,210,530	1,951,941,673	1,721,745,423
Service Fees and Commission Expense			
Commissions	**41,856,120**	84,651,434	89,813,087
Brokerage	**8,969,685**	3,785,862	6,294,577
	50,825,805	88,437,296	96,107,664
Net Service Fees and Commission Income	**₱1,257,384,725**	₱1,863,504,377	₱1,625,637,759

23. Miscellaneous Income

This account consists of:

	2020	2019	2018
Recovery of charged-off assets	**₱234,282,740**	₱305,034,325	₱309,707,677
Insurance commission income	**105,684,417**	146,397,446	156,867,388
Rental income (Notes 12, 25 and 29)	**46,711,545**	38,164,311	50,548,338
Others (Notes 9 and 29)	**(371,212,674)**	65,301,808	107,176,032
	₱15,466,028	₱554,897,890	₱624,299,435

Rental income arises from the lease of properties and safety deposit boxes of the Bank.

Others include loss arising from debt modification amounting to ₱0.4 billion in 2020, income from renewal fees, checkbook charges, breakfunding cost and other miscellaneous income.

24. Retirement Benefits

The Bank has a funded, noncontributory defined benefit plan covering substantially all of its employees. The benefits are based on years of service and final compensation.

The plan administered by the Retirement Committee is composed of five (5) members appointed by the BOD of the Bank. The Retirement Committee have all the powers necessary or useful in the discharge of its duties of administration including, but not limited to determining the rights of Members under the Plan. The Retirement Committee may adopt such rules and regulations as it deems necessary and desirable, including those governing the establishment of procedures, the use of necessary forms, and the setting up of minimum periods where notice is required. The Retirement Committee may seek advice of counsel, and may appoint an independent accountant to audit the Plan and actuary to value the plan periodically, whose professional fees and expenses may be charged to the Fund.

Under the existing regulatory framework, Republic Act No. 7641, *Retirement Pay Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The date of the latest actuarial valuation is December 31, 2020.

The amounts of pension expense included in 'Compensation and fringe benefits' in the statements of income follow:

	2020	2019
Current service cost	**₱280,603,012**	₱223,748,861
Net interest cost	**13,286,975**	(7,346,183)
	₱293,889,987	₱216,402,678

The net retirement liability shown under ‘Other liabilities’ recognized in the Bank’s statements of condition follows (in thousands):

	2020											
		Net benefit cost				Remeasurements in other comprehensive income						
	January 1, 2020	Current service cost	Net Interest	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer	December 31, 2020
Present value of defined benefit obligation	₱3,340,316	₱280,603	₱157,856	₱438,459	(₱250,970)	₱–	(₱16,668)	(₱88,011)	(₱164,123)	(₱268,802)	₱–	₱3,259,003
Fair value of plan assets	(2,899,921)	–	(144,569)	(144,569)	₱250,970	(33,650)	–	–	–	(33,650)	(382,810)	(3,209,980)
Net defined benefit liability	₱440,395	₱280,603	₱13,287	₱293,890	₱–	(₱33,650)	(₱16,668)	(₱88,011)	(₱164,123)	(₱302,452)	(₱382,810)	₱49,023

	2019											
		Net benefit cost				Remeasurements in other comprehensive income						
	January 1, 2019	Current service cost	Net Interest	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer	December 31, 2019
Present value of defined benefit obligation	₱2,452,459	₱223,749	₱174,993	₱398,742	(₱131,807)	₱–	₱52,870	(₱66,706)	₱634,758	₱620,922	₱–	₱3,340,316
Fair value of plan assets	(2,339,800)	–	(182,339)	(182,339)	131,807	46,711	–	–	–	46,711	(556,300)	(2,899,921)
Net defined benefit liability	₱112,659	₱223,749	(₱7,346)	₱216,403	₱–	₱46,711	₱52,870	(₱66,706)	₱634,758	₱667,633	(₱556,300)	₱440,395

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The Bank expects to contribute ₱263.0 million to its noncontributory defined benefit plan in 2021.

The fair values of plan assets by each class as at the statements of condition date are as follows:

	2020	2019
Investment in debt securities		
Government	**₱1,775,616,337**	₱997,445,361
Private	**1,218,154,420**	1,036,436,064
Cash and cash equivalents		
Special deposit account	**99,961,991**	753,284,758
Unit Investment Trust Fund (UITF)	**41,115,121**	55,533,465
Investment in equity securities	**68,516,666**	45,678,960
Other assets	**19,660,318**	17,388,012
	3,223,024,853	2,905,766,620
Expected withdrawals	**116,000,000**	2,186,497
Expected contributions	**(95,000,000)**	–
Expected earnings	**(7,845,880)**	–
Other liabilities	**2,700,781**	3,659,269
	15,854,901	5,845,766
	₱3,207,169,952	₱2,899,920,854

The person exercising voting right for the foregoing equity instruments is currently a senior officer of the Bank.

The principal actuarial assumptions used in determining retirement liability as of December 31, 2020 and 2019 are shown below:

	2020	2019
Discount rate	**3.56%**	4.86%
Turnover rate	**3.63%, 10.23%**	3.72%, 7.03%
Future salary increases	**4.00%**	5.80%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

	December 31, 2020		December 31, 2019	
	Possible Fluctuations	**Increase (decrease)**	Possible Fluctuations	Increase (decrease)
Discount rate	**+1.00%**	**(₱261,736,483)**	+1.00%	(₱306,936,163)
	-1.00%	**300,216,712**	-1.00%	356,515,290
Turnover rate	**+1.00%**	**(54,172,532)**	+1.00%	(24,844,215)
	-1.00%	**61,612,552**	-1.00%	25,904,088
Future salary increase rate	**+1.00%**	**311,960,997**	+1.00%	365,875,807
	-1.00%	**(276,760,337)**	-1.00%	(320,611,308)

The Retirement Committee ensures that there will be sufficient assets to pay pension benefits as they fall due and maintains the plan on an actuarially sound basis considering the benefits to members.

Shown below is the maturity analysis of the undiscounted benefit payments:

	2020	2019
Less than one year	**₱260,001,350**	₱184,489,685
One to less than five years	**1,079,325,185**	968,188,477
Five to less than 10 years	**1,820,446,053**	1,984,484,132
10 to less than 15 years	**1,956,019,106**	2,385,120,244
15 to less than 20 years	**2,025,400,932**	3,514,621,971
20 years and above	**1,443,347,516**	3,998,539,092

NOTES TO FINANCIAL STATEMENTS

The average duration of the expected benefit payments at the statement of condition date is 12.50 years.

25. Leases

The Bank leases the premises occupied by its branches for periods ranging from 1 to 30 years renewable under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 10.00%.

As of December 31, 2020, the carrying amounts of lease liabilities (included in 'Other Liabilities' in Note 19) are as follows:

	2020	2019
Balance at beginning of year	**₱1,467,103,825**	₱1,631,376,370
Additions	**243,849,256**	186,062,195
Expiry/termination	**(12,924,409)**	(24,419,449)
Accretion of interest	**99,539,323**	113,560,729
Payments	**(455,173,090)**	(439,476,020)
	₱1,342,394,905	₱1,467,103,825

The Bank recognized interest expense on lease liabilities (included in 'Interest expense' in the statements of income) amounting to ₱99.54 million and ₱113.56 in 2020 and 2019, respectively, rent expense from short-term leases and leases of low-value assets amounting to ₱140.71 million. Prior to adoption of PFRS 16, rentals charged against profit or loss under these lease contracts (included in 'Occupancy and equipment-related costs') amounted to ₱579.9 million in 2018.

Future minimum rentals payable under non-cancelable operating leases are as follows:

	2020	2019
Within one year	**₱468,112,062**	₱423,674,780
After one year but not more than five years	**1,053,338,985**	1,329,902,440
More than five years	**238,684,657**	290,459,635
	₱1,760,135,704	₱2,044,036,855

The Bank has also entered into commercial property leases on its surplus office space. These non-cancelable leases have remaining non-cancelable lease terms between 1 and 5 years. As of December 31, 2020 and 2019, there is no contingent rental income. Rental income of the Bank related to these property leases amounting to ₱45.5 million, ₱37.5 million and ₱49.9 million in 2020, 2019 and 2018, respectively are shown under 'Miscellaneous income' in the statements of income (Notes 12 and 23).

Future minimum rentals receivable under non-cancelable operating leases are as follows:

	2020	2019
Within one year	**₱42,408,437**	₱33,471,331
After one year but not more than five years	**70,692,447**	42,079,555
	₱113,100,884	₱75,550,886

26. Miscellaneous Expenses

This account consists of:

	2020	2019	2018
Insurance (Note 29)	**₱498,092,209**	₱526,287,475	₱595,158,658
Litigation	**364,647,454**	282,384,260	297,754,941
Information technology (Note 29)	**362,765,811**	425,215,165	297,643,153
Fines, penalties and other charges	**188,886,091**	128,331,742	234,341,527
Communications	**143,024,129**	177,856,164	179,193,852
Transportation and traveling	**127,736,459**	94,905,835	95,921,603
Repairs and maintenance (Note 12)	**117,546,466**	110,547,531	135,470,468
Stationery and supplies	**98,511,725**	48,873,458	65,109,689
Supervision and examination fees	**79,409,221**	77,018,742	70,287,368
Advertising	**50,064,780**	69,277,788	69,805,497
Management and professional fees	**18,899,050**	24,116,130	23,735,142
Donations and charitable contributions	**11,465,500**	11,477,405	10,490,700
Banking activities expenses	**4,670,840**	8,038,978	12,549,672
Membership fees and dues	**4,380,400**	2,983,128	5,671,411
Training and seminars	**1,973,526**	8,452,923	12,134,080
Meeting allowance	**786,289**	4,702,558	6,325,640
Entertainment, amusement and recreation (EAR) (Note 27)	**633,249**	1,877,071	2,504,229
Rewards and incentives	**490,668**	3,104,531	7,167,172
Others	**10,836,446**	17,740,398	19,632,920
	₱2,084,820,313	₱2,023,191,282	₱2,140,897,722

Insurance expense includes premiums paid to the Philippine Deposit Insurance Corporation (PDIC) amounting to ₱345.66 million, ₱361.14 million, and ₱398.4 million in 2020, 2019 and 2018, respectively.

Other expenses include sponsorship expenses, home free loan expenses, appraisal fees and notarial fees. These also include payments to union members amounting to ₱10.6 million, ₱11.1 million and ₱10.7 million in 2020, 2019 and 2018, respectively, for the successful completion of the collective bargaining agreement.

27. Income and Other Taxes

Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented as ‘Taxes and licenses’ 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 tax (DST).

Income taxes include corporate income tax, further discussed below, and final taxes paid at the rate of 20.00%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes.

The NIRC of 1997 also provides for rules on the imposition of a 2.00% MCIT on the gross income as of the end of the taxable year beginning on the fourth taxable year immediately following the taxable year in which the company commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the three (3) immediately succeeding taxable years.

Starting July 1, 2008, the Optional Standard Deduction (OSD) equivalent to 40.00% of gross income may be claimed as an alternative deduction in computing for the RCIT. The Bank elected to claim itemized expense deductions instead of the OSD in computing for the RCIT in 2020 and 2019.

Current tax regulations also provide for the ceiling on the amount of EAR expense that can be claimed as a deduction against taxable income. Under the regulations, EAR expense allowed as a deductible expense for a service company is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue.

NOTES TO FINANCIAL STATEMENTS

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.00% income tax. In addition, interest income on deposit placements with other FCDUs and OBUs is taxed at 15.00% in 2020 and 2019.

Under current tax regulations, the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks, including branches of foreign banks, is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Provision for income tax consists of:

	2020	2019	2018
Current:			
Final tax	**₱265,200,890**	₱260,917,208	₱260,261,959
RCIT	**501,075,819**	153,911,132	121,107,822
	766,276,709	414,828,340	381,369,781
Deferred	**(783,739,604)**	135,612,443	(71,774,541)
	(₱17,462,895)	₱550,440,783	₱309,595,240

Net deferred tax assets consist of the following tax effects:

	2020	2019
Deferred tax assets on:		
Allowance for credit and impairment losses	**₱1,916,366,550**	₱1,243,297,588
Unamortized pension cost contribution	**220,479,926**	220,355,789
Difference between book base and tax base of investment property	**118,557,427**	112,799,780
Leases	**72,270,513**	68,373,851
Loan modification	**127,955,219**	–
Net pension liability	**14,706,966**	132,118,445
	2,470,336,601	1,776,945,453
Deferred tax liabilities on:		
Net unrealized gain on investment properties	**(365,019,153)**	(375,267,861)
Unrealized foreign exchange gains	**(12,739,353)**	(1,774,776)
Others	**(1,437,248)**	(1,766,034)
	(379,195,754)	(378,808,671)
	₱2,091,140,847	₱1,398,136,782

As of December 31, 2020 and 2019, the Bank did not recognize deferred tax assets pertaining to allowance for credit losses amounting to ₱444.5 million and ₱16.8 million, respectively. Income tax effect recognized in OCI amounted to (₱90.7 million), ₱200.3 million, and (₱32.0 million), in 2020, 2019 and 2018, respectively.

The Bank believes that it is not reasonably probable that the tax benefits of these temporary differences will be realized in the future.

The reconciliation between the statutory income tax and effective income tax follows (in thousands):

	2020	2019	2018
Statutory income tax	**₱327,225**	₱1,073,634	₱891,522
Tax effect of:			
Tax-paid and tax-exempt income	**(928,629)**	(630,511)	(675,048)
Change in unrecognized DTA	**427,676**	(7,056)	–
Nondeductible expenses	**225,399**	215,415	364,875
FCDU income	**(78,916)**	(100,331)	(67,360)
Others	**9,782**	(710)	(204,394)
Effective income tax	**(₱17,463)**	₱550,441	₱309,595

28. Earnings Per Share

The following table presents information used to calculate basic EPS:

	2020	2019	2018
a. Net income	**₱1,108,212,279**	₱3,028,337,640	₱2,662,145,866
b. Weighted average number of common shares for basic earnings per share	**426,859,416**	420,124,743*	282,262,011*
c. Basic/Diluted EPS (a/b)	**₱2.60**	₱7.21	₱9.43

*Restated to show the effect of stock dividends issued in 2020.

As of December 31, 2020, 2019 and 2018, there were no potential common shares with dilutive effect on the basic EPS of the Bank.

29. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Bank's related parties are as follows:

- Bank's Directors, Officers, Stockholders and their Related Interests (DOSRI) as defined per BSP's existing DOSRI rules and regulations;
- Close Family Members (i.e., 2nd degree relatives) of the Bank's Directors, Officers with rank of SVP and up, and Individual Substantial Stockholders;
- Bank's Subsidiaries and Affiliates as defined per BSP's existing rules and regulations on lending to subsidiaries and affiliates;
- Any party that the Bank exerts direct or indirect control over or that exerts direct or indirect control over the Bank;
- Subsidiaries, Affiliates and Special Purpose Entities (SPEs) of any party that the Bank exerts direct or indirect control over or that exerts direct or indirect control over the Bank;
- Corresponding Persons in Affiliated Companies as defined in the Bank's Related Party Transaction (RPT) Policy; and
- Any natural person or juridical entity whose interest may pose potential conflict with the Bank's interest.

The Bank has several business relationships with related parties. The terms of the transactions with such parties are listed below on substantially the same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties, and are usually settled in cash. These transactions also did not involve more than the nominal risk of collectability or present other unfavorable conditions.

Transactions with the Retirement Plan

On December 20, 2012, the SEC issued Memorandum Circular No. 12 providing for guidelines on the disclosure of transactions with retirement benefit funds. Under said circular, a reporting entity shall disclose information about any transaction with a related party (retirement fund, in this case) and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

Under PFRS, certain post-employment benefit plans are considered as related parties. The Bank has business relationships with its retirement plan pursuant to which it provides trust and management services to the said plan. The retirement plan of the employees of the Bank is being managed and maintained by the Trust Division of the Bank. The total fair value of the retirement fund as of December 31, 2020 and 2019 amounted to ₱3.3 billion and ₱2.9 billion, respectively. The details of the assets of the fund as of December 31, 2020 and 2019 are disclosed in Note 24.

NOTES TO FINANCIAL STATEMENTS

The following table shows the amount of outstanding balances of related party transactions of the Bank with the retirement plan of the employees of the Bank as of December 31, 2020 and 2019:

		2020	
		Elements of Transaction	
Related Party	**Nature of Transaction**	**Statement of Condition**	**Statement of Income**
Philippine Savings Bank	Savings Deposit	**₱1,227,169**	–
	Investment in Money Market Fund*	**40,650,542**	–
	Dividends income	–	**1,445,965**
	Income from UITF**	–	**836,424**
	Interest income	–	**20,436**
First Metro ETF	Equity investment***	**₱26,237,412**	–

*Includes fair value gains of ₱3.4 million
**Includes fair value loss of ₱0.06 million
***Includes fair value loss of ₱0.43 million

		2019	
		Elements of Transaction	
Related Party	Nature of Transaction	Statement of Condition	Statement of Income
Philippine Savings Bank	Savings Deposit	₱3,685,981	
	Investment in Money Market Fund*	52,092,458	
	Income from UITF		₱1,869,456
	Interest income		14,629
First Metro ETF	Equity investment	₱26,352,764	

*Includes fair value gains of ₱0.3 million
*Includes fair value gains of ₱0.2 million

Transactions relating to the Bank's retirement plan are approved by its Retirement Committee. The voting right over the investments in the Bank's capital stocks is exercised by a member of the Retirement Committee as approved by all members of the Retirement Committee, whom are senior officers of the Bank.

Remunerations of Directors and Other Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers the members of the Management Committee to constitute key management personnel for purposes of PAS 24, *Related Party Disclosures.*

Total remunerations of key management personnel (covering assistant vice presidents and up) [included under 'Compensation and fringe benefits' in the statements of income are as follows:

	2020	2019
Short-term employee benefits	**₱332,208,598**	₱300,297,110
Post-employment pension benefits	**14,480,487**	35,761,294
	₱346,689,085	₱336,058,404

Short-term employee benefits include salaries and other non-monetary benefits.

Remunerations given to directors, as approved by the Board Remuneration Committee, amounted to ₱21.9 million, ₱19.0 million and ₱19.3 million in 2020, 2019 and 2018, respectively.

The Bank also provides banking services to directors and other key management personnel and persons connected to them.

Other Related Party Transactions

Other related party transactions of the Bank by category of related party are presented below.
The following tables show the amount and outstanding balances included in the financial statements (in thousands):

	December 31, 2020		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Entities with significant influence (MBTC)			
Due from other banks	**₱643,918**	**₱1,374,327**	Peso and foreign denominated deposit with 2.50% fixed interest rates and maturities ranging from 360 days
Interbank loans receivable	**–**	**–**	Peso-denominated lending with 4.00% to 5.09% fixed interest rates and maturities ranging from 1 to 3 days
Placements	**32,381,000**	**–**	
Maturities	**(32,381,000)**	**–**	
Investment securities at amortized cost	**59,581**	**59,581**	Pledged for security of payroll account with MBTC.
Accounts receivable (payable)	**(208)**	**(1,909)**	Outstanding ATM service fees, rental and utility receivables, non-interest bearing; no impairment
Miscellaneous assets	**1,763**	**1,834**	Security deposits on lease contracts
Miscellaneous liabilities	**(323)**	**5,919**	Advance payments of security deposits
Bills Payable			Peso-denominated borrowing with fixed interest rate of 3.00% with 1 day maturity.
Deposits/placements	**–**	**–**	
Withdrawals/maturities	**–**	**–**	
Accrued other expense payable	**36,124**	**68,584**	Outstanding information technology expense payable, charges on current and savings accounts processing
Interest income	**4,329**	**–**	Income on deposits and interbank loans receivables
Rental income	**8,209**	**–**	Income from leasing agreements with various lease terms ranging from 2 to 5 years
Miscellaneous income	**9,947**	**–**	Income received from ATM service fees, rental and utilities
Information technology expense	**121,476**	**–**	Payment of information technology expenses
Trading and security loss	**57,038**	**–**	Gain from securities transactions
Interest expense	**–**	**–**	Interest expense on bills payable
Securities transactions			
Outright purchases	**4,892,130**	**–**	Outright purchase of FVTPL, FVOCI and investment at amortized cost
Outright sales	**(3,166,130)**	**–**	Outright sale of FVTPL, FVOCI and investment at amortized cost
Joint Venture (SMFC)	**–**	**–**	
Investment in a joint venture	**(50,305)**	**705,477**	Investment in SMFC
Share in net income of a joint venture	**40,299**	**–**	30% share in net income of SMFC
Dividends from joint venture	**(53,280)**	**–**	Dividends from SMFC
Share in unrealized gain on remeasurement of retirement liability	**(2,227)**	**(1,285)**	30% share in remeasurement of SMFC retirement liability taken up in OCI
Share in hedge reserves	**(35,097)**	**(35,097)**	30% share in hedge reserves of SMFC taken up in OCI
Accounts receivable	**(648)**	**217**	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	**464,130**	**488,007**	Demand and short-term peso time deposits with annual fixed rates of 1.25%
Miscellaneous liabilities	**–**	**–**	Payment of security deposits
Rental income	**14,028**	**–**	Income from leasing agreements
Miscellaneous income	**4,752**	**–**	
Interest expense	**722**	**–**	Interest on deposit liabilities with 1.25% annual fixed rate
Other Related Parties(DOSRI/indirect)			
Interbank loans receivable	**–**	**–**	Peso-denominated lending which earn 4.00% to 5.00% fixed daily interest rate with maturity terms from 1 to 5 days
Placements	**–**	**–**	
Maturities	**–**	**–**	
Receivable from customers	**–**	**982,125**	Loans granted bear interest of ranging 7.05% to 7.38% with 1 to 10 years term.
Placements	**975,000**	**–**	
Maturities	**987,300**	**–**	
Miscellaneous assets	**(187)**	**2,597**	Three months advance security deposits
Accounts receivable	**372**	**6,693**	Outstanding ATM service fees, rental and utility receivables, non-interest bearing
Prepaid expense	**(3,221)**	**6,773**	Payment for various policy renewals
Deposit liabilities	**226,204**	**915,051**	Demand, savings and short-term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 3.50%
Bills Payable	**–**	**–**	Peso denominated borrowing with 4.00% to 5.00% fixed interest rates and maturities ranging from 1 to 3 days
Deposits/placements	**2,700,000**	**–**	
Withdrawals/maturities	**(2,700,000)**	**–**	
Accrued other expense payable	**–**	**1,151**	Outstanding group life insurance
Accounts payable	**(4,055)**	**2**	Various personal and car insurance payable
Miscellaneous liabilities	**1,872**	**1,872**	Advance payment of security deposits from various tenants
Interest income	**63,020**	**–**	Income on receivables from customers and interbank loans receivables
Trading and securities loss	**–**	**–**	Loss from securities transactions

(Forward)

NOTES TO FINANCIAL STATEMENTS

	December 31, 2020		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Rental income	**₱15,995**	**₱–**	Income from leasing agreements with various lease terms
Bank commission	**2,415**	–	Commission income on ATM service fees
Miscellaneous income	**3,931**	–	Service income from referral fees on approved credit card issuances and bank insurance with rates ranging from 2.00% to 10.00%
Insurance expense	**75,849**	–	Payment of insurance premium
Interest expense	**12,410**	–	Interest on deposit liabilities and bills payable
Rent expense	**485**	–	Payment of rent expense to various lessors
Securities transactions			
Outright purchases	**4,415,710**	–	Outright purchase of FVTPL and FVOCI
Outright sales	**–**	–	Outright sale of FVTPL and FVOCI
Key Personnel			
Receivables from customers	**–**	**8,813**	Unsecured, no impairment, with annual fixed interest rates of 6.00% and maturities ranging from 2 to 10 years
Placements	**2,430**	–	
Maturities	**(4,946)**	–	
Interest income	**849**	–	Interest income from loans

	December 31, 2019		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Entities with significant influence (MBTC)			
Due from other banks	(₱385,380)	₱730,409	Peso and foreign denominated deposit with 2.50% fixed interest rates and maturities ranging from 360 days
Interbank loans receivable		–	Peso-denominated lending with 4.00% to 5.09% fixed interest rates and maturities ranging from 1 to 3 days
Placements	35,778,000	–	
Maturities	(35,778,000)	–	
Investment securities at amortized cost	(202)	66,294	Pledged for security of payroll account with MBTC.
Accounts receivable (payable)	(5,691)	(959)	Outstanding ATM service fees, rental and utility receivables, non-interest bearing; no impairment
Miscellaneous assets	–	71	Security deposits on lease contracts
Miscellaneous liabilities	–	6,242	Advance payments of security deposits
Bills Payable		–	Peso-denominated borrowing with fixed interest rate of 3.00% with 1 day maturity.
Deposits/placements	31,238,942	–	
Withdrawals/maturities	(31,238,942)	–	
Accrued other expense payable	(1,869)	32,460	Outstanding information technology expense payable, charges on current and savings accounts processing
Interest income	5,214	–	Income on deposits and interbank loans receivables
Rental income	418	–	Income from leasing agreements with various lease terms ranging from 2 to 5 years
Miscellaneous income	25,047	–	Income received from ATM service fees, rental and utilities
Information technology expense	294,813	–	Payment of information technology expenses
Trading and security loss	146,720	–	Loss from securities transactions
Interest expense	6,156	–	Interest expense on bills payable
Securities transactions			
Outright purchases	1,757,094	–	Outright purchase of FVTPL, FVOCI and investment at amortized cost
Outright sales	(4,921,605)	–	Outright sale of FVTPL, FVOCI and investment at amortized cost
Joint Venture (SMFC)			
Investment in a joint venture	–	755,781	Investment in SMFC
Share in net income of a joint venture	105,905	–	30% share in net income of SMFC
Dividends from joint venture	39,960	–	Dividends from SMFC
Share in unrealized gain on remeasurement of retirement liability	(2,189)	942	30% share in remeasurement of SMFC retirement liability taken up in OCI
Accounts receivable	(867)	866	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	8,938	23,877	Demand and short-term peso time deposits with annual fixed rates of 1.25%
Miscellaneous liabilities	–	4,630	Payment of security deposits
Rental income	13,900	–	Income from leasing agreements
Interest expense	254	–	Interest on deposit liabilities with 1.25% annual fixed rate
Other Related Parties(DOSRI/indirect)			
Interbank loans receivable		–	Peso-denominated lending which earn 4.00% to 5.00% fixed daily interest rate with maturity terms from 1 to 5 days
Placements	36,850,000	–	
Maturities	(36,850,000)	–	
Receivable from customers		994,425	Loans granted bear interest of ranging 7.05% to 7.38% with 1 to 10 years term.
Placements	985,000	–	
Maturities	992,700		
Miscellaneous assets	1,351	2,784	Three months advance security deposits
Accounts receivable	3,659	6,321	Outstanding ATM service fees, rental and utility receivables, non-interest bearing
Prepaid expense	(4,575)	9,993	Payment for various policy renewals
Deposit liabilities	(233,268)	688,847	Demand, savings and short-term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 3.50%

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2019		
Bills Payable	₱–	₱–	Peso denominated borrowing with 4.00% to 5.00% fixed interest rates and maturities ranging from 1 to 3 days
Deposits/placements	83,019,000	–	
Withdrawals/maturities	(83,019,000)	–	
Accrued other expense payable	–	1,388	Outstanding group life insurance
Accounts payable	244	4,056	Various personal and car insurance payable
Miscellaneous liabilities	(3,530)	–	Advance payment of security deposits from various tenants
Interest income	68,986	–	Income on receivables from customers and interbank loans receivables
Trading and securities loss	4,605	–	Loss from securities transactions
Rental income	15,195	–	Income from leasing agreements with various lease terms
Bank commission	3,194	–	Commission income on ATM service fees
Miscellaneous income	617	–	Service income from referral fees on approved credit card issuances and bank insurance with rates ranging from 2.00% to 10.00%
Insurance expense	54,164	–	Payment of insurance premium
Interest expense	32,272	–	Interest on deposit liabilities and bills payable
Rent expense	6,003	–	Payment of rent expense to various lessors
Securities transactions			
Outright purchases	–	–	Outright purchase of FVTPL and FVOCI
Outright sales	(300,000)	–	Outright sale of FVTPL and FVOCI
Key Personnel			
Receivables from customers	–	11,329	Unsecured, no impairment, with annual fixed interest rates of 6.00% and maturities ranging from 2 to 10 years
Placements	2,387	–	
Maturities	(4,188)	–	
Interest income	1,019	–	Interest income from loans

30. Trust Operations

Securities and other resources held by the Bank in fiduciary or agency capacity for its customers are not included in the accompanying statements of condition since these are not assets of the Bank.

As of December 31, 2020 and 2019, the Bank deposited government securities with carrying value of ₱114.1 million and ₱143.2 million, respectively, in compliance with trust regulations (Note 8).

In compliance with existing banking regulations, the Bank transferred from surplus to surplus reserve the amount of ₱2.0 million and ₱1.3 million, which corresponds to 10.00% of the net income realized from the Bank’s Trust Department in 2020 and 2019, respectively.

31. Commitments and Contingent Liabilities

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities such as guarantees and commitments to extend credit, which are not reflected in the accompanying financial statements. The Bank, however, does not anticipate significant losses as a result of these transactions.

Commitments and Contingencies
The following is a summary of the Bank’s commitments and contingent liabilities at their equivalent peso contractual amounts:

	2020	2019
Trust department accounts (Note 30)	**₱8,611,155,604**	₱6,981,353,030
Stand-by credit lines	**41,781,859**	84,000,000
Spot foreign exchange and contracts sale	**24,011,500**	–
Swap forward exchange - sold	**–**	50,635,000
Late deposits/payments received	**9,521,669**	9,521,669
Items held for safekeeping	**563,320**	455,693
Others	**565,680**	488,280

NOTES TO FINANCIAL STATEMENTS

Also, several suits and claims, in behalf of or against the Bank in relation to its banking operations and labor-related cases are pending before the courts and quasi-judicial bodies. The Bank and its legal counsel believe that any losses arising from suits and claims which are not specifically provided for will not have a material adverse effect on the financial statements.

32. Notes to Statements of Cash flows

The following is a summary of principal non-cash activities that relate to the analysis of the statements of cash flows:

	2020	2019	2018
Additions to chattel mortgage in settlement of loans (Note 14)	**₱3,753,346,148**	₱3,304,131,638	₱2,592,446,719
Recognition of right-of-use assets (Note 11)	**243,849,256**	1,628,345,834	–
Recognition of lease liabilities (Note 25)	**243,849,256**	1,817,438,565	–
Fair value changes in financial assets at FVOCI (Note 8)	**278,577,437**	994,927,408	(815,985,665)
Additions to investment properties in settlement of loans (Note 12)	**457,713,276**	735,282,417	791,786,329
Cost adjustment on intangible assets (Note 13)	**8,281,794**	84,291,800	–
Net retirement of ROU/ (Lease liability)	**(605,028)**	(17,314,414)	–
Cumulative translation adjustment	**327,675**	(181,095)	(6,116)

The table below provides for the changes in liabilities arising from financing activities in 2020 and 2019 (in millions):

	Subordinated Notes	**Bills Payable**	**Bonds Payable**	**Lease Liability**	**Total Liabilities from Financing Activities**
January 1, 2020	**₱–**	**₱4,190**	**₱6,255**	**₱1,467**	**₱11,912**
Cash flows from availments	–	**4,971**	**4,607**	**–**	**9,578**
Cash flows from settlement	–	**(9,171)**	**–**	**(455)**	**(9,626)**
Foreign exchange movement	–	**–**	**–**	–	–
Others	–	**10**	**40**	**330**	**380**
December 31, 2020	**₱–**	**₱–**	**₱10,902**	**₱1,342**	**₱12,244**

	Subordinated Notes	Bills Payable	Bonds Payable	Lease Liability	Total Liabilities from Financing Activities
January 1, 2019	₱2,982	₱2,969	₱–	₱1,631	₱7,582
Cash flows from availments	–	382,499	6,243	–	388,742
Cash flows from settlement	(3,000)	(381,299)	–	(439)	(384,738)
Foreign exchange movement	–	–	–	–	–
Others	18	21	11	275	325
December 31, 2019	₱–	₱4,190	₱6,254	₱1,467	₱11,911

Others include amortization of subordinated notes, bills payable and bonds payable, additions to lease liability, and accretion and termination of lease liability.

As of December 31, 2020 and 2019, the Bank recognized allowance for credit losses from 'Due from BSP' and 'Due from other banks' as follows:

	2020	2019
Due from BSP	**₱988,734**	₱1,226,349
Due from other banks	**113,972,254**	1,043,119
	₱114,960,988	₱2,269,468

33. Offsetting of Financial Assets and Liabilities

PFRS 7 requires the Bank to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

Financial assets

As of December 31, 2020, there were no derivative assets.

December 31, 2020						
				Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at the end of reporting period by type	Gross carrying amounts (before offsetting) [a]	Gross amounts offset in accordance with the offsetting criteria [b]	Net amount presented in statement of condition [a-b] [c]	Financial instruments	Fair value of financial collateral	Net exposure [c-d] [e]
				[d]		
SPURA (Note 7)	5,445,979,370	–	5,445,979,370	–	5,437,211,343	8,768,027

As of December 31, 2019, there were no derivative assets and SPURA.

Financial liabilities

As of December 31, 2020 and 2019, there were no outstanding foreign currency swaps and forwards and SSURA.

34. Subsequent Events

Cash Dividend Declaration

On January 21, 2021, the BOD of the Bank approved the declaration of a 7.50% regular cash dividend for the fourth quarter of 2020 for stockholders on record as of February 05, 2021 amounting to ₱320.14 million or ₱0.75 per share, to be paid on February 22, 2021.

35. Approval for the Release of the Financial Statements

The accompanying comparative financial statements by the Bank were authorized for issue by the BOD on February 18, 2021.

NOTES TO FINANCIAL STATEMENTS

36. **Supplementary Information Required Under BSP Circular No. 1074**

On January 8, 2020, the Monetary Board (MB) amended BSP Circular No. 1074, requiring Banks to include the additional information on the following:

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

	2020	2019	2018
Return on average equity	**3.21%**	10.29%	11.38%
Return on average assets	**0.50%**	1.31%	1.15%
Net interest margin on average earning assets	**7.26%**	5.82%	5.79%
Current ratio	**43.60%**	19.70%	23.47%
Debt-to-equity ratio	**5:36:1**	5.53:1	8.75:1
Asset-to-equity ratio	**6:36:1**	6.53:1	9.75:1
Interest rate coverage ratio	**1:31:1**	1.59:1	1.59:1

Capital instruments issued
The Bank considers common stock as capital instruments eligible as Tier 1 and Tier 2 capital as of December 31, 2020 and 2019.

Significant credit exposures as to industry/economic sector
Loan concentration as to economic activity follows (gross of unearned discounts, modification loss and allowance for credit losses):

	2020	**%**	**2019**	**%**
Activities of households as employers and undifferentiated goods-and-services producing activities of households for own use	**₱83,034,414,625**	**57.83**	₱99,328,259,110	60.52
Real estate activities	**45,189,118,736**	**31.47**	47,435,436,567	28.90
Wholesale and retail trade, repair of motor vehicles and motorcycles	**2,362,772,977**	**1.65**	2,905,710,768	1.77
Electricity, gas, steam and air-conditioning supply	**1,763,274,648**	**1.23**	1,864,986,016	1.14
Financial and insurance activities	**1,196,454,574**	**0.83**	1,198,964,283	0.73
Transportation and storage	**960,817,945**	**0.67**	1,041,311,221	0.63
Manufacturing	**668,284,576**	**0.47**	805,033,894	0.49
Construction	**654,610,491**	**0.46**	741,251,226	0.45
Administrative and support service activities	**564,185,204**	**0.39**	702,200,790	0.43
Information and communication	**538,639,977**	**0.38**	546,048,174	0.33
Accommodation and food service activities	**312,799,962**	**0.22**	332,145,362	0.20
Human health and social work activities	**189,964,709**	**0.13**	248,280,198	0.15
Water supply, sewerage, waste management and remediation activities	**42,621,664**	**0.03**	243,086,738	0.15
Education	**143,609,507**	**0.10**	172,810,953	0.11
Professional, scientific and technical activities	**158,337,618**	**0.11**	159,731,330	0.10
Arts, entertainment and recreation	**89,335,238**	**0.06**	78,801,234	0.05
Agriculture, forestry and fishing	**103,944,776**	**0.07**	74,422,698	0.05
Mining and quarrying	**17,735,712**	**0.01**	13,178,977	0.01
Others	**5,583,267,492**	**3.89**	6,222,910,001	3.79
	₱143,574,190,431	**100.00**	₱164,114,569,540	100.00

Others relate to other service activities including the activities of membership organizations, repair of computers, personal and household goods and a variety of personal service activities not covered elsewhere in the classification above.

Breakdowns of total loans to as to security and status

The breakdown of loans and receivables from customers (gross of unearned discounts, modification loss and allowance for credit losses) as to secured and unsecured and as to type of security follows:

	2020	%	2019	%
Secured by:				
Chattel	**₱74,695,763,423**	**52.03%**	₱84,573,541,229	51.53%
Real estate	**34,623,440,207**	**24.12%**	37,086,534,930	22.60%
Deposit hold-out	**616,116,114**	**0.43%**	849,760,087	0.52%
Others	**1,121,142**	**0.00%**	6,173,885	0.00%
	109,936,440,886	**76.57%**	122,516,010,131	74.65%
Unsecured	**33,637,749,545**	**23.43%**	41,598,559,409	25.35%
	₱143,574,190,431	**100.00%**	₱164,114,569,540	100.00%

Breakdown of total loans as to status

Details of non-performing loans (NPL) follow:

	2020	2019
Secured	**₱7,602,430,965**	₱4,307,641,178
Unsecured	**2,372,479,952**	1,609,454,115
	₱9,974,910,917	₱5,917,095,293

Generally, NPLs refer to loans, investments, receivables, or any financial asset, even without any missed contractual payments, that satisfy any of the following conditions:

1. Impaired under existing accounting standards;
2. Classified as doubtful or loss;
3. In litigation, and/or;
4. 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:

1. Unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.
2. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due.
3. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

The NPLs of the Bank not fully covered by allowance for credit losses follow:

	2020	2019
Total NPLs	**₱9,974,910,917**	₱5,917,095,293
Less NPLs fully covered by allowance for credit losses	**705,833,911**	1,315,008,850
	₱9,269,077,006	₱4,602,086,443

Restructured loans as of December 31, 2020 and 2019 amounted to ₱68.8 million, and ₱104.6 million, respectively. The Bank's loan portfolio includes non-risk loans as defined under BSP regulations totaling ₱0.6 billion and ₱0.9 billion as of December 31, 2020 and 2019, respectively.

NOTES TO FINANCIAL STATEMENTS

Information on related party loans
As required under existing BSP rules and regulations, the Bank discloses loans and other credit accommodations granted to its DOSRI. These loans and other credit accommodations were made substantially on the same terms as with other individuals and businesses of comparable risks and were subject of prior BOD approval and entailing BSP reportorial requirements.

Existing banking regulations also limit the total amount of credit exposure to each of the Bank's DOSRIs, at least 70.00% of which must be secured, to the total of their respective deposits and book value of their respective unencumbered deposits and, if any, book value of their respective paid-in capital contribution in the Bank. In the aggregate, the Bank's total credit exposure to all its DOSRIs should not exceed its net worth or 15.00% of its total loan portfolio, whichever is lower, with any unsecured portion thereof not exceeding the lower between 30.00% of the aggregate limit or of the total actual exposure. However, loans and other credit accommodations to DOSRIs that are secured by assets considered by the BSP as non-risk are exempt from these ceilings. As of December 31, 2020 and 2019, the Bank's credit exposures to DOSRI are within the said regulatory limits.

BSP Circular No. 423 dated March 15, 2004, as amended by BSP Circular No. 914 dated June 23, 2016, provide the rules and regulations governing credit exposures to DOSRI. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to BSP Circular No. 423 and new DOSRI loans and other credit accommodations granted under said circular as of December 31, 2020 and 2019 (in thousands):

	2020		2019	
	DOSRI Loans	**Related Party Loans**	DOSRI Loans	Related Party Loans
Total outstanding loans	**₱206,202**	**₱7,125**	₱236,494	₱1,349,467
Percent of DOSRI/Related Party loans to total loan portfolio	**0.0%**	**0.00%**	0.1%	0.8%
Percent of unsecured DOSRI/Related Party loans to total DOSRI/Related Party loans	**98.35%**	**0.00%**	94.8%	89.7%
Percent of past-due DOSRI /Related Party loans to total DOSRI/Related Party loans	**0.00%**	**0.00%**	0.00%	0.00%
Percent of non-performing DOSRI/Related Party loans to total DOSRI /Related Party loans	**0.00%**	**0.00%**	0.00%	0.00%

Total interest income from DOSRI loans amounted to ₱0.9 million in 2020, ₱5.7 million in 2019, and ₱5.8 million in 2018.

Aggregate amount of secured liabilities and assets pledged as security
As of December 31, 2020 and 2019, investment securities at amortized cost include Bureau of Treasury bonds pledged by the Bank to MBTC to secure its payroll account with MBTC with total carrying value of ₱59.6 million and ₱66.3 million, respectively.

Commitments and Contingencies
The following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2020	2019
Trust department accounts (Note 30)	**₱8,611,155,604**	₱6,981,353,030
Stand-by credit lines	**41,781,859**	84,000,000
Spot foreign exchange and contracts sale	**24,011,500**	–
Swap forward exchange - sold	**–**	50,635,000
Late deposits/payments received	**9,521,669**	9,521,669
Items held for safekeeping	**563,320**	455,693
Others	**565,680**	488,280

37. **Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010**

On November 25, 2010, the BIR issued RR No. 15-2010 to amend certain provisions of RR No. 21-2002. The regulations provide that starting 2010, the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Bank reported and/or paid the following types of taxes for the year:

Taxes and Licenses
For the taxable year ended December 31, 2020, taxes and licenses of the Bank consist of:

Gross receipts tax	₱895,534,795
Documentary stamps tax	574,327,417
Local taxes	93,853,825
Fringe benefit tax	8,152,994
	₱1,571,869,031

Withholding Taxes
As of December 31, 2020, total remittances and balance of withholding taxes are as follows:

	Total Remittances	Balance
Withholding taxes on compensation and benefits	₱426,201,312	₱25,037,832
Final withholding taxes	452,837,792	10,879,028
Expanded withholding taxes	78,378,124	8,634,317
	₱957,417,228	₱44,551,177

The Bank has no ongoing tax assessment as of December 31, 2020 and 2019.

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