www.pwc.com/ph

BPI Direct BanKo, Inc., A Savings Bank

(Formerly BPI Direct Savings Bank, Inc.)

Financial Statements
As at and for the years ended December 31, 2020 and 2019

pwc

Isla Lipana & Co.

Isla Lipana & Co.

Independent Auditor's Report

To the Board of Directors and Shareholder of
BPI Direct BanKo, Inc., A Savings Bank
(Formerly BPI Direct Savings Bank, Inc.)
G/F BanKo Center Building
Ortigas Avenue, North Greenhills
San Juan, Metro Manila

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of BPI Direct BanKo, Inc., A Savings Bank (formerly BPI Direct Savings Bank, Inc.) (the "Bank") as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

What we have audited

The financial statements of the Bank comprise:

- the statements of condition as at December 31, 2020 and 2019;
- the statements of income for the years ended December 31, 2020 and 2019;
- the statements of comprehensive income for the years ended December 31, 2020 and 2019;
- the statements of changes in capital funds for the years ended December 31, 2020 and 2019;
- the statements of cash flows for the years ended December 31, 2020 and 2019; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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 Code of Ethics.

Isla Lipana & Co. is the Philippine member firm of the PwC network. PwC refers to the Philippine member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

Isla Lipana & Co.

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.

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.

Isla Lipana & Co.

Report on the Supplementary Information Required by the Bangko Sentral ng Pilipinas (BSP) and the Bureau of Internal Revenue (BIR)

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 24 and BIR Revenue Regulations No. 15-2010 in Note 25 to the financial statements is presented for the purposes of filing with the BSP and the BIR, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of management of the Bank. The information has been subjected to the auditing procedures applied in our audits 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.

Isla Lipana & Co.

Ruth F. Blasco
Partner
CPA Cert. No. 112595
P.T.R. No. 0018519, issued on January 5, 2021, Makati City
SEC A.N. (individual) as general auditors 112595-SEC; Category A, valid to audit 2020 to 2024 financial statements
SEC A.N. (firm) as general auditors 0142-SEC, Category A; valid to audit 2020 to 2024 financial statements
TIN 235-725-236
BIR A.N. 08-000745-133-2020, issued on June 5, 2020; effective until June 4, 2023
BOA/PRC Reg. No. 0142, effective until January 21, 2023

Makati City
March 24, 2021

BPI Direct BanKo, Inc., A Savings Bank
(Formerly BPI Direct Savings Bank, Inc.)

Statements of Condition
December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Notes	2020	2019
RESOURCES			
Cash and other cash items	2	254,412,943	216,587,760
Due from other banks	2	815,738,983	830,391,583
Interbank loans receivable	2,3	-	393,634,185
Due from Bangko Sentral ng Pilipinas	2,4	8,168,802,018	2,491,887,897
Investment security at fair value through other comprehensive income	5	9,914	5,560
Loans and advances, net	6	10,723,453,795	12,193,544,153
Assets held for sale		86,833,483	82,358,184
Bank premises, furniture, fixtures and equipment, net	7	816,334,041	1,002,078,934
Deferred income tax assets, net	8	716,192,409	327,038,301
Other resources, net	9	328,578,179	333,752,015
Total resources		21,910,355,765	17,871,278,572
LIABILITIES AND CAPITAL FUNDS			
Deposit liabilities	10	17,848,087,262	13,961,113,446
Accrued taxes, interest and other expenses	11	216,472,387	196,940,611
Other liabilities	12	1,503,554,866	1,096,242,025
Total liabilities		19,568,114,515	15,254,296,082
CAPITAL FUNDS	13		
Share capital		905,572,100	405,572,100
Accumulated other comprehensive income		(40,851,354)	(18,191,065)
Other reserves		(269,815,403)	(269,815,403)
Surplus		1,747,335,907	2,499,416,858
Total capital funds		2,342,241,250	2,616,982,490
		21,910,355,765	17,871,278,572

(The notes on pages 1 to 55 are an integral part of these financial statements.)

BPI Direct BanKo, Inc., A Savings Bank
(Formerly BPI Direct Savings Bank, Inc.)

Statements of Income
For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Notes	2020	2019
INTEREST INCOME			
Loans and advances	6	3,029,657,113	2,828,710,528
Deposits with BSP and other banks	2,4	111,591,791	65,592,132
Interbank loans receivable	3	32,587,431	18,952,187
Investment security	5	-	2,691,160
		3,173,836,335	2,915,946,007
INTEREST EXPENSE ON DEPOSITS	10	364,792,147	134,349,991
NET INTEREST INCOME		2,809,044,188	2,781,596,016
PROVISION FOR IMPAIRMENT	6,9,21	1,920,143,598	575,510,838
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT		888,900,590	2,206,085,178
OTHER INCOME			
Service fee income		385,301,115	327,326,094
Profit on assets sold		8,420,862	19,357,796
Miscellaneous income	14	34,442,616	43,492,737
		428,164,593	390,176,627
OTHER EXPENSES			
Compensation and fringe benefits	17,18	932,832,901	761,972,587
Occupancy and equipment-related expenses	18	958,065,682	801,620,928
Other operating expenses	15	488,705,909	606,563,073
		2,379,604,492	2,170,156,588
(LOSS) INCOME BEFORE PROVISION FOR INCOME TAX		(1,062,539,309)	426,105,217
PROVISION FOR INCOME TAX	16		
Current		30,321,429	242,461,125
Deferred	8	(340,779,787)	(89,011,503)
		(310,458,358)	153,449,622
NET (LOSS) INCOME FOR THE YEAR		(752,080,951)	272,655,595

(The notes on pages 1 to 55 are an integral part of these financial statements.)

BPI Direct BanKo, Inc., A Savings Bank
(Formerly BPI Direct Savings Bank, Inc.)

Statements of Comprehensive Income
For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Note	2020	2019
NET (LOSS) INCOME FOR THE YEAR		(752,080,951)	272,655,595
OTHER COMPREHENSIVE INCOME (LOSS)	13		
Item that will be subsequently reclassified to profit or loss			
Change in fair value reserve on debt security at fair value through other comprehensive income, net of tax		-	288,000
Items that will not be subsequently reclassified to profit or loss			
Change in fair value reserve on equity security at fair value through other comprehensive income, net of tax		4,354	(1,778)
Remeasurement loss on retirement benefit obligation, net of tax		(22,664,643)	(21,436,470)
Total other comprehensive loss		(22,660,289)	(21,150,248)
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR		(774,741,240)	251,505,347

(The notes on pages 1 to 55 are an integral part of the financial statements.)

BPI Direct BanKo, Inc., A Savings Bank
(Formerly BPI Direct Savings Bank, Inc.)

Statements of Changes in Capital Funds
For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Share capital (Note 13)	Accumulated other comprehensive income (loss) (Note 13)	Other reserves	Surplus (Note 13)	Total
BALANCE, JANUARY 1, 2019	405,572,100	2,959,183	(269,815,403)	2,226,761,263	2,365,477,143
COMPREHENSIVE INCOME (LOSS)					
Net income for the year	-	-	-	272,655,595	272,655,595
Other comprehensive loss	-	(21,150,248)	-	-	(21,150,248)
Total comprehensive income (loss) for the year	-	(21,150,248)	-	272,655,595	251,505,347
BALANCE, DECEMBER 31, 2019	405,572,100	(18,191,065)	(269,815,403)	2,499,416,858	2,616,982,490
TRANSACTION WITH OWNER					
Additional capital contribution	500,000,000	-	-	-	500,000,000
COMPREHENSIVE LOSS					
Net loss for the year	-	-	-	(752,080,951)	(752,080,951)
Other comprehensive loss	-	(22,660,289)	-	-	(22,660,289)
Total comprehensive loss for the year	-	(22,660,289)	-	(752,080,951)	(774,741,240)
BALANCE, DECEMBER 31, 2020	905,572,100	(40,851,354)	(269,815,403)	1,747,335,907	2,342,241,250

(The notes on pages 1 to 55 are an integral part of the financial statements.)

BPI Direct BanKo, Inc., A Savings Bank
(Formerly BPI Direct Savings Bank, Inc.)

Statements of Cash Flows
For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) income before provision for income tax		(1,062,539,309)	426,105,217
Adjustments for:			
Interest income		(3,173,836,335)	(2,915,946,007)
Interest expense	10,19	392,433,624	164,002,549
Depreciation and amortization	7	365,331,400	294,085,272
Profit on assets sold		(8,967,135)	(20,826,039)
Retirement benefit expense	17	21,183,626	18,824,255
Provision for impairment	6,9,20	1,920,143,598	575,510,838
Interest received		3,088,648,625	2,779,909,167
Interest paid		(302,952,144)	(68,212,753)
Operating income before changes in operating resources and liabilities		1,239,445,950	1,253,452,499
Changes in operating resources and liabilities			
(Increase) decrease in:			
Loans and advances		(361,450,875)	(3,337,274,833)
Assets held for sale		4,491,836	13,914,816
Other resources		(51,488,117)	(273,900,748)
Increase (decrease) in:			
Deposit liabilities		3,886,973,816	1,400,473,144
Accrued taxes, interest and other expenses		(97,344,271)	24,268,135
Other liabilities		511,969,921	131,665,081
Net cash from (used in) operations		5,132,598,260	(787,401,906)
Retirement plan contributions	17	(42,779,728)	(33,951,618)
Income tax paid		(6,805,041)	(49,633,271)
Net cash from (used) in operating activities		5,083,013,491	(870,986,795)
CASH FLOWS FROM INVESTING ACTIVITIES			
(Increase) decrease in:			
Bank premises, furniture, fixture, and equipment	7	(172,367,416)	(334,376,377)
Investment securities at FVOCI	5	-	100,468,874
Net cash used in investing activities		(172,367,416)	(233,907,503)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipt of additional capital contribution from Parent Bank	13	500,000,000	-
Payment of principal portion of lease liabilities	19	(104,193,556)	(87,788,282)
Net cash from (used in) financing activities		395,806,444	(87,788,282)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		5,306,452,519	(1,192,682,580)
CASH AND CASH EQUIVALENTS			
January 1		3,932,501,425	5,125,184,005
December 31	2	9,238,953,944	3,932,501,425

(The notes on pages 1 to 55 are an integral part of these financial statements.)

BPI Direct BanKo, Inc., A Savings Bank

Notes to the Financial Statements
As at and for the years ended December 31, 2020 and 2019
(In the notes, all amounts are shown in Philippine Peso unless otherwise stated)

Note 1 - General information

1.1 Business information

BPI Direct BanKo, Inc., A Savings Bank (the "Bank") was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on March 17, 1956 primarily to engage in and carry on the general business of savings and mortgage banking.

The Bank is a wholly-owned subsidiary of Bank of the Philippine Islands ("BPI" or the "Parent Bank"), a domestic commercial bank with an expanded banking license, which is also its ultimate parent.

The Bank's registered office address, which is also its principal place of business, is BanKo Center Building, Ortigas Avenue, North Greenhills, San Juan, Metro Manila.

The Bank has 2,094 regular employees as at December 31, 2020 (2019 - 2,823).

Coronavirus pandemic

On March 16, 2020, the Philippine Government declared the entire island of Luzon under an Enhanced Community Quarantine (ECQ) due to the increasing coronavirus disease (COVID-19) cases in the country. The ECQ mandated the closure of non-essential businesses and strict home quarantine which resulted in the slowdown of the economy. Measures have been implemented to protect the health and safety of the Bank's employees, clients and partners, to support business continuity and to manage financial impact to a minimum. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve. While banks are authorized to operate during the ECQ period, branch operations were sorely impacted by COVID-19, with 44% of the branches operating on a skeletal basis during the beginning of the lockdown. With the transition to general community quarantine (GCQ) on June 1, 2020, branch operations have been back to 100%. At this stage, the Bank deems it prudent to review its branch network strategy given the acceleration in digital adoption by its clients and other considerations.

While quarantine measures over highly urbanized cities in the National Capital Region (NCR) were relaxed following the proclamation of a modified enhanced community quarantine (MECQ) effective May 16, 2020, and subsequently, a GCQ effective June 1, 2020, operations across various industries remain below full capacity in these areas.

Effect of the suspension of loan payments mandated by the Bayanihan Acts 1 and 2

On March 24, 2020, the Congress passed Republic Act No. 11469 or the Bayanihan to Heal as One Act (Bayanihan Act I) into law, which conferred emergency powers to the President of the Philippines. Section 4(aa) of Bayanihan Act I directed all banks to implement a thirty (30)-day grace period for the payment of all loans falling due within the ECQ period without interests, penalties, and other charges. Under this law, persons with multiple loans were granted a grace period of 30 days for each and every loan.

The following were the reprieve measures issued by the government through the Implementing Rules and Regulations (IRR) of Section 4(aa) of Bayanihan Act I for all loans regardless of status with payment due dates (e.g., principal and/or interest) falling due within the ECQ period (March 17, 2020 to May 31, 2020, or as extended):

- implementation of mandatory grace period to extend payment due dates of loans;
- non-imposition of interest on interest and waiver of fees and charges for non-payment;
- non-imposition of documentary stamp tax on credit extensions; and
- payment on a staggered basis for accrued interest on implemented mandatory grace period.

The status of the loans prior to the grant of the mandatory grace period and/or extension of maturity dates or payment due dates were retained. The Bank monitored non-performing loan (NPL) measures internally: 1) based on aging of accounts without the grace period and 2) aging with grace period, as the grant of the grace period may have artificially understated the actual NPL levels.

On September 11, 2020, the President of the Philippines signed into law Republic Act No. 11494 or the Bayanihan to Recover as One Act (Bayanihan Act II), in view of the continuing rise of COVID-19 cases and the ensuing economic disruption brought about by the pandemic. Under Section 4(uu) of Bayanihan Act II, all banks are directed to implement a mandatory one-time sixty (60)-day grace period for the payment of all existing, current, and outstanding loans falling due on or before December 31, 2020, without incurring interest on interest, penalties, fees, or other charges. The amounts falling due within the 60-day grace period may be settled in full after the 60-day grace period, or on a staggered basis until December 31, 2020, or as may be agreed upon by the parties.

While Bayanihan Acts I and II both provide moratorium on the payment of eligible loans, they differ in the qualification of eligible loans, the number of days provided as grace period and the allowable payment schemes.

As a result of the COVID-19 pandemic, the Bank has seen an increase in the level of NPL attributable to the temporary/permanent closure of certain businesses, suspended business operations and limited travel and exchange of goods. The actual delinquency status or effect on the NPL levels across different products became evident in the last quarter of 2020 after the lapse of the Bayanihan Act I.

1.2 Approval of the Bank's financial statements

These financial statements have been approved and authorized for issuance by the BOD on March 24, 2021.

Note 2 - Cash and cash equivalents

The account as at December 31 consists of:

	Notes	2020	2019
Cash and other cash items		254,412,943	216,587,760
Due from other banks		815,738,983	830,391,583
Interbank loans receivable	3	-	393,634,185
Due from BSP	4	8,168,802,018	2,491,887,897
		9,238,953,944	3,932,501,425

For the year ended December 31, 2020, interest income earned on Due from other banks amounts to P1,413,287 (2019 - P2,955,443).

Cash and cash equivalents are classified as current as at December 31, 2020 and 2019.

Note 3 - Interbank loans receivable

The account at December 31, 2019 consists of transactions with:

	Amount
BSP	393,415,621
Accrued interest receivable	218,564
	393,634,185

Interbank loans receivable maturing within 90 days from the date of acquisition are classified as cash equivalents in the statement of cash flows (Note 2).

Government bonds are pledged by the BSP as collaterals under reverse repurchase agreements. The face value of securities pledged is equivalent to the total balance of outstanding placements as at reporting date. All collateral agreements mature within 12 months.

In 2020, the interbank loan receivable matured and was reinvested into overnight deposit facility under Due from BSP (Note 4).

Average interest rate on interbank loans receivable in 2020 is 2.75% (2019 - 3.95%). Total interest earned on interbank loans receivable amounts to P32,587,431 for the year ended December 31, 2020 (2019 - P18,952,187).

Interbank loans receivable is classified as current.

Note 4 - Due from BSP

The account as at December 31 consists of:

	2020	2019
Special deposit accounts	7,590,000,000	1,564,000,000
Clearing accounts	578,802,018	927,887,897
	8,168,802,018	2,491,887,897

Special deposit accounts classified as cash equivalents are fixed-term demand Philippine Peso deposits maintained in compliance with the simplified minimum reserve requirements of the BSP (Note 10).

Clearing accounts represent temporary deposit accounts wherein funds flow from cleared checks are credited against or debited for.

As at December 31, 2020, Due from BSP includes special deposit placements of P7.56 billion (2019 - P1.56 billion) with maturities of not more than 28 days. Average interest rate on due from BSP at December 31, 2020 is 1.48% (2019 - 3.63%). Total interest earned on due from BSP amounts to P110,178,504 for the year ended December 31, 2020 (2019 - P62,636,689).

Due from BSP is classified as current as at December 31, 2020 and 2019.

Note 5 - Investment security at fair value through other comprehensive income (FVOCI)

The account consists of listed equity security which amounts to P9,914 as at December 31, 2020 (2019 - P5,560).

On June 8, 2019, the investment in corporate bond matured. The Bank has not made any additional purchase of investments in 2019 and 2020.

For the year ended December 31, 2019, interest rate on corporate bond is 6.27%. Interest income on corporate bond amounted to P2,691,160 for the year ended December 31, 2019.

Movements in investment security at FVOCI for the years ended December 31 are as follows:

	2020	2019
At January 1	5,560	100,065,545
Fair value adjustment	4,354	(2,540)
Maturity	-	(100,057,445)
At December 31	9,914	5,560

Investment securities at FVOCI at December 31, 2020 and 2019 are classified as current.

Note 6 - Loans and advances, net

The account as at December 31 consists of:

	2020	2019
Corporate entities		
Large corporate customers	167,247,134	180,725,544
Small and medium enterprises	18,461,827	13,185,240
Retail customers		
Real estate mortgages	1,856,302,312	2,239,232,875
Auto loans	1,907,373	336,859
Others	10,345,227,640	10,476,581,268
	12,389,146,286	12,910,061,786
Accrued interest receivable	375,893,781	287,291,416
Unearned discount	(54,475)	(54,475)
	12,764,985,592	13,197,298,727
Allowance for impairment	(2,041,531,797)	(1,003,754,574)
	10,723,453,795	12,193,544,153

Average effective interest rate on loans and advances is 28.02% at December 31, 2020 (2019 - 29.04%). Interest income from loans and advances amounts to P3,029,657,113 for the year ended December 31, 2020 (2019 - P2,828,710,528).

Maturity profile of loans and advances, net of accrued interest receivable and unearned discount as at December 31 follows:

	2020	2019
Current (within 12 months)	5,622,450,703	5,530,068,659
Non-current (over 12 months)	7,142,534,889	7,667,230,068
	12,764,985,592	13,197,298,727

Movements in allowance for impairment for the years ended December 31 are as follows:

	2020	2019
Balance, January 1	1,003,754,574	670,366,462
Provision for loan impairment	1,908,839,332	573,300,328
Write-offs	(834,069,371)	(218,908,836)
Transfers/other movements	(36,992,738)	(21,003,380)
Balance, December 31	2,041,531,797	1,003,754,574

In 2020, the Bank purchased the personal loan portfolio of its Parent Bank amounting to P3,155,464,600 (2019 - P5,667,482,100).

Note 7 - Bank premises, furniture, fixtures and equipment, net

The movements in the account for the years ended December 31 are summarized as follows:

	2020					
	Furniture, fixtures, and equipment	Leasehold rights and improvement	Computer equipment	Leasehold rights and improvements in progress	Buildings	Total
Cost						
January 1, 2020	325,526,643	616,844,398	41,788,649	1,797,056	486,956,402	1,472,913,148
Additions	62,199,340	74,253,068	209,672	237,755	40,672,173	177,572,008
Retirement	-	-	-	-	(6,478,304)	(6,478,304)
December 31, 2020	387,725,983	691,097,466	41,998,321	2,034,811	521,150,271	1,644,006,852
Accumulated depreciation and amortization						
January 1, 2020	152,971,063	184,527,585	30,842,188	-	102,493,378	470,834,214
Depreciation and amortization	103,351,082	130,927,642	6,689,492	-	117,144,093	358,112,309
Retirement	-	-	-	-	(1,273,712)	(1,273,712)
December 31, 2020	256,322,145	315,455,227	37,531,680	-	218,363,759	827,672,811
Net book value, December 31, 2020	131,403,838	375,642,239	4,466,641	2,034,811	302,786,512	816,334,041

	2019					
	Furniture, fixtures, and equipment	Leasehold rights and improvement	Computer equipment	Leasehold rights and improvements in progress	Buildings	Total
Cost						
January 1, 2019	245,273,533	373,079,907	32,768,389	458,540	472,027,176	1,123,607,545
Additions	80,253,110	243,724,491	9,020,260	1,378,516	14,929,226	349,305,603
Transfers	-	40,000	-	(40,000)	-	-
December 31, 2019	325,526,643	616,844,398	41,788,649	1,797,056	486,956,402	1,472,913,148
Accumulated depreciation and amortization						
January 1, 2019	77,493,710	90,574,898	22,912,490	-	-	190,981,098
Depreciation and amortization	75,477,353	93,952,687	7,929,698	-	102,493,378	279,853,116
December 31, 2019	152,971,063	184,527,585	30,842,188	-	102,493,378	470,834,214
Net book value, December 31, 2019	172,555,580	432,316,813	10,946,461	1,797,056	384,463,024	1,002,078,934

Effective January 1, 2019, the Bank has recognized right-of-use assets from the long-term leases of spaces for its main office and branches (Note 19).

In 2020, the Bank terminated certain lease contracts for its branch offices. Loss from such retirement is included as part of Occupancy and equipment-related expenses in the statement of income.

Depreciation and amortization is included in Occupancy and equipment-related expenses in the statement of income.

Bank premises, furniture, fixtures and equipment are all considered non-current assets.

Note 8 - Deferred income tax assets, net

Deferred income tax assets and liabilities at December 31 consist of:

	2020	2019
Deferred income tax assets		
Allowance for impairment	632,257,141	312,292,507
Expense accruals and provisions	15,644,850	5,727,420
Amortization of past service cost	22,289,507	14,530,358
Net operating loss carry-over (NOLCO)	3,829,196	-
Minimum corporate income tax (MCIT)	49,262,177	-
	723,282,871	332,550,285
Deferred income tax liabilities		
Retirement benefit asset	7,090,462	5,511,984
Deferred income tax assets, net	716,192,409	327,038,301

In 2020, the Bank recognized deferred income tax asset on NOLCO amounting to P3,829,196 due to the expectation that it will be able to generate sufficient taxable income to take full advantage of the related tax benefits within the prescribed period. On September 30, 2020, the Bureau of Internal Revenue (BIR) issued Revenue Regulations (RR) No. 25-2020, Rules and Regulations Implementing Section 4 (bbbb) of Bayanihan Act I relative to NOLCO under Section 34 (D)(3) of the National Internal Revenue Code, as amended, allowing qualified businesses or enterprises which incurred net operating loss for taxable years 2020 and 2021 to carry over the same as a deduction from its gross income for the next five (5) consecutive taxable years immediately following the year of such loss. Ordinarily, NOLCO can be carried over as deduction from gross income for the next three (3) consecutive years only. Accordingly, the NOLCO incurred by the Bank in 2020 shall be carried over for the next five years until 2025.

The Bank also recognized deferred income tax asset on excess MCIT over regular corporate income tax amounting to P49,262,177 for the year ended December 31, 2020, which will expire in the next 3 years.

Movements in the net deferred income tax assets for the years ended December 31 are summarized below:

	Note	2020	2019
At January 1		327,038,301	237,456,216
Amounts credited to statement of income		340,779,787	89,011,503
Amounts credited to other comprehensive income	13	(887,856)	570,582
Recognition of MCIT		49,262,177	-
At December 31		716,192,409	327,038,301

The deferred tax credit in the statement of income for the years ended December 31 comprises the following temporary differences:

	2020	2019
Allowance for impairment	(319,964,634)	(82,239,386)
Net operating loss carry-over (NOLCO)	(3,829,196)	-
Others	(16,985,957)	(6,772,117)
	(340,779,787)	(89,011,503)

Note 9 - Other resources, net

The account at December 31 consists of:

	Notes	2020	2019
Accounts receivable		83,653,755	20,263,513
Prepaid expenses		55,869,379	32,210,111
Rental deposits	18,19	31,318,797	29,460,675
Pension asset	17	23,634,875	18,373,278
Injunction bond		21,048,262	1,834,660
Computer software		5,107,879	9,514,675
Membership shares		2,500,000	2,500,000
Accrued interest receivable		635,914	3,832,005
E-money		-	63,652,791
Miscellaneous		120,506,484	156,629,335
		344,275,345	338,271,043
Allowance for impairment		(15,697,166)	(4,519,028)
		328,578,179	333,752,015

Other resources are expected to be realized as follows:

	2020	2019
Current	313,032,591	307,883,089
Non-current	31,242,754	30,387,954
	344,275,345	338,271,043

E-money represents cash deposited in G-Cash facility, which is used to finance accounts of the Bank's clients accessible through mobile phones, stored value cards and other access devices. In 2020, the Bank no longer has accounts under the G-cash facility.

Accounts receivables include employee cash advances, commissions and receivables from ATM cards.

Miscellaneous assets include returned checks and float items which are expected to clear in one to two days.

Allowance for impairment pertains to accounts receivables that are doubtful of collection.

The movements in the allowance for impairment as at December 31 are as follows:

	2020	2019
At January 1	4,519,028	2,459,317
Provision for impairment	11,178,138	2,059,711
At December 31	15,697,166	4,519,028

Note 10 - Deposit liabilities

The account as at December 31 consists of:

	2020	2019
Demand	454,063,012	388,193,759
Savings	12,288,601,514	10,095,687,526
Time	5,105,422,736	3,477,232,161
	17,848,087,262	13,961,113,446

Deposit liabilities are expected to be settled as follows:

	2020	2019
Current	7,493,037,073	5,434,571,008
Non-current	10,355,050,189	8,526,542,438
	17,848,087,262	13,961,113,446

Related interest expense on deposit liabilities for the years ended December 31 is broken down as follows:

	2020	2019
Demand	2,364,939	2,000,213
Savings	145,383,366	96,417,837
Time	217,043,842	35,931,941
	364,792,147	134,349,991

Under current and existing BSP regulations, the Bank should comply with a minimum reserve requirement. Further, BSP requires all reserves be kept at the central bank.

In 2019, the reserve ratio decreased to 4% from 8% following the BSP's decision to reduce the requirements. In 2020, the BSP approved the further reduction in reserves which brought the requirement down to 3% for thrift banks effective July 31, 2020 by virtue of BSP Circular No. 1092.

The required reserve as reported to BSP as at December 31, 2020 amounts to P529,423,847 (2019 - P552,433,944), which is included in Due from BSP (Note 4). The Bank is in full compliance with the reserve requirement as at December 31, 2020 and 2019.

Note 11 - Accrued taxes, interest and other expenses

The account as at December 31 consists of:

	2020	2019
Accrued expenses	110,315,960	79,515,302
Accrued interest	53,545,532	36,399,472
Accrued taxes and licenses	52,610,612	54,095,077
Accrued income tax	283	26,930,760
	216,472,387	196,940,611

Accrued expenses mainly pertain to accruals for utilities, penalties and outsourced services by the Bank.

The above accrued expenses are all considered current.

Note 12 - Other liabilities

The account at December 31 consists of:

	Note	2020	2019
Accounts payable		470,437,094	602,569,628
Lease liabilities	19	330,620,134	401,466,789
Withholding taxes payable		10,281,247	12,616,529
Miscellaneous		692,216,391	79,589,079
Total		1,503,554,866	1,096,242,025

Miscellaneous liabilities mainly include mandatory contributions payable to SSS, Medicare and Philhealth, and float items which are expected to clear in one to two days. In 2020, the float items increased as a result of the time gaps in registering deposits or withdrawals caused by the delay in processing paper checks, which were subsequently cleared in January 2021.

The lease liabilities are measured at the present value of the remaining lease payments using an incremental borrowing rate applied by the Bank (Note 19).

Other liabilities are considered current, except for the non-current portion of the lease liabilities disclosed in Note 19.

Note 13 - Capital funds

Details of share capital at December 31, 2020 are as follows:

	Authorized		Issued and Outstanding	
	Number of Shares	Amount	Number of Shares	Amount
Common shares, at P100 par value per share				
Class A	37,400,000	3,740,000,000	8,455,721	845,572,100
Class B	2,000,000	200,000,000	600,000	60,000,000
	39,400,000	3,940,000,000	9,055,721	905,572,100
Preferred shares, at P100 par value per share, 12% cumulative, participating and redeemable				
Class A	200,000	20,000,000	-	-
Class B	400,000	40,000,000	-	-
	600,000	60,000,000	-	-
	40,000,000	4,000,000,000	9,055,721	905,572,100

Details of share capital at December 31, 2019 are as follows:

	Authorized		Issued and Outstanding	
	Number of Shares	Amount	Number of Shares	Amount
Common shares, at P100 par value per share				
Class A	3,500,000	350,000,000	3,455,721	345,572,100
Class B	600,000	60,000,000	600,000	60,000,000
	4,100,000	410,000,000	4,055,721	405,572,100
Preferred shares, at P100 par value per share,12% cumulative, participating and redeemable				
Class A	200,000	20,000,000	-	-
Class B	400,000	40,000,000	-	-
	600,000	60,000,000	-	-
	4,700,000	470,000,000	4,055,721	405,572,100

On February 24, 2016, the BOD of the Bank approved the merger with BPI Globe BanKo, Inc. ("BanKo"), a fellow subsidiary, with the Bank as the surviving entity. The merger is aimed at integrating the banking operations of BanKo into the Bank and at bringing efficiency and scale to the surviving entity. The merged business is expected to leverage on a bigger customer base and will benefit from cost-savings and operational synergies.

On September 14, 2016, in preparation for the merger, the BOD approved the change in the authorized capital structure of the Bank as follows:

- Increase in authorized Class A common shares from P330 million consisting of 3.3 million common shares at P100 par value per share to P350 million consisting of 3.5 million shares at P100 par value per share; and
- Decrease in authorized Preferred Class A common shares from P40 million consisting of 400 thousand shares at P100 par value per share to P20 million consisting of 20 thousand shares at P100 par value per share

The above changes, which were approved by the SEC on December 29, 2016, did not affect the total authorized capital stock of the Bank which remained at P470 million.

The Class A (common and preferred) shares are available only to Philippine nationals while the Class B (common and preferred) shares may be issued to non-Filipinos. The Bank, at its option, may redeem the preferred shares after ten years from issue date.

On December 29, 2020, the SEC approved the Bank's increase in authorized capital stock from P470 million in 2019 to P4 billion in 2020. On September 30, 2020, the Bank received P500 million from the Parent Bank as a capital infusion to strengthen the Bank's capital position against the economic effects of the COVID-19 pandemic.

Surplus

As at December 31, 2020, the Bank has surplus in excess of its paid-up capital amounting to P841,763,807 (2019 - P2,093,844,758). The Bank intends to use its excess surplus for future branch expansions which are expected to materialize within the next twelve months after year end.

Other comprehensive income

The movements in the account for the years ended December 31 are summarized below:

	2020	2019
Fair value reserve on investment securities at FVOCI		
At January 1	(10,852)	(297,074)
Unrealized fair value gain (loss) before tax	4,354	(2,540)
Deferred income tax effect	-	762
Transferred to profit or loss	-	288,000
At December 31	(6,498)	(10,852)
Remeasurement loss on defined benefit plan, net		
At January 1	(18,180,213)	3,256,257
Remeasurement loss before tax	(21,776,787)	(22,006,290)
Deferred income tax effect	(887,856)	569,820
At December 31	(40,844,856)	(18,180,213)
	(40,851,354)	(18,191,065)

Note 14 - Miscellaneous income

The account for the years ended December 31 consists of:

	Note	2020	2019
Recoveries	6	36,600,046	40,917,632
Other income		440,276	5,873,926
Gross receipts tax		(2,597,706)	(3,298,821)
		34,442,616	43,492,737

The Bank was able to recover collections on personal loans purchased from the Parent Bank and the amounts received were recognized as income for the years ended December 31, 2020 and 2019.

Note 15 - Other operating expenses

The account for the years ended December 31 consists of:

	Note	2020	2019
Shared operating costs	18	185,484,201	277,491,274
Travel and communications		86,449,223	111,016,367
Insurance		71,837,357	57,198,509
Stationery and supplies used		33,093,332	29,019,076
Taxes and licenses		30,740,516	16,322,026
Fines, penalties, and other charges		15,289,083	7,197,934
Advertising and publicity		7,601,387	48,319,216
Litigation expenses		5,794,393	6,919,228
Membership fees		5,000,336	4,458,364
Regulatory examination fees		4,537,608	3,378,204
Others		42,878,473	45,242,875
		488,705,909	606,563,073

Other operating expenses pertain mainly to professional fees, representation and entertainment, freight expenses and other outsourced service costs.

Note 16 - Income taxes

A reconciliation between the provision for income tax at the statutory income tax rate to the actual provision for income tax for the years ended December 31 is presented below:

	2020		2019	
	Amount	%	Amount	%
Statutory income tax	(318,761,793)	(30.00)	127,831,565	30.00
Effect of items not subject to statutory tax rate				
Income subject to lower tax rates	(15,003,412)	(1.41)	(8,527,654)	(2.00)
Others	23,306,847	2.19	34,145,711	8.01
Actual provision for income tax	(310,458,358)	(29.22)	153,449,622	36.01

Others mainly consist of permanent non-deductible expenses such as fines, penalties and interest expense above the allowed ceiling.

Note 17 - Retirement plan

BPI and its subsidiaries, which include the Bank, have a trustee, non-contributory retirement benefit plans covering all qualified officers and employees.

Effective January 1, 2016, the Bank implemented a defined contribution plan which is accounted for as a defined benefit plan with minimum guarantee. The description of the plans follows:

Under the BPI plan, the normal retirement age is 60 years. Normal retirement benefit consists of a lump sum benefit equivalent to 200% of the basic monthly salary of the employee at the time of his retirement for each year of service, if he has rendered at least 10 years of service, or up to 150% of his basic monthly salary, if he has rendered less than 10 years of service. For voluntary retirement, the benefit is equivalent to 112.50% of the employee's basic monthly salary for a minimum of 10 years of service with the rate factor progressing to a maximum of 200% of basic monthly salary for service years of 25 or more. Death or disability benefit, on the other hand, shall be determined on the same basis as in voluntary retirement.

For the defined contribution plan, the defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of Republic Act (RA) No. 7641. All non-unionized employees hired on or after October 1, 2016 are automatically under the new defined contribution (DC) plan. Employees hired prior to October 1, 2016 shall have the option to elect to become members of the new DC plan.

The net defined benefit cost and contributions to be paid by the Bank are determined by an independent actuary.

Plan assets are held in trusts, governed by local regulations and practice in the Philippines.

Following are the amounts recognized that relate to the Bank based on the recent actuarial valuation reports:

Defined benefit retirement plan

(a) Pension asset as at December 31 recognized under Other resources in the statement of condition follows:

	2020	2019
Fair value of plan assets	49,839,130	58,377,552
Present value of defined benefit obligation	(14,232,590)	(11,972,097)
Surplus	35,606,540	46,405,455
Effect of the asset ceiling	(11,971,665)	(28,032,177)
Pension asset recognized in the statement of condition	23,634,875	18,373,278

The movements in plan assets for the years ended December 31 are summarized as follows:

	2020	2019
At January 1	58,377,552	38,953,726
Asset return at net interest cost	3,230,260	3,260,427
Contributions	500,834	7,091,443
Remeasurement (loss) gain	(12,269,516)	9,071,956
At December 31	49,839,130	58,377,552

The carrying value of the plan assets as at December 31, 2020 is equivalent to its fair value of P50 million (2019 - P58 million).

The plan assets at December 31 are comprised of the following:

	2020		2019	
	Amount	%	Amount	%
Debt securities	23,558,957	47	22,767,245	39
Equity securities	20,648,352	42	27,437,449	47
Others	5,631,821	11	8,172,858	14
	49,839,130	100	58,377,552	100

The plan assets of the unified retirement plan include investment in BPI's common share with aggregate fair value of P390 million at December 31, 2020 (2019 - P421 million). An officer of the Parent Bank exercises the voting rights over the plan's investment in BPI's common shares.

The movements in the present value of defined benefit obligation for the years ended December 31 are summarized as follows:

	2020	2019
At January 1	11,972,097	9,614,795
Current service cost	687,107	549,961
Interest cost	659,663	804,758
Remeasurement gain (loss)		
Changes in financial assumptions	2,323,715	3,482,234
Experience adjustments	(1,409,992)	(2,479,651)
At December 31	14,232,590	11,972,097

The Bank has no further transactions with the plan other than the contributions for the years ended December 31, 2020 and 2019.

(b) Retirement benefit income recognized in the statement of income for the years ended December 31:

	2020	2019
Current service cost	687,107	549,961
Net interest income	(1,026,024)	(776,887)
Total	(338,917)	(226,926)

The principal assumptions used for the actuarial valuations of the defined benefit plan of the Bank at December 31 are as follows:

	2020	2019
Discount rate	3.96%	5.51%
Salary increase rate	5.00%	5.00%

Discount rate

The discount rate is determined by reference to PHP Bloomberg Valuation (BVAL) rates and adjusted to reflect the term similar to the estimated term of the benefit obligation as determined by the actuary as at the end of the reporting period as there is no deep market in high quality corporate bonds in the Philippines.

Future salary rate increases

This is the expected long-term average rate of salary increase taking into account inflation, seniority, promotion and other market factors. Salary increases comprise of the general inflationary increases plus a further increase for individual productivity, merit and promotion. The future salary increase rates are set by reference over the period over which benefits are expected to be paid.

Demographic assumptions

Assumptions regarding future mortality and disability experience are based on published statistics generally used for local actuarial valuation purposes.

The defined benefit plan typically exposes the Bank to a number of risks such as investment risk, interest rate risk and salary risk. The most significant of which relate to investment and interest rate risks. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. A decrease in government bond yields will increase the defined benefit obligation although this will also be partially offset by an increase in the value of the plan’s fixed income holdings. Hence, the present value of defined benefit obligation is directly affected by the discount rate to be applied by the Bank. However, the Bank believes that due to the long-term nature of the pension liability and the strength of the Bank itself, the mix of debt and equity securities holdings of the plan is an appropriate element of the Bank’s long term strategy to manage the plan efficiently.

The Bank ensures that the investment positions are managed within an asset-liability matching framework that has been developed to achieve long-term investments that are in line with the obligations under the plan. The Bank’s main objective is to match assets to the defined benefit obligation by investing primarily in long-term debt securities with maturities that match the benefit payments as they fall due. The asset-liability matching is being monitored on a regular basis and potential change in investment mix is being discussed with the trustor, as necessary, to better ensure the appropriate asset-liability matching.

The average remaining service life of employees under the BPI unified retirement plan as at December 31, 2019 is 21 years (2019 - 19 years). The Bank contributes to the plan depending on the suggested funding contribution as calculated by an independent actuary. The expected contribution for the year ending December 31, 2021 for the Bank amounts to P 1.2 million.

The weighted average duration of the defined benefit obligation as at December 31, 2020 is 11.92 years (2019 - 12.78 years).

The projected maturity analysis of retirement benefit payments as at December 31 is as follows:

	2020	2019
Between 1 to 5 years	966,725	1,043,337
Between 5 to 10 years	10,009,376	10,065,480
Between 10 to 15 years	5,839,665	5,659,273
Between 15 to 20 years	18,104,232	10,955,197
Over 20 years	36,438,987	28,841,629

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions follows:

		Impact on defined benefit obligation	
December 31, 2020	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 11.0%	Increase by 12.9%
Salary growth rate	1.0%	Increase by 12.6%	Decrease by 11.0%
		Impact on defined benefit obligation	
December 31, 2019	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 6.1%	Increase by 6.7%
Salary growth rate	1.0%	Increase by 13.9%	Decrease by 11.9%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement benefit obligation recognized within the statement of condition.

Defined contribution retirement plan subject to the requirements of RA No. 7641

	2020	2019
Fair value of plan assets	89,024,300	33,071,598
Present value of defined benefit obligation under RA No. 7641	(102,853,859)	(41,897,573)
Deficit	(13,829,559)	(8,825,975)
Effect of asset ceiling	-	-
Pension liability recognized in the statement of condition	(13,829,559)	(8,825,975)

The movements in the present value of the defined benefit obligation for the years ended December 31 follow:

	2020	2019
At January 1	41,897,573	18,279,619
Current service cost	21,600,777	18,299,076
Interest cost	2,333,695	904,739
Past service cost	(64,107)	-
Remeasurement gain		
Changes in financial assumptions	31,108,095	1,931,752
Experience adjustments	5,977,826	2,482,387
At December 31	102,853,859	41,897,573

The movements in the fair value of plan assets for the years ended December 31 follow:

	2020	2019
At January 1	33,071,598	1,694,050
Benefits paid	(64,107)	-
Asset return at net interest cost	2,411,929	152,634
Contributions	42,278,894	26,860,175
Remeasurement gain - return on plan assets	11,325,986	4,364,739
At December 31	89,024,300	33,071,598

Total retirement benefit expense for the year ended December 31, 2020 under the defined contribution plan amounts to P21,522,543 (2019 - P19,051,181).

The principal assumptions used for the actuarial valuation of the defined contribution plan of the Bank at December 31 are as follows:

	2020	2019
Discount rate	3.95%	5.57%
Salary increase rate	5.00%	5.00%

The major categories of plan assets as a percentage of the fair value of total plan assets at December 31 follow:

	2020		2019	
	Amount	%	Amount	%
Debt securities	41,877,031	47	6,005,373	18
Equity securities	43,372,639	49	23,389,348	71
Others	3,774,630	4	3,676,877	11
	89,024,300	100	33,071,598	100

The asset allocation of the plan is set and reviewed from time to time by the plan trustees taking into account the membership profile, the liquidity requirements of the plan and risk appetite of the plan sponsor.

Contributions are determined on the plan provisions. The expected contribution of the Bank for the year ending December 31, 2021 amounts to P44,540,501.

Note 18 - Related party transactions

In the ordinary course of business, the Bank has transactions with its directors, officers, stockholders and related interests (DOSRI) and with its Parent Bank such as cash deposit arrangements, purchase of investment securities and outsourcing of certain services, primarily loans operations, branch operations and human resource-related functions.

Significant related party transactions are summarized below:

As at and for the year ended December 31, 2020

	Transactions for the year	Outstanding balance	Terms and conditions
Deposits to:			
Parent Bank	(37,999,461)	704,206,721	- These are demand, savings and time deposits bearing the following average interest rates: Savings - 0.24% to 0.97% Time - 0.99% to 4.17%
Fellow subsidiary	(22,167,149)	37,472,073	
	(60,166,610)	741,678,794	
Deposits from:			
Fellow subsidiary	1,700,000	1,700,000	These are time deposits bearing average interest rates of 2.25% to 3.80%.
	1,700,000	1,700,000	
Accounts receivable:			
Parent Bank	(9,000,000)	-	- Unsecured, unguaranteed and non-interest bearing advances - Collectible in cash at gross amount and on demand but not later than 12 months from reporting period
	(9,000,000)	-	
Accounts payable:			
Parent Bank	449,329,934	381,987,911	- Shared operating costs, occupancy and equipment related costs and office rental - Unsecured, unguaranteed and non-interest bearing - Payable in cash at gross amount and on demand but not later than 12 months from reporting period Refer to Notes (a), (b) and (c) below
Fellow subsidiary	35,304,306	-	
	484,634,240	381,987,911	

As at and for the year ended December 31, 2019

	Transactions for the year	Outstanding balance	Terms and conditions
Deposits to:			
Parent Bank	(67,573,736)	742,206,182	- These are demand, savings and time deposits bearing the following average interest rates: Savings - 0.66% to 1.11% Time - 1.68% to 2.83%
Fellow subsidiary	(3,297,050)	57,515,882	
	(70,870,786)	799,722,064	
Deposits from:			
Fellow subsidiary	(1,700,000)	-	- These are time deposits bearing average interest rates of 1.13% to 1.14%.
	(1,700,000)	-	
Accounts receivable:			
Parent Bank	9,000,000	9,000,000	- Unsecured, unguaranteed and non-interest bearing advances - Collectible in cash at gross amount and on demand but not later than 12 months from reporting period
	9,000,000	9,000,000	-
Accounts payable:			
Parent Bank	170,352,312	529,399,203	- Shared operating costs, occupancy and equipment related costs and office rental - Unsecured, unguaranteed and non-interest bearing - Payable in cash at gross amount and on demand but not later than 12 months from reporting period Refer to Notes (a), (b) and (c) below
	170,352,312	529,399,203	

The aggregate amounts included in the determination of income before income tax for the years ended December 31 that resulted from transactions with each class of related parties are as follows:

	Notes	2020	2019
Interest income	2		
Parent Bank		88,660	2,597,070
Fellow subsidiaries		1,286,474	252,757
		1,375,134	2,849,827
Interest expense			
Fellow subsidiaries		1,060	138,226
Shared operating costs [Refer to Note (a) below]			
Parent Bank	15	185,484,201	277,491,274
Occupancy and equipment related costs [Refer to Note (b) below]			
Parent Bank		194,930,547	196,375,614
Office rental [Refer to Note (c) below]			
Parent Bank		5,910,910	5,910,910
Retirement benefits		130,029	799,511
Salaries, allowances and other short-term benefits			
Key management personnel		8,078,579	6,662,588
Directors' remuneration		4,345,000	2,035,000

(a) Shared operating costs

These pertain to the Parent Bank's outsourcing of services relating to anti-money laundering services, accounting and securities administration services, loan operations, treasury operations, human resource-related functions and information systems. Shared operating costs are billed based on rate and terms agreed by the parties. The agreement remains in force unless terminated by the parties.

(b) Occupancy and equipment related costs

These pertain to the Parent Bank's services relating to shared technology costs. It is billed based on rate and terms agreed by the parties. The agreement remains in force unless terminated by the parties.

(c) Office rental

In 2017, the Bank transferred its office premise at BPI Greentop Condominium building, a property of the Parent Bank, for a lease period of 5 years from December 1, 2014 to November 30, 2019. The rent shall increase by 5% yearly starting on the second year and by 7% on the fourth year thereafter. The security deposit in relation to the lease is presented as part of Other resources, net in the statement of condition. The lease was renewed for another 5 years with the same terms and conditions.

The Bank has no DOSRI loans at December 31, 2020 and 2019.

The Bank is in full compliance with the General Banking Act as at December 31, 2020 and 2019.

Note 19 - Other commitments and contingent liabilities

As a result of the merger, the existing lease agreements by BanKo was assumed by the Bank effective December 29, 2016. The lease term of the Bank's main office space commenced on December 1, 2014 and ended on November 30, 2019 but was renewed thereafter. Likewise, the branch office spaces have various lease agreements that are renewable under certain terms and conditions. The rent is subject to 5% to 10% escalation rate. This agreement requires the Bank to pay security deposit which is presented at Other resources, net in the statement of condition.

Lease terms are negotiated either on a collective or individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets cannot be used as security for borrowing purposes.

The balances arising from these leases are presented below:

a) Right-of-use assets and lease liabilities (PFRS 16)

The Bank has recognized right-of-use assets and lease liabilities from its long-term leases.

Details of right-of-use assets and lease liabilities at December 31 are as follows:

	Notes	2020	2019
Right-of-use assets			
(included in Bank premises, furniture and equipment, net)	7		
Building		302,786,512	384,463,024
Lease liabilities (included in Other liabilities)	12		
Current		6,019,703	104,118,385
Non-current		324,600,431	297,348,404
		330,620,134	401,466,789

Additions to the right-of-use assets in 2020 aggregated P41 million (2019 - P15 million) (Note 7).

Movements in lease liabilities for the years ended December 31 are as follows:

	2020	2019
Balance, January 1	401,466,789	472,027,176
Additions during the year		
Lease liabilities on contracts entered	33,810,425	11,941,404
Interest accretion on lease liabilities	27,641,477	29,652,558
Payments during the year		
Principal portion of lease liabilities	(104,193,556)	(87,788,282)
Interest on lease liabilities	(28,105,001)	(24,366,067)
Balance, December 31	330,620,134	401,466,789

Total cash outflow for leases in 2020 amounted to P132.3 million (2019 - P112.15 million).

Amounts recognized under Occupancy and equipment-related expenses in the statement of income for the years ended December 31 relating to leases:

	2020	2019
Depreciation expense		
Building (Note 7)	117,144,093	102,493,377
Interest expense on lease liabilities	27,641,477	29,652,558
Expenses relating to low-value leases	17,719,465	4,280,100
	162,505,035	136,426,035

The Bank has received COVID-19 related rent discount and deferral of the escalation of lease payments and has applied the requirements of practical expedients allowed under PFRS 16, *Leases*, introduced in May 2020 in accounting for the rent concessions. The rent concessions, however, did not have a significant impact to the Bank's financial statements. The Bank has recognized minimal gain of P47,003 from rent concessions.

Note 20 - Subsequent events

Corporate Recovery and Tax Incentives for Enterprises Act

The Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act which seeks to lower corporate income tax rates and to rationalize fiscal incentives had been approved by the House of Representatives on September 13, 2019 and by the Senate on the third and final reading on November 26, 2020. The bill was approved by the Bicameral Conference Committee on February 4, 2021 but has yet to be signed into law by the President of the Philippines. Under the CREATE bill, effective July 1, 2020, the more significant changes are as follows:

- Reduction of corporate income tax (CIT) rate to 20% applicable to domestic corporations with total net taxable income not exceeding P5 million and with total assets not exceeding P100 million (excluding land on which the business entity's office, plant and equipment are situated);
- Reduction of CIT rate to 25% shall be applicable to all other corporations subject to regular CIT; and,
- Minimum Corporate Income Tax (MCIT) rate shall also be amended to 1%, instead of 2%, for the period beginning July 1, 2020 until June 30, 2023.

Since the CREATE bill has not been substantively enacted by the time the Bank's financial statements were authorized for issue, no disclosures were made in the Bank's financial statements to reflect the potential impact of the proposed changes in the CIT rate.

Financial Institutions Strategic Transfer (FIST) Law

On February 16, 2021, Republic Act (RA) No. 11523, otherwise known as FIST, was signed into law. The law takes effect immediately after its publication in the Official Gazette and a newspaper in general circulation. Under this law, financial institutions' strategic transfer corporations (FISTC) will have the powers to invest in or acquire the non-performing assets (NPA) of financial institutions and engaged third parties to manage, operate, collect and dispose of NPAs acquired from a financial institution. The transfer of NPAs to a FISTC will be exempt from documentary stamp tax, capital gains tax, creditable withholding taxes and value-added tax. The Bank is still in the process of evaluating how they can avail the benefit from the provisions of the FIST Law.

Note 21 - Critical accounting estimates and judgments

The Bank makes judgments, estimates and assumptions that affect the reported amounts of resources and liabilities. 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. It is reasonably possible that the outcomes within the next financial year could differ from judgments, estimates and assumptions made at reporting date and could result in the adjustment to the carrying amount of affected assets and liabilities.

21.1 Critical accounting estimates

(i) Measurement of the expected credit loss (ECL) allowance

The measurement of the ECL for loans and advances is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk (SICR);
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Forward-looking scenarios

Three distinct macroeconomic scenarios (baseline, upside and downside) are considered in the Bank's estimation of ECL in Stage 1 and Stage 2. These scenarios are based on assumptions supported by economic theories and historical experience. The downside scenario reflects a negative macroeconomic event occurring within the first 12 months, with conditions deteriorating for up to two years, followed by a recovery for the remainder of the period. This scenario is grounded in historical experience and assumes a monetary policy response that returns the economy to a long-run, sustainable growth rate within the forecast period. The probability of each scenario is determined using expert judgment and recession probability tools provided by reputable external service providers. The baseline case incorporates the Bank's outlook for the domestic and global economy. The best and worst case scenarios take into account certain adjustments that will lead to a more positive or negative economic outcome.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes is likewise considered, if material.

The Bank has performed historical analyses and identified the key economic variables impacting credit risk and ECL for each portfolio. The most significant period-end assumptions used for the ECL estimate at December 31 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

2020

	Base Scenario		Upside Scenario		Downside Scenario	
	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)
Real GDP growth (%)	7.4	5.9	8.4	6.9	5.4	3.9
Inflation Rate (%)	3.0	2.5	2.0	1.5	4.7	3.5
PDST-R2 5Y (%)	3.0	3.6	2.5	3.1	5.5	6.1
US Treasury 5Y (%)	0.5	0.5	0.7	0.7	0.3	0.3
Exchange Rate	49.848	53.780	48.375	49.672	51.340	58.171

2019

	Base Scenario		Upside Scenario		Downside Scenario	
	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)	Next 12 Months	2 to 5 years (Average)
Real GDP growth (%)	6.3	6.6	6.6	7.2	0.0	4.2
Inflation Rate (%)	3.0	3.1	2.7	2.4	11.0	5.9
PDST-R2 5Y (%)	4.5	4.7	4.0	4.3	11.2	10.3
US Treasury 5Y (%)	2.5	2.5	2.8	3.4	1.4	1.3
Exchange Rate	52.300	54.874	51.550	52.856	56.970	62.653

Sensitivity analysis

The Bank's loan portfolio has different sensitivities to movements in macroeconomic variables (MEVs), so the above three scenarios have varying impact on the ECL of the Bank's portfolio. The allowance for impairment is calculated as the weighted average of ECL under the baseline, upside and downside scenarios. The impact of weighting these multiple scenarios was an increase in the allowance for impairment by P0.05 million from the baseline scenario as at December 31, 2020 (2019 - P P0.9 million).

Transfers between stages

Transfers from Stage 1 and Stage 2 are based on the assessment of SICR from initial recognition. The impact of moving from 12 months ECL to lifetime ECL, or vice versa, varies by product and is dependent on the expected remaining life at the date of the transfer. Stage transfers may result in significant fluctuations in ECL. Assuming all Stage 2 accounts are considered as Stage 1, allowance for impairment would have decreased by P11.9 million as at December 31, 2020 (2019 - P10.6 million).

(ii) Fair value of financial instruments (Note 22)

The fair values of financial instruments that are not quoted in active markets are determined by using generally accepted valuation techniques. Where valuation techniques (for example, discounted cash flow models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. Inputs used in these models are from observable data and quoted market prices in respect of similar financial instruments.

All models are approved by the BOD before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. Changes in assumptions about these factors could affect reported fair value of financial instruments.

The Bank considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the fair value of financial instruments that are not quoted in active markets.

(iii) Pension liability on defined benefit plan (Note 17)

The Bank estimates its pension benefit obligation and expense for defined benefit pension plans based on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 17 and include, among others, the discount rate and future salary increases. The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligation.

The present value of the defined benefit obligation of the Bank at December 31, 2020 and 2019 are determined using the market yields on Philippine government bonds with terms consistent with the expected payments of employee benefits. Plan assets are invested in either equity securities, debt securities or other forms of investments. Equity markets may experience volatility, which could affect the value of pension plan assets. This volatility may make it difficult to estimate the long-term rate of return on plan assets. Actual results that differ from the Bank's assumptions are reflected as remeasurements in other comprehensive income. The Bank's assumptions are based on actual historical experience and external data regarding compensation and discount rate trends.

The sensitivity analysis on key assumptions is disclosed in Note 17.

(iv) Valuation of assets held for sale

In determining the fair value of assets held for sale, the Bank analyzed the sales prices by applying appropriate units of comparison, adjusted by differences between the subject asset or property and related market data. Should there be a subsequent write-down of the asset to fair value less cost to sell, such write-down is recognized as provision for impairment in the statement of income.

In 2020, the Bank has recognized provision for impairment loss on its foreclosed assets amounting to P126,128 (2019 - P150,799) as a result of the decline in fair market values of properties.

The Bank considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the fair value of assets held for sale.

(v) Useful lives of bank premises, furniture, fixtures and equipment (Note 7)

The Bank determines the estimated useful lives of its bank premises, furniture, fixtures and equipment based on the period over which the assets are expected to be available for use. The Bank annually reviews the estimated useful lives of bank premises, furniture, fixtures and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned.

The Bank considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the carrying values of bank premises, furniture, fixtures and equipment.

(vi) Determination of incremental borrowing rate (Note 19)

To determine the incremental borrowing rate, the Bank:
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held which do not have recent third-party financing, and
- makes adjustments specific to the lease, (e.g. term, currency and security).

The Bank's weighted average incremental borrowing rates applied to the lease liabilities range from 3.28% to 7.74% (2019 - 7.63% to 7.74%).

The Bank considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding its lease liabilities.

21.2 Critical accounting judgments

(i) Determining the lease term (Note 19)

In determining the lease term, the Bank considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

(ii) Classification of assets held for sale

Management follows the principles in PFRS 5 in classifying certain foreclosed assets (consisting of real estate and auto or chattel) as assets held for sale when the carrying amount of the assets will be recovered principally through sale. Management is committed to a plan to sell these foreclosed assets and the assets are actively marketed for sale at a price that is reasonable in relation to their current fair value.

(iii) Realization of deferred income tax assets (Note 8)

Management reviews at each reporting date the carrying amounts of deferred tax assets. The carrying amount of deferred tax assets is reduced to the extent that the related tax assets cannot be utilized due to insufficient taxable profit against which the deferred tax losses will be applied. Management believes that sufficient taxable profit will be generated to allow all or part of the deferred income tax assets to be utilized.

Note 22 - Financial risk and capital management

Risk management in the Bank covers all perceived areas of risk exposure, even as it continuously endeavors to uncover hidden risks. Capital management is understood to be a facet of risk management. The BOD is the Bank's principal risk and capital manager, and the Bank's only strategic risk taker. The BOD provides written policies for overall risk management, as well as written procedures for the management of credit risk, foreign exchange risk, interest rate risk, equity risk, liquidity risk, and contingency risk, among others.

The primary objective of the Bank is the generation of recurring acceptable returns to shareholders' capital. To this end, the Bank's policies, business strategies, and business activities are directed towards the generation of cash flows that are in excess of its fiduciary and contractual obligations to its depositors, and to its various other funders and stakeholders.

To generate acceptable returns to its shareholders' capital, the Bank understands that it has to bear risk, that risk-taking is inherent in its business. Risk is understood by the Bank as the uncertainty in its future income - an uncertainty that emanates from the possibility of incurring losses that are due to unplanned and unexpected drops in revenues, increases in expenses, impairment of asset values, or increases in liabilities.

The possibility of incurring losses is, however, compensated by the possibility of earning more than expected income. Risk-taking is, therefore, not entirely a bad step to be avoided. Risk-taking presents opportunities if risks are accounted, deliberately taken, and are kept within rationalized limits.

The most important financial risks that the Bank manages are credit risk, liquidity risk and market risk.

22.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that may arise if a borrower or counterparty fails to meet its obligations in accordance with agreed terms. Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk as governed by relevant regulatory requirements and international benchmarks.

Credit risk may also arise due to substantial exposures to a particular counterparty which the Bank manages by adopting proper risk controls and diversification strategies to prevent undue risk concentrations from excessive exposures to particular counterparties, industries, countries or regions.

The most evident source of credit risk is loans and advances; however, other sources of credit risk exist throughout the activities of the Bank, including in credit-related activities recorded in the banking, investment securities in the trading books and off-balance sheet transactions.

22.1.1 Credit risk management

The Credit Policy and Risk Management division of the Parent Bank supports the Credit Committees in coordination with various business lending and operations units in managing credit risk, and reports are regularly provided to the Bank's Senior Management and the BOD. A rigorous control framework is applied in the determination of ECL models. The Parent Bank has policies and procedures that govern the calculation of ECL and such policies are consistently being observed by the Bank. All ECL models are regularly reviewed by the Risk Management Office to ensure that necessary controls are in place and the models are applied accordingly.

The review and validation are performed by groups that are independent of the team that prepares the calculations, e.g., Risk Models Validation and Internal Auditors. Expert judgements on measurement methodologies and assumptions are reviewed by a group of internal experts from various functions.

The Bank employs a range of policies and practices to mitigate credit risk. The Bank monitors its portfolio based on different segmentation to reflect the acceptable level of diversification and concentration. Credit concentration arises from substantial exposures to particular counterparties. Concentration risk in credit portfolios is inherent in banking and cannot be totally eliminated. However, said risk may be reduced by adopting proper risk control and diversification strategies to prevent undue risk concentrations from excessive exposures to particular counterparties, industries, countries or regions.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and subjected to annual or more frequent review, when deemed necessary. Limits on large exposures and credit concentration are approved by the BOD through the Risk Management Committee (RMC).

The exposure to any one borrower is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored regularly.

Settlement risk arises in any situation where a payment in cash, securities, foreign exchange currencies, or equities is made in the expectation of a corresponding receipt in cash, securities, foreign exchange currencies, or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Bank's market transactions on any single day. For certain securities, the introduction of the delivery versus payment facility in the local market has brought down settlement risk significantly.

The Bank employs a range of policies and practices to mitigate credit risk. Some of these specific control and risk mitigation measures include collateral or guarantees.

Collateral or guarantees

One of the most traditional and common practice in mitigating credit risk is requiring security particularly for loans and advances. The Bank implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The Bank assesses the valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The common collateral types for loans and advances are:

- Mortgages over physical properties (e.g., real estate and personal) and
- Mortgages over financial assets (e.g., guarantees).

In order to minimize credit loss, the Bank seeks additional collateral from the counterparty when impairment indicators are observed for the relevant individual loans and advances.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collaterals held by the Bank since the prior period.

22.1.2 Credit risk rating

The Bank uses internal credit risk gradings that reflect its assessment of the probability of default (PD) of individual counterparties. The Bank uses internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. In addition, the models enable expert judgement from the Credit Review Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The Bank has put in place a credit classification system to promptly identify deteriorating exposures and to determine the appropriate credit losses. Classification is being done on the basis of Bank's existing internal credit risk rating system, credit models or determined using reputable external rating agencies. The following are the considerations observed by the Bank in classifying its exposures:

- *Standard monitoring* refers to accounts which do not have a greater-than-normal risk and do not possess the characteristics of special monitoring and defaulted loans. The counterparty has the ability to satisfy the obligation in full and therefore minimal loss, if any, is anticipated.

- *Special monitoring* are accounts which need closer and frequent monitoring to prevent any further deterioration of the credit. The counterparty is assessed to be vulnerable to highly vulnerable and its capacity to meet its financial obligations is dependent upon favorable business, financial, and economic conditions.

- *Default* refers to accounts which exhibit probable to severe weaknesses wherein possibility of non-repayment of loan obligation is ranging from high to extremely high severity.

The mapping of internal credit risk ratings with the Bank's standard account classification is shown below:

(a) Loans and advances

The Bank's internal credit risk rating system comprises a 30-scale rating with eighteen (18) 'pass' rating levels for large corporate accounts; and 14-scale rating system with ten (10) 'pass' rating grades for loans mapped based on reputable external rating agency.

The Bank uses automated scoring models to assess the level of risk for retail accounts. Behavioral indicators are considered in conjunction with other forward-looking information (e.g., industry forecast) to assess the level of risk of a financial asset. After the date of initial recognition, the payment behavior of the borrower is monitored on a periodic basis to develop a behavioral score which is mapped to a PD.

Classifications	PL, Auto, Housing	Self-employed and microentrepreneurs
Standard monitoring	Current to 30 dpd	Current to 7 dpd
Special monitoring	31-90 dpd	-
Default	>90, IL, Loss	8 dpd and up

(b) Treasury and debt securities

Investments in high grade securities are viewed as a way to gain better credit quality mix and at the same time, maintain a readily available source to meet funding requirements. The level of credit risk for treasury and other investment debt securities and their associated PD are determined using reputable external ratings and/or available and reliable qualitative and quantitative information. In the absence of credit ratings, a comparable issuer or guarantor rating is used. Should there be a change in the credit rating of the chosen comparable, evaluation is made to ascertain whether the rating change is applicable to the security being assessed for impairment.

Classifications	Credit Risk Grade following S&P or its equivalent
Standard monitoring	Investment Grade (AAA to BBB-)
Special monitoring	Non-Investment Grade (BB+ to C)
Default	Default (D)

(b) Other financial assets

For other financial assets (accounts receivable and rental deposits), the Bank applies the simplified approach, as permitted by PFRS 9, in measuring ECL which uses a lifetime ECL methodology. These financial assets are grouped based on shared risk characteristics and aging profile. For some of these, impairment is assessed individually at a counterparty level.

22.1.3 Maximum exposure to credit risk

The following tables contain an analysis of the credit risk exposure of each financial instrument for which an ECL allowance is recognized. The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets at December 31.

Credit quality of loans and advances, net

	2020			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring	9,665,666,782	372,073,681	-	10,037,740,463
Special monitoring	2,328,192	334,866,064	-	337,194,256
Default	-	-	2,390,050,873	2,390,050,873
Gross carrying amount	9,667,994,974	706,939,745	2,390,050,873	12,764,985,592
Loss allowance	(638,662,588)	(33,767,764)	(1,369,101,445)	(2,041,531,797)
Carrying amount	9,029,332,386	673,171,981	1,020,949,428	10,723,453,795

	2019			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring	11,556,258,740	183,863,229	-	11,740,121,969
Special monitoring	1,137,755	267,407,275	-	268,545,030
Default	-	-	1,188,631,728	1,188,631,728
Gross carrying amount	11,557,396,495	451,270,504	1,188,631,728	13,197,298,727
Loss allowance	(355,616,788)	(15,932,104)	(632,205,682)	(1,003,754,574)
Carrying amount	11,201,779,707	435,338,400	556,426,046	12,193,544,153

Treasury and other investment securities

Credit risk exposures relating to treasury and other investment securities at December 31 are as follows:

	2020	2019
Due from other banks	815,738,983	830,391,583
Interbank loans receivable	-	393,634,185
Due from BSP	8,168,802,018	2,491,887,897
	8,984,541,001	3,715,913,665

Credit quality of other financial assets

	2020			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring				
Due from other banks	815,738,983	-	-	815,738,983
Interbank loans receivables	-	-	-	-
Due from BSP	8,168,802,018	-	-	8,168,802,018
Gross carrying amount	8,984,541,001	-	-	8,984,541,001
Loss allowance	-	-	-	-
Carrying amount	8,984,541,001	-	-	8,984,541,001

	2019			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Standard monitoring				
Due from other banks	830,391,583	-	-	830,391,583
Interbank loans receivables	393,634,185	-	-	393,634,185
Due from BSP	2,491,887,897	-	-	2,491,887,897
Gross carrying amount	3,715,913,665	-	-	3,715,913,665
Loss allowance	-	-	-	-
Carrying amount	3,715,913,665	-	-	3,715,913,665

The Bank's other financial assets generally arise from transactions with various unrated counterparties with good credit standing. The Bank applies the simplified approach, as permitted by PFRS 9, in measuring ECL which uses a lifetime expected loss methodology for other financial assets.

To measure the ECL, other financial assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of receivables over a period of 36 months and corresponding historical credit losses experienced within the said period. The impact of forward-looking variables on macroeconomic factors is considered insignificant in calculating ECL provisions for other financial assets.

22.1.4 Credit impaired loans and advances

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held at December 31 in order to mitigate potential losses are shown below:

	2020			2019		
	Gross exposure	Impairment allowance	Carrying amount	Gross exposure	Impairment allowance	Carrying amount
Credit-impaired assets						
Corporate entities	50,000,000	50,000,000	-	50,000,000	50,000,000	-
Retail customers	2,340,050,873	1,319,101,445	1,020,949,428	1,138,631,728	582,205,682	556,426,046
Total credit-impaired assets	2,390,050,873	1,369,104,445	1,020,949,428	1,188,631,728	632,205,682	556,426,046
Fair value of collateral	380,075,402	-	1,020,949,428	244,352,710	-	556,426,046

As at December 31, 2020, the Bank acquired assets by taking possession of collaterals held as security for loans and advances with carrying amount of P8,301,742 (2019 - P23,992,147). The related foreclosed collaterals at December 31, 2020 have aggregate fair value of P145,392,206 (2019 - P147,751,044).

As at December 31, 2020, the allowance for impairment of foreclosed collateral amounts to P4,219,127 (2019 - P4,388,448). Foreclosed collaterals include real estate (land, building, and improvements) and chattel.

Repossessed properties are sold as soon as practicable and are classified as assets held for sale in the statement of condition.

22.1.5 Loss allowance

The loss allowance recognized in the period is affected by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and lifetime ECL;
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;
- Impact on the measurement of ECL due to changes in PDs, Exposure at Default (EAD) and Loss Given Default (LGD) in the period;
- Impact on the measurement of ECL due to changes made to models and assumptions;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

The following table summarizes the changes in the loss allowance for loans and advances between the beginning and the end of the annual period.

For the year ended December 31, 2020

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance, beginning	355,616,788	15,932,104	632,205,682	1,003,754,574
Movements with P&L impact				
Transfers:				
Transfer in (out of) Stage 1	(455,815,276)	24,173,857	830,909,902	399,268,483
Transfer in (out of) Stage 2	263,197	(6,902,852)	31,436,858	24,797,203
Transfer in (out of) Stage 3	192,029	502,291	(3,503,048)	(2,808,728)
New financial assets originated	894,792,480	-	-	894,792,480
Financial assets derecognized during the year	(16,573,394)	(916,219)	(8,914,809)	(26,404,422)
Changes in assumptions and other movements in provision	681,474,525	881,530	(63,161,739)	619,194,316
	1,104,333,561	17,738,607	786,767,164	1,908,839,332
Write-offs and other movements	(820,923,365)	97,054	(50,235,798)	(871,062,109)
Loss allowance, ending	639,026,984	33,767,765	1,368,737,048	2,041,531,797

For the year ended December 31, 2019

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance, beginning	328,566,683	22,433,268	319,366,511	670,366,462
Movements with P&L impact				
Transfers:				
Transfer in (out of) Stage 1	(202,687,596)	8,648,295	309,928,996	115,889,695
Transfer in (out of) Stage 2	469,646	(12,614,908)	21,061,302	8,916,040
Transfer in (out of) Stage 3	45,297	1,343,690	(6,711,620)	(5,322,633)
New financial assets originated	398,099,581	-	-	398,099,581
Financial assets derecognized during the year	(154,931,427)	(1,973,924)	(21,285,666)	(178,191,017)
Changes in assumptions and other movements in provision	82,869,073	(2,097,606)	153,137,195	233,908,662
	123,864,574	(6,694,453)	456,130,207	573,300,328
Write-offs and other movements	(96,814,469)	193,289	(143,291,036)	(239,912,216)
Loss allowance, ending	355,616,788	15,932,104	632,205,682	1,003,754,574

No movement analysis of allowance for impairment for other financial assets subject to impairment as the related loss allowance is deemed insignificant for financial reporting purposes.

Write-off policy

The Bank writes off financial assets when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Bank may write-off financial assets that are still subject to enforcement activity. The write-off of loans is approved by the Board of Directors in compliance with the BSP requirements. Loans written-off in 2020 and 2019 are fully covered with allowance.

22.1.6 Concentration of financial assets with credit exposure

The Bank's main credit exposures based on carrying amounts and categorized by industry sectors are summarized below:

	Financial Institutions	Manufacturing	Business services and real estate	Private households	Others	Less - Allowance	Total
At December 31, 2020							
Due from other banks	815,738,983	-	-	-	-	-	815,738,983
Due from BSP	-	-	-	-	8,168,802,018	-	8,168,802,018
Loans and advances, net	76,738,169	413,504,217	1,965,213,690	6,944,063,461	3,365,466,054	(2,041,531,797)	10,723,453,794
Other resources, net	-	-	-	-	116,380,608	(15,697,166)	100,683,442
	892,477,152	413,504,217	1,965,213,690	6,944,063,461	11,650,648,680	(2,057,228,963)	19,808,678,237

	Financial Institutions	Manufacturing	Business services and real estate	Private households	Others	Less - Allowance	Total
At December 31, 2019							
Due from other banks	830,391,583	-	-	-	-	-	830,391,583
Interbank loans	-	-	-	-	393,634,185	-	393,634,185
Due from BSP	-	-	-	-	2,491,887,897	-	2,491,887,897
Loans and advances, net	30,509,431	387,628,943	321,500,026	9,151,111,950	3,306,548,377	(1,003,754,574)	12,193,544,153
Other resources, net	-	-	-	-	53,030,734	(4,519,028)	48,511,706
	860,901,014	387,628,943	321,500,026	9,151,111,950	6,245,101,193	(1,008,273,602)	15,957,969,524

22.2 Market risk

The Bank is exposed to market risk - the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is managed by the Risk Management Office and confirmed by the BOD.

Market risk management

Market risk management is incumbent on the Board of Directors through its Risk Management Committee. Market risk management in the Bank covers managing exposures to trading risk, foreign exchange risk, counterparty credit risk, interest rate risk of the banking book and liquidity risk. At the management level, the Bank's market risk exposure is managed by Risk Management Office, headed by the Bank's Chief Risk Officer who reports directly to the Risk Management Committee. In addition, Internal Audit is responsible for the independent review of risk assessment measures and procedures and the control environment.

The Bank reviews and controls market risk exposures of both its trading and non-trading portfolios. Trading portfolios include those positions arising from the Bank's market-making transactions. Non-trading portfolios primarily arise from the interest rate management of the Bank's retail and commercial banking assets and liabilities.

Value-at-Risk (VaR) measurement is an integral part of the Bank's market risk control system. This metric estimates, at 99% confidence level, the maximum loss that a trading portfolio may incur over a trading day. This metric indicates as well that there is 1% statistical probability that the trading portfolios' actual loss would be greater than the computed VaR. In order to ensure model soundness, the VaR is periodically subject to model validation and back testing. VaR is supplemented by other risk metrics and measurements that would provide preliminary signals to Treasury and to the management to assess the vulnerability of Bank's positions. To control the risk, the RMC sets risk limits for trading portfolios which are consistent with the Bank's goals, objectives, risk appetite, and strategy.

Stress tests indicate the potential losses that could arise in extreme conditions that would have detrimental effect to the Bank's positions. The Bank periodically performs stress testing (price risk and liquidity risk) to assess the Bank's condition on assumed stress scenarios. Contingency plans are frequently reviewed to ensure the Bank's preparedness in the event of real stress. Results of stress tests are reviewed by senior management and by the RMC.

The average daily VaR for the trading portfolios in 2020 is at 221 (2019 - 177).

22.3 Interest rate risk

There are two types of interest rate risk - (i) fair value interest rate risk and (ii) cash flow interest rate risk. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may also result in losses in the event that unexpected movements arise.

The BOD sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by the RMO.

Interest rate risk in the banking book arises from the Bank's core banking activities. The main source of this type of interest rate risk is repricing risk, which reflects the fact that the Bank's assets and liabilities are of different maturities and are priced at different interest rates.

	Up to 1 year	Over 1 year and up to 3 years	Over 3 years	Non-repricing	Total
As at December 31, 2020					
Financial assets					
Cash and other cash items	-	-	-	254,412,943	254,412,943
Due from other banks	-	-	-	815,738,983	815,738,983
Due from BSP	-	-	-	8,168,802,018	8,168,802,018
Financial assets at FVOCI	-	-	-	9,914	9,914
Loans and advances, net	1,723,671,671	163,395,048	106,797,451	8,729,589,625	10,723,453,795
Other resources, net	-	-	-	100,683,442	100,683,442
Total financial assets	1,723,671,671	163,395,048	106,797,451	18,069,236,925	20,063,101,095
Financial liabilities					
Deposit liabilities	7,493,037,073	4,142,020,075	6,213,030,113	-	17,848,087,261
Accrued interest and other expenses	-	-	-	163,861,491	163,861,491
Other liabilities	-	-	-	815,025,506	815,025,506
Total financial liabilities	7,493,037,073	4,142,020,075	6,213,030,113	978,886,997	18,826,974,258
Total interest gap	(5,769,365,402)	(3,978,625,027)	(6,106,232,662)	17,090,349,928	1,236,126,837

	Up to 1 year	Over 1 year and up to 3 years	Over 3 years	Non-repricing	Total
As at December 31, 2019					
Financial assets					
Cash and other cash items	-	-	-	216,587,760	216,587,760
Due from other banks	-	-	-	830,391,583	830,391,583
Interbank loans	-	-	-	393,634,185	393,634,185
Due from BSP	-	-	-	2,491,887,897	2,491,887,897
Financial assets at FVOCI	-	-	-	5,560	5,560
Loans and advances, net	1,984,469,491	185,899,103	103,080,209	9,920,095,350	12,193,544,153
Other resources, net	-	-	-	48,511,706	48,511,706
Total financial assets	1,984,469,491	185,899,103	103,080,209	13,901,114,041	16,174,562,844
Financial liabilities					
Deposit liabilities	5,434,571,008	8,526,542,438	-	-	13,961,113,446
Accrued interest and other expenses	-	-	-	115,914,774	115,914,774
Other liabilities	-	-	-	1,004,036,417	1,004,036,417
Total financial liabilities	5,434,571,008	8,526,542,438	-	1,119,951,191	15,081,064,637
Total interest gap	(3,450,101,517)	(8,340,643,335)	103,080,209	12,781,162,850	1,093,498,207

The Bank uses a simple version of the Balance Sheet VaR (BSVaR) whereby only the principal and interest payments due and relating to the banking book as at particular valuation dates are considered. The BSVaR assumes a static balance sheet, i.e., it is assumed that there will be no new transactions moving forward, and no portfolio rebalancing will be undertaken in response to future changes in market rates.

The BSVaR is founded on re-pricing gaps, or the difference between the amounts of rate sensitive assets and the amounts of rate sensitive liabilities. An asset or liability is considered to be rate-sensitive if the interest rate applied to the outstanding principal balance changes (either contractually or because of a change in a reference rate) during the interval.

The BSVaR estimates the "riskiness of the balance sheet" and compares the degree of risk-taking activity in the banking books from one period to the next. In consideration of the static framework, and the fact that income from the positions is accrued rather than generated from marking-to-market, the probable loss (that may be exceeded 1% of the time) that is indicated by the BSVaR is not realized in accounting income.

The cumulative BSVaR for the banking or non-trading book in 2020 amounts to P330,000,000 (2019 - P25,261,000).

22.4 Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of financial instrument will fluctuate because of changes in foreign exchange rates. It arises on financial instruments that are denominated in a foreign currency other than the functional currency which they are measured.

The Bank takes on exposure to the effects of fluctuations in the prevailing exchange rates on its foreign currency financial position and cash flows. The table below summarizes the Bank's exposure to foreign currency exchange rate risk relative to its financial assets and liabilities denominated in United States Dollar (US Dollar) at December 31.

	2020	2019
Financial assets		
Due from other banks	223,481,234	233,212,291
Other resources	3,414	130,497
	223,484,648	233,342,788
Financial liabilities		
Deposit liabilities	205,215,211	227,922,425
Accrued interest	-	45,866
	205,215,211	227,968,291
Net foreign exchange exposure	18,269,437	5,374,497

At December 31, 2020, if the Philippine Peso had weakened/strengthened by 4% (2019 - 3.70%) against the US Dollar based on historical information in the last five years with all other variables held constant, net income as at and for the year ended December 31, 2020 would have been P511,302 higher/lower (2019 - P198,856 higher/lower), mainly as a result of foreign exchange gains/losses on translation of US Dollar-denominated deposits with other banks and deposit liabilities.

22.5 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

The Bank's liquidity profile is observed and monitored through its metric, the Minimum Cumulative Liquidity Gap (MCLG). The MCLG is the smallest net cumulative cash inflow (if positive) or the largest net cumulative cash outflow (if negative) over the next three (3) months. The MCLG indicates the biggest funding requirement in the short term and the degree of liquidity risk present in the current cash flow profile of the Bank. The MCLG is computed monthly and reported in the RMC meetings. A red flag is immediately raised and reported to management and the RMC when the MCLG level projected over the next 3 months breaches the RMC prescribed MCLG limit.

22.5.1 Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by the RMC and the RMO includes:

- day-to-day funding, which includes replenishment of funds as they mature or are borrowed by customers, managed by monitoring future cash flows to ensure that requirements can be met;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- managing the concentration and profile of debt maturities; and
- performing periodic liquidity stress testing on the Bank's liquidity position by assuming a faster rate of withdrawals in its deposit base.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The Bank also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities (if any).

Liquidity Coverage Ratio (LCR)

Pursuant to BSP Circular No. 905 issued in 2016, the Bank is required to hold and maintain an adequate level of unencumbered High Quality Liquid Assets (HQLA) that are sufficient to meet its estimated total cash outflows over a 30 calendar-day period of liquidity stress. The LCR is the ratio of HQLAs to total net cash outflows which should be no lower than 100% on a daily basis. It is designed to promote short-term resilience of the Bank's liquidity risk profile to withstand significant liquidity shocks that may last over 30 calendar days. HQLA represent the Bank's stock of liquid assets that qualify for inclusion in the LCR which consist mainly of cash, regulatory reserves and unencumbered high-quality liquid securities. HQLAs therefore, serve as defense against potential stress events.

The main drivers of the Bank's LCR comprise the changes in the total stock of HQLA as well as changes in net cash outflows related to deposits, unsecured borrowings and commitment facilities, if any.

Net Stable Funding Ratio (NSFR)

On January 1, 2019, the Bank adopted BSP Circular No. 1007 issued in 2018 regarding the NSFR requirement. The NSFR is aimed at strengthening the Bank's long-term resilience by maintaining a stable funding in relation to its assets and off-balance sheet items as well as to limit the maturity transformation risk of the Bank. The NSFR is expressed as the ratio of available stable funding and the required stable funding and complements the LCR as it takes a longer view of the Bank's liquidity risk profile. The Bank's capital and retail deposits are considered as stable funding sources whereas the Bank's assets including, but not limited to, performing and non-performing loans and receivables, HQLA and non-HQLA securities as well as off-balance sheet items form part of the required stable funding. The Bank's NSFR is well-above the regulatory minimum of 100%.

The Bank maintains a well-diversified funding base and has a substantial amount of core deposits, thereby avoiding undue concentrations by counterparty, maturity, and currency. The Bank manages its liquidity position through asset-liability management activities supported by a well-developed funds management practice as well as a sound risk management system. As part of risk oversight, the Bank monitors its liquidity risk on a daily basis, in terms of single currency and significant currencies, to ensure it is operating within the risk appetite set by the BOD and to assess ongoing compliance with the minimum requirement of the liquidity ratios. Furthermore, the Bank has a set of policies and escalation procedures in place that govern its day-to-day risk monitoring and reporting processes.

The table below shows the actual liquidity metrics of the Bank as at December 31:

	2020	2019
Liquidity coverage ratio	460.22%	162.86%
Net stable funding ratio	1.74%	124.42%
Leverage ratio	7.24%	12.64%
Total exposure measure	21,723,332,511	17,779,755,263

22.5.2 Funding approach

Sources of liquidity are regularly reviewed by the Bank to maintain a wide diversification by currency, geography, counterparty, product and term.

22.5.3 Non-derivative cash flows

The table below presents the maturity profile of non-derivative financial instruments at December 31 based on undiscounted cash flows, including interest, which the Bank uses to manage the inherent liquidity risk. The analysis takes into account the maturity grouping based on the remaining period from the end of the reporting period to the contractual maturity date or, if earlier, the expected date the financial asset will be realized or the financial liability will be settled.

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
2020				
Financial assets				
Cash and other cash items	254,412,943	-	-	254,412,943
Due from other banks	815,738,983	-	-	815,738,983
Interbank loans	-	-	-	-
Due from BSP	8,168,802,018	-	-	8,168,802,018
Investment securities at FVOCI	9,914	-	-	9,914
Loans and advances	5,246,611,398	5,390,580,269	1,751,954,620	12,389,146,287
Other resources	100,683,442	-	-	100,683,442
Total financial assets	14,586,258,698	5,390,580,269	1,751,954,620	21,728,793,587
Financial liabilities				
Deposit liabilities	7,493,037,073	4,142,020,075	6,213,030,113	17,848,087,261
Accrued interest and other expense	163,861,491	-	-	163,861,491
Other liabilities	-	-	815,025,506	815,025,506
Total financial liabilities	7,656,898,564	4,142,020,075	7,028,055,619	18,826,974,258
Total maturity gap	6,929,360,134	1,248,560,194	(5,276,100,999)	2,901,819,329

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
2019				
Financial assets				
Cash and other cash items	216,587,760	-	-	216,587,760
Due from other banks	830,391,583	-	-	830,391,583
Interbank loans	393,634,185	-	-	393,634,185
Due from BSP	2,491,887,897	-	-	2,491,887,897
Investment securities at FVOCI	5,560	-	-	5,560
Loans and advances	5,943,538,832	7,955,675,809	3,432,466,439	17,331,681,080
Other resources	48,511,706	-	-	48,511,706
Total financial assets	9,924,557,523	7,955,675,809	3,432,466,439	21,312,699,771
Financial liabilities				
Deposit liabilities	5,441,203,910	8,526,542,438	-	13,967,746,348
Accrued interest and other expense	115,914,774	-	-	115,914,774
Other liabilities	706,688,013	284,390,498	12,957,906	1,004,036,417
Total financial liabilities	6,263,806,697	8,810,932,936	12,957,906	15,087,697,539
Total maturity gap	3,660,750,826	(855,257,127)	3,419,508,533	6,225,002,232

The maturity gap is being managed through the minimum cumulative liquidity gap.

22.6 Fair values of financial assets and liabilities

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities at December 31 not presented in the statement of condition at fair value.

	Carrying Value		Fair Value	
	2020	2019	2020	2019
Financial assets				
Cash and other cash items	254,412,943	216,587,760	254,412,943	216,587,760
Due from other banks	815,738,983	830,391,583	815,738,983	830,391,583
Interbank loans receivable	-	393,634,185	-	393,634,185
Due from BSP	8,168,802,018	2,491,887,897	8,168,802,018	2,491,887,897
Loans and advances, net	10,723,453,795	12,193,544,153	10,723,453,795	12,193,544,153
Other resources, net	100,683,442	48,511,706	100,683,442	48,511,706
Financial liabilities				
Deposit liabilities	17,848,087,262	13,961,113,446	17,848,087,262	13,961,113,446
Accrued interest and other expenses	163,861,491	115,914,774	163,861,491	115,914,774
Other liabilities	815,025,506	1,004,036,417	815,025,506	1,004,036,417

Cash and other cash items, due from BSP and other banks and interbank loans receivable

The fair value of floating rate placements and overnight deposits approximates their carrying amounts. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity. All of these financial assets have a maturity of one year, thus their fair values approximate their carrying amounts.

Loans and advances

The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted with the use of assumptions regarding appropriate credit spread for the loan, derived from other market instruments.

Financial liabilities

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Other resources and other liabilities

Carrying amounts of other resources and other liabilities which have no definite repayment dates are assumed to be their fair values.

22.6.1 Fair value hierarchy

The following table presents the fair value hierarchy of the Bank's financial assets and liabilities at December 31:

	Fair value		
2020	Level 1	Level 2	Total
Recurring measurements			
Financial asset at FVOCI			
Equity security	9,914	-	9,914
	9,914	-	9,914
Non-recurring measurements			
Assets held for sale, net	-	145,392,206.24	145,392,206.24

	Fair value		
2020	Level 1	Level 2	Total
Financial assets			
Cash and other cash items	-	254,412,943	254,412,943
Due from other banks	-	815,738,983	815,738,983
Due from BSP	-	8,168,802,018	8,168,802,018
Loans and advances, net	-	10,723,453,795	10,723,453,795
Other resources, net	-	100,683,442	100,683,442
Financial liabilities			
Deposit liabilities	-	17,848,087,262	17,848,087,262
Accrued interest and other expenses	-	163,861,491	163,861,491
Other liabilities	-	815,025,506	815,025,506

2019	Fair value Level 1	 Level 2	 Total
Recurring measurements			
Financial assets at FVOCI			
Equity security	5,560	-	5,560
	5,560	-	5,560

Non-recurring measurements			
Assets held for sale, net	-	147,751,044	147,751,044

2019	Fair value Level 1	 Level 2	 Total
Financial assets			
Cash and other cash items	-	216,587,760	86,383,976
Due from other banks	-	830,391,583	884,795,667
Interbank loans receivable	-	393,634,185	393,634,185
Due from BSP	-	2,491,887,897	2,491,887,897
Loans and advances, net	-	12,193,544,153	12,193,544,153
Other resources, net	-	48,511,706	48,511,706
Financial liabilities			
Deposit liabilities	-	13,961,113,446	13,961,113,446
Accrued interest and other expenses	-	115,914,774	115,914,774
Other liabilities	-	1,004,036,417	1,004,036,417

There are no transfers between the fair value hierarchy above for the years ended December 31, 2020 and 2019.

22.7 Capital management

Capital management is understood to be a facet of risk management. The primary objective of the Bank is the generation of recurring acceptable returns to shareholder's capital. To this end, the Bank's policies, business strategies and activities are directed towards the generation of cash flows that are in excess of its fiduciary and contractual obligations to its depositors, and to its various funders and stakeholders.

Cognizant of its exposure to risks, the Bank understands that it must maintain sufficient capital to absorb unexpected losses, to stay in business for the long haul, and to satisfy regulatory requirements. The Bank further understands that its performance, as well as the performance of its various units, should be measured in terms of returns generated vis-à-vis allocated capital and the amount of risk borne in the conduct of business.

Effective January 1, 2014, the BSP, through its Circular 781, requires each bank and its financial affiliated subsidiaries to adopt new capital requirements in accordance with the provisions of Basel III. The new guidelines are meant to strengthen the composition of the Bank's capital by increasing the level of core capital and regulatory capital. The Circular sets out minimum Common Equity Tier 1 (CET1) ratio and Tier 1 Capital ratios of 6% and 7.5%, respectively. A capital conservation buffer of 2.5%, comprised of CET1 capital, was likewise imposed. The minimum required capital adequacy ratio (CAR) remains at 10% which includes the capital conservation buffer.

The table below summarizes the Bank's CAR under the Basel III framework for the years ended December 31:

	2020	2019
Tier 1 capital	2,317,412,934	2,601,981,668
Tier 2 capital	108,538,715	127,967,043
Gross qualifying capital	2,425,951,649	2,729,948,711
Less: Required deductions	745,563,606	354,936,540
Total qualifying capital	1,680,388,043	2,375,012,171
Risk weighted assets	14,250,760,748	14,795,700,780
CET1	11.03%	15.19%
CAR (%)	11.79%	16.05%

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

Note 23 - Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Bank's financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

23.1 Basis of preparation

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). The term PFRSs in general includes all applicable PFRSs, Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

The financial statements comprise the statement of condition, statement of income and statement of comprehensive income shown as two statements, statement of changes in capital funds, the statement of cash flows and the notes.

These financial statements of the Bank have been prepared under the historical cost convention, as modified by the revaluation of investment security at FVOCI and plan assets of the Bank's pension plans measured at fair value.

The preparation of these financial statements in conformity with PFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the financial statements therefore fairly present the financial position and results of the Bank. The areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 21.

23.1.1 Changes in accounting policy and disclosures

(a) Amendments to existing standards adopted by the Bank

The Bank has adopted the following amendments to existing standards and the revised Conceptual Framework effective January 1, 2020:

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

  The amendments clarify that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and; the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

  The adoption of the above amendments did not have a material impact on the Bank's financial statements as its materiality assessment is already made in the context of the financial statements as a whole.

- Revised Conceptual Framework for Financial Reporting

  The revised Framework includes the following changes:
  - increasing the prominence of stewardship in the objective of financial reporting;
  - reinstating prudence as a component of neutrality;
  - defining a reporting entity, which may be a legal entity, or a portion of an entity;
  - revising the definitions of an asset and a liability;
  - removing the probability threshold for recognition and adding guidance on derecognition;
  - adding guidance on different measurement basis; and
  - stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

  No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from January 1, 2020.

  The adoption of the revised framework did not have a material impact on the financial statements of the Bank as the accounting policies of the Bank are still the same and appropriate under the revised framework.

- Amendments to PFRS 16, *"Leases"*

  The amendment provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

  The adoption of the above amendment did not have a material impact on the Bank's financial statements.

There are no other standards, interpretations and amendments effective January 1, 2020 that are considered relevant to the Bank's financial statements.

(b) Amendments to existing standards not yet effective and not yet adopted by the Bank

The following amendments to existing standards are not mandatory for December 31, 2020 reporting period and have not been early adopted by the Bank:

- Amendments to PAS 1, *"Presentation of Financial Statements"*

  The amendments to PAS 1 clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant).

- Amendments to PAS 16, "Property, Plant and Equipment"

  The amendment prohibits an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset.

- PAS 37, *"Provisions, Contingent Liabilities and Contingent Assets"*

  The amendment clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling the contract. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract.

- Annual Improvements to PFRS Standards 2018-2020

  The following improvements were finalized in May 2020:
  i. PFRS 9, "*Financial Instruments"*, clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
  ii. PFRS 16, "*Leases"*, amendment to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

The adoption of the above amendments is not expected to have a material impact on the financial statements of the Bank. There are also no new standards effective after December 31, 2020 that are expected to be relevant or would have a material impact on the financial statements of the Bank.

23.2 Business combination between entities under common control

Business combinations under common control are accounted for using the predecessor cost method following the guidance under the PIC Q&A No. 2011-02 and PIC Q&A 2012-01. Under this method, the Bank does not restate the acquired businesses or assets and liabilities to their fair values. The net assets of the combining entities or businesses are combined using the carrying amounts of assets and liabilities of the acquired entity. No amount is recognized in consideration for goodwill or the excess of acquirer's interest in the net fair value of acquired identifiable assets, liabilities and contingent liabilities over their cost at the time of the common control combination.

The financial statements incorporated the net assets and results of operations of the combining entities or businesses at the date of acquisition. The difference between the consideration given and the aggregate book value of the assets and liabilities acquired as of the date of the transaction are included in "Other reserves" under the equity account.

23.3 Financial assets

23.3.1 Classification

Th Bank classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss (FVTPL);
- those to be measured subsequently at FVOCI; and
- those to be measured at amortized cost.

The classification depends on the Bank's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether Bank has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes.

In the determination of the business model, the Bank considers its past experience on how the cash flows for these assets were collected, how the assets' performance are evaluated and how risks are assessed and managed.

23.3.2 Recognition

Regular way purchases and sales of financial assets are recognized on trade date, the date on which the Bank commits to purchase or sell the asset.

23.3.3 Measurement

The classification requirements for debt and equity instruments are described below:

At initial recognition, the Bank measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

The Bank classifies its debt instruments at amortized cost. As at December 31, 2020 and 2019, the Bank did not have any debt instruments classified and measured at FVTPL or FVOCI.

Assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any ECL allowance recognized and measured. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Financial assets at amortized cost at December 31, 2020 and 2019 include cash and other cash items, due from BSP, due from other banks, interbank loans receivables, loans and advances, and other resources.

Cash and cash equivalents consist of cash and other cash items, due from BSP and other banks and interbank loans receivable with maturities of less than three months from the date of acquisition and that are subject to insignificant risk of changes in value.

Securities sold subject to repurchase agreements are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest rate method. Securities purchased under agreements to resell are recorded as loans and advances to other banks and customers and included in the statement of condition under "Interbank loans receivable." Securities lent to counterparties are also retained in the financial statements.

Business model: The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of 'other' business model and measured at fair value through profit or loss. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Bank subsequently measures equity investments at FVTPL, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in other comprehensive income and are not subsequently reclassified to profit or loss, even on disposal. Impairment losses and reversal of impairment losses, if any, are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Bank's right to receive payments is established.

The Bank's investment in a listed equity security at December 31, 2020 and 2019 is measured at FVOCI.

23.3.4 Impairment of financial assets at FVOCI and at amortized costs

The Bank assesses impairment as follows:

- individually for loans that exceed specified thresholds - where there is an objective evidence of impairment, individually assessed provisions will be recognized; and
- collectively for loans below the specified thresholds noted above or if there is no objective evidence of impairment. These loans are included in a group of loans with similar risk characteristics and collectively assessed for impairment. If there is objective evidence that the group of loans is collectively impaired, collectively assessed provisions will be recognized.

The Bank assesses on a forward-looking basis the ECL associated with its debt instruments carried at amortized cost and FVOCI and with the exposure arising from loan commitments. The Bank recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

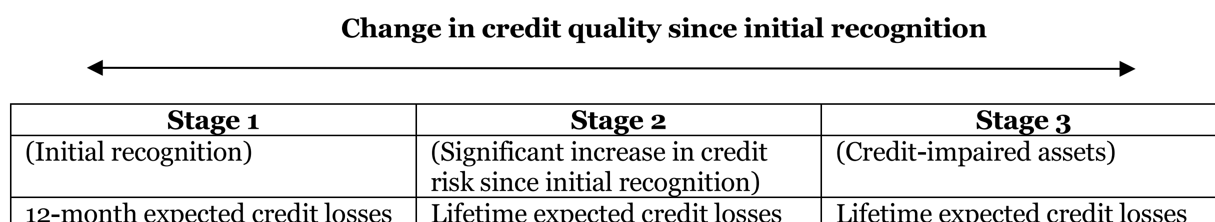
- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

PFRS 9 outlines a ‘three-stage’ model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in “Stage 1” and has its credit risk continuously monitored by the Bank.
- If a SICR since initial recognition is identified, the financial instrument is moved to “Stage 2” but is not yet deemed to be credit-impaired. The Bank determines SICR based on prescribed benchmarks approved by the Board of the Directors.
- If the financial instrument is credit-impaired, the financial instrument is then moved to “Stage 3”.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on ECL on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with PFRS 9 is that it should consider forward-looking information.

The Bank assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost and FVOCI. The Bank recognizes a loss allowance for such losses at each reporting date.

The following diagram summarizes the impairment requirements under PFRS 9 (other than purchased originated credit-impaired financial assets):



Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

For ECL provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

Determination of SICR

The Bank compares the probabilities of default occurring over its expected life as at the reporting date with the probability of default occurring over its expected life on the date of initial recognition to determine significant increase in credit risk. Since comparison is made between forward-looking information at reporting date against initial recognition, the deterioration in credit risk may be triggered by the following factors:

- substantial deterioration in credit quality as measured by the applicable internal or external ratings, credit score or shift from investment grade category to non-investment grade category;
- adverse changes in business, financial and/or economic conditions of the borrower;
- early warning signs of worsening credit where the ability of the counterparty to honor his obligation is dependent upon favorable business or economic condition;
- the account has become past due beyond 30 days where an account is classified under special monitoring category; and
- expert judgment for the other quantitative and qualitative factors which may result to SICR as defined by the Bank.

Measuring ECL - Inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECLs are the discounted product of the PD, EAD and LGD, defined as follows:

- The PD represents the likelihood that the borrower will default (as per “Definition of default and credit-impaired” above), either over the next 12 months (12M PD), or over the remaining life (lifetime PD) of the asset.

- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining life (lifetime EAD). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

  The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

  - For amortizing products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.
  - For committed credit lines, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default.

- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default.

  The LGDs are determined based on the factors which impact the recoveries made post-default.

  - For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
  - For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies and historical recoveries.

The ECL is determined by multiplying the PD, LGD and EAD together for each individual exposure or collective segment. This effectively calculates an ECL for each future year, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the life of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band.

Forward-looking economic information is also included in determining the 12-month and lifetime PD. These assumptions vary by product type.

The assumptions underlying the ECL calculation such as how the maturity profile of the PDs and how collateral values change are monitored and reviewed regularly.

The Bank's forward-looking, point-in-time PD models are driven by internal forecasts of MEVs over the next five years. These models were previously recalibrated annually, but in view of the COVID-19 pandemic, more frequent review and update of these models were conducted starting April 2020 as MEV forecasts were revised quarterly in response to changing macroeconomic conditions. Furthermore, the pandemic was expected to dampen demand for auto and real estate collaterals and thus decrease market prices, so appropriate haircuts were applied on estimated recoveries from collaterals. These haircuts, however, did not increase the Bank's LGD as these were offset by the Bank's favorable collection experience.

Forward-looking information incorporated in the ECL models

The Bank incorporates historical and current information, and forecasts forward-looking events and key economic variables that are assessed to impact credit risk and ECL for each portfolio. Macroeconomic variables that affect a specific portfolio's non-performing loan rate(s) are determined through statistical modelling and the application of expert judgement. The Bank's economics team establishes possible global and domestic economic scenarios. With the use of economic theories and conventions, expert judgement and external forecasts, the economics team develops assumptions to be used in forecasting variables in the next five (5) years, subsequently reverting to long run-averages. The probability-weighted ECL is calculated by running each scenario through the relevant ECL models and multiplying it by the appropriate scenario weighting.

The estimation and application of forward-looking information requires significant judgment. As with any economic forecasts, the projections and likelihood of occurrences are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The scenarios and their attributes are reassessed at each reporting date. Information regarding the forward-looking economic variables and the relevant sensitivity analysis is disclosed in Note 21.

Financial assets with low credit risk

Loss allowance for financial assets at amortized cost and FVOCI that have low credit risk is limited to 12-month ECLs. Management considers "low credit risk" for listed government bonds to be an investment grade credit rating with at least one major rating agency. Other debt instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Definition of default and credit-impaired assets

The Bank considers a financial instrument in default or credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments (with the exception of credit cards and micro-finance loans where a borrower is required to be 90 days past due and over 7 days past due, respectively, to be considered in default).

Qualitative criteria

The counterparty is experiencing significant financial difficulty which may lead to non-payment of loan as may be indicated by any or combination of the following events:

- The counterparty is in long-term forbearance;
- The counterparty is insolvent;
- The counterparty is in breach of major financial covenant(s) which lead(s) to event of default;
- An active market for the security has disappeared;
- Granting of concession that would not be otherwise considered due to economic or contractual reasons relating to the counterparty's financial difficulty;
- It is becoming probable that the counterparty will enter bankruptcy or other financial reorganization; and
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, EAD, and LGD throughout the Bank's ECL calculations.

The Bank's definition of default is substantially consistent with non-performing loan definition of the BSP. For treasury and debt securities, these are classified as defaulted based on combination of BSP and external credit rating agency definitions.

23.3.5 Modification of loans

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in the statement of income as a gain or loss on derecognition.

If the terms are not substantially different, the Bank recalculates the gross carrying amount of the financial asset and recognizes a modification gain or loss in the statement of income. The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets.

Loan modifications in compliance with Bayanihan Acts 1 and 2, are treated in line with the Bank's policies discussed above.

23.3.6 Derecognition of financial assets other than modification

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have ceased, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank derecognizes financial assets if the principal terms and conditions have been modified in accordance with a new (restructured) agreement setting forth a new plan of payment or a schedule of payment on a periodic basis. Derecognition of loan is necessary in cases where the deterioration in the financial position of the borrower is such that the borrower can no longer service his debt, whether principal and/or interest, according to existing terms and conditions. This would have been brought about by major operating losses and/or serious and sustained impairment in cash flow, in turn caused by factors such as adverse economic and industry trends, contraction of markets or revenue sources, heavy debt burden, poor business/financial management, labor unrest, and product obsolescence which contributed to business financial difficulty.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
(ii) Is prohibited from selling or pledging the assets; and
(iii) Has an obligation to remit any cash it collects from the assets without material delay.

23.3.7 Write-off policy

The Bank writes off financial assets when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Bank may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended December 31, 2020 was P834.07 million. (2019 - P218.91 million). The write-off of loans is being approved by the BOD in compliance with the BSP requirements.

23.4 Financial liabilities

23.4.1 Classification

The Bank classifies its financial liabilities in the following categories: at FVTPL and at amortized cost. The Bank has only financial liabilities at amortized cost as at December 31, 2020 and 2019.

Financial liabilities at amortized cost pertain to financial instruments not classified at FVTPL and contain obligations to deliver cash or another financial assets to settle the obligations.

Financial liabilities measured at amortized cost include deposit liabilities, accrued interest and other expenses, and other liabilities (except tax-related or statutory payables).

23.4.2 Recognition and measurement

Initial recognition and measurement

Financial liabilities at amortized cost are initially recognized at fair value plus transaction costs.

Subsequent measurement

Financial liabilities at amortized cost are subsequently measured at amortized cost using the effective interest rate method.

23.4.3 Derecognition

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished (i.e. when the obligation is discharged or is cancelled or has expired).

23.5 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

Financial instruments

The Bank classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Philippine Stock Exchange, Inc., Philippine Dealing and Exchange Corp. (PDEX), etc.).

- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the over-the-counter ("OTC") derivative contracts. The primary source of input parameters like LIBOR yield curve or counterparty credit risk is Bloomberg.

- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible. The Bank has no assets or liabilities classified under Level 3 as at December 31, 2020 and 2019.

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes mainly from PDEX and Bloomberg.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at reporting dates. The Bank uses widely recognized valuation models for determining fair values of non-standardized financial instruments of lower complexity. For these financial instruments, inputs into models are generally market observable.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment.

The fair value for loans and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

Non-financial assets or liabilities

The Bank uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Commonly used valuation techniques are as follows:

- Market approach - A valuation technique that uses observable inputs, such as prices, broker quotes and other relevant information generated by market transactions involving identical or comparable assets or group of assets.

- Income approach - A valuation technique that converts future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

- Cost approach - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

The fair values were determined in reference to observable market inputs reflecting orderly transactions, i.e. market listings, published broker quotes and transacted deals from similar and comparable assets, adjusted to determine the point within the range that is most representative of the fair value under current market conditions.

The fair values of the Bank's foreclosed assets (shown as Assets held for sale) fall under level 2 of the fair value hierarchy using market approach. The Bank has no non-financial assets or liabilities classified under Level 3 as at December 31, 2020 and 2019.

23.6 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of condition when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. As at December 31, 2020 and 2019, there are no financial assets and liabilities that have been offset.

23.7 Bank premises, furniture, fixtures and equipment

Bank premises, furniture, fixtures and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of an asset which comprises its purchase price, import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred. Depreciation on furniture, fixtures and equipment is calculated using the straight-line method to allocate their cost less residual values over the useful lives of three to five years.

Depreciation on assets is calculated using the straight-line method to allocate cost of each asset less its residual value over its estimated useful life as follows:

	Estimated useful life
Leasehold, Rights and Improvements	Based on lease term or life of the leased item whichever is shorter
Furniture, Fixtures, and Equipment	36 months
FFE-Computer Equipment	36 months

Leasehold rights and improvements in progress are stated at cost. Costs are accumulated in the accounts until these projects are completed upon which these are classified to the appropriate property accounts and accordingly depreciated.

Major renovations are depreciated over the remaining useful life of the related asset. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

23.8 Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specified software. These costs are amortized on a straight-line basis over the expected useful lives of three to five years. Computer software is included in Other resources, net.

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Computer software is derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

23.9 Impairment of non-financial assets

Asset that have indefinite useful lives are not subject to amortization and depreciation and are tested annually for impairment. Assets that have definite useful life are subject to amortization and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there is a separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

23.10 Foreclosed asset

Assets foreclosed shown as Assets held for sale in the statement of condition are accounted for at the lower of cost and fair value less cost to sell, similar to the principles of PFRS 5. The cost of assets foreclosed includes the carrying amount of the related loan less allowance for impairment at the time of foreclosure. Impairment loss is recognized for any subsequent write-down of the asset to fair value less cost to sell.

These foreclosed assets are classified as assets held for sale since it is the intention of the Bank's management to principally recover the carrying amount through sale transactions and the sale is considered highly probable.

The sale is expected to be completed within one year from the date of classification. In case events or circumstances may extend the period to complete the sale beyond one year, the extension of the period to complete the sale does not preclude the asset from being classified as held-for-sale if the delay is caused by events or circumstances beyond the Bank's control and the Bank remains committed to its plan to sell the asset.

23.11 Accrued expenses and other liabilities

Accrued expenses and other liabilities are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Bank is established.

Accrued expenses and other liabilities are derecognized upon settlement, or when discharged, cancelled or expired.

23.12 Provisions for legal or contractual obligations

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and the risk specific to the obligation. The increase in provision due to the passage of time is recognized as interest expense.

23.13 Interest income and expense

Interest income and expense are recognized in the statement of income for all interest-bearing financial instruments using the effective interest rate method.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss.

23.14 Service fee income

The Bank recognized revenue when (or as) the Bank satisfies a performance obligation by transferring a promised good or service to a customer (i.e. an asset). An asset is transferred when (or as) the customer obtains control of that asset.

Fees and commissions are generally recognized over time when the service has been provided and the control over the service is transferred to the customer. The service being rendered by the Bank represents a single performance obligation.

Fees and commissions, mainly representing service fees, are recognized on an accrual basis when the service has been provided. Fees and commission arising from loans, deposits and other banking transactions are recognized as income based on agreed terms and conditions.

23.15 Foreign currency translation

Functional and presentation currency

Items in the financial statements of the Bank are measured using the currency of the primary economic environment in which it operates (the functional currency). The financial statements are presented in Philippine Peso, which is the Bank's functional currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuations where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

23.16 Income taxes

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

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the country where the Bank operates and generates taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which the applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences, unused tax losses and unused tax credits can be utilized.

Deferred income tax liabilities are recognized in full for all taxable temporary differences. Deferred income tax liabilities are provided on taxable temporary differences except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Bank and it is probable that the temporary difference will not reverse in the foreseeable future.

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

23.17 Employee benefits

(a) Short-term benefits

The Bank recognizes a liability, net of amount already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given to its employees include salaries and wages, social security contributions, short-term compensated absences and bonuses, and non-monetary benefits.

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

(b) Defined benefit retirement plan

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the statement of condition in respect of defined benefit pension plan is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

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 amount of pension asset recognized in the books is reduced by the amount of asset ceiling, as applicable.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognized immediately in profit or loss.

For individual financial reporting purposes, the unified plan assets are allocated based on the level of the defined benefit obligation attributable to each entity to arrive at the net liability or asset that should be recognized in the individual financial statements.

(c) Defined contribution retirement plan

The Bank also maintains a defined contribution plan that covers certain full-time employees. Under its defined contribution plan, the Bank pays fixed contributions based on the employees' monthly salaries. The Bank, however, is covered under RA No. 7641, otherwise known as The Philippine Retirement Pay Law, which provides for its qualified employees a defined benefit minimum guarantee. The defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA No. 7641. Accordingly, the Bank accounts for its retirement obligation under the higher of the defined benefit obligation relating to the minimum guarantee and the obligation arising from the defined contribution plan.

For the defined benefit minimum guarantee plan, the liability is determined based on the present value of the excess of the projected defined benefit obligation over the projected defined contribution obligation at the end of the reporting period. The defined benefit obligation is calculated annually by a qualified independent actuary using the projected unit credit method. The Bank determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset) and then, it takes into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plan are recognized in the statement of income.

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

Actuarial gains and losses arising from the remeasurements of the net defined contribution liability are recognized immediately in other comprehensive income.

(d) Profit sharing and bonus plans

The Bank recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Bank's shareholder after certain adjustments. The Bank recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

23.18 Share capital; Surplus

Share capital represents common shares.

Incremental costs directly attributable to the issue of new shares are shown in capital funds as a deduction from the proceeds, net of tax.

Surplus includes current and prior years' results of operations, with the excess being declared for dividend payout or reserved for the Bank's future use.

23.19 Dividends on common shares

Dividends are recognized as a liability in the Bank's financial statements in the year in which they are approved by the Board of Directors.

23.20 Leases

The Bank recognizes leases as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use.

Assets and liabilities arising from long-terms leases are initially measured on a present value basis. The interest expense is recognized in the statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the lease commencement date plus any initial direct costs incurred, less any lease incentives received. The right-of-use asset is subsequently depreciated on a straight-line basis over the lease term. The right-of-use asset may be reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Payments associated with leases of low-value assets are recognized on a straight-line basis as an expense in the statement of income. Low-value assets comprise certain IT-equipment and office furniture.

23.21 Related party relationships and transactions

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

23.22 Subsequent events (or Events after the reporting date)

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

Note 24 - Supplementary information required by BSP Circular No. 1074

Presented below are the additional information required by BSP Circular No. 1074 issued on January 8, 2020. This information is presented for BSP reporting purposes and is not required in the basic financial statements.

(i) Basic quantitative indicators of financial performance

The key financial performance indicators as at December 31 follow:

	2020	2019
Return on average equity[1]	(30.13%)	10.49%
Return on average assets[2]	(3.38%)	1.78%
Net interest margin[3]	14.15%	20.38%

[1]Net income divided by average total equity for the period indicated. Average equity is based on the daily average balance of equity for the years ended December 31, 2020 and 2019.
[2]Net income divided by average total assets as at period indicated. Average total assets are based on the daily average balance of total assets as at December 31, 2020 and 2019.
Net interest income divided by average interest-earning assets. Average interest earning assets is based on the daily average balance of interest earning assets as at December 31, 2020 and 2019.

(ii) Description of capital instrument issued

The Bank considers its common shares as capital instrument for the purpose of calculating its CAR as at December 31, 2020 and 2019.

(iii) Significant credit exposures

Details of the Bank's loans and advances portfolio as to concentration to industry/economic sector (in %) at December 31 are as follows:

	2020	2019
Private household with employed persons	54.40	69.34
Wholesale and retail trade	26.36	25.05
Real estate, renting and other related activities	15.40	2.44
Manufacturing	3.24	2.94
Others	0.60	0.23
	100.00	100.00

(iv) Breakdown of total loans

Details of the Bank's loans and advances portfolio as to collateral (amounts net of unearned discounts and accrued interest receivable) at December 31 are as follows:

	2020	2019
Secured loans		
Real estate mortgage	1,548,405,379	2,405,689,841
Chattel mortgage	1,852,898	262,824
	1,550,258,277	2,405,952,665
Unsecured loans	10,838,833,534	10,791,346,062
	12,389,091,811	13,197,298,727

Non-performing loans, net of allowance for credit losses, at December 31 are as follows:

	2020	2019
Non-performing loans (NPL)	1,963,230,809	928,714,553
Accounts with specific allowance for credit losses	(1,139,598,352)	(537,795,977)
Net NPL	823,632,457	390,918,576

BSP Circular 941, Amendments to Regulations on Past Due and Non-Performing Loans, states that loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and if there is an evidence that full repayment of principal and interest is unlikely without foreclosure of collateral. 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.

(v) Information on related party loans

The Bank does not have DOSRI loans as at December 31, 2020 and 2019.

(vi) Liabilities and assets pledged as security

There are no loans and advances at December 31, 2020 and 2019 used as security for liabilities.

(vii) Contingencies and commitments arising from off-balance sheet items

The Bank does not have any contingencies and commitments arising from off-balance sheet items as at December 31, 2020 and 2019.

Note 25 - Supplementary information required by the Bureau of Internal Revenue (BIR)

Below is the additional information required by Revenue Regulations No. 15-2010 that is relevant to the Bank. This information is presented for the purposes of filing with the BIR and is not a required part of the basic financial statements.

(i) Documentary stamp tax

Documentary stamp taxes (DST) paid through the Electronic Documentary Stamp Tax System for the year ended December 31, 2020 consist of DST on deposit documents amounting to P90,611,462 and DST on contracts of lease amounting to P51,792.

(ii) Withholding taxes

Withholding taxes paid/accrued and/or withheld for the year ended December 31, 2020 consist of:

	Paid	Accrued	Total
Creditable income taxes withheld (expanded)	29,151,508	3,916,199	33,067,707
Final income taxes withheld on interest on deposits and yield on deposit substitutes	48,345,427	6,079,865	54,425,292
Income taxes withheld on compensation	12,212,589	285,183	12,497,772
Final income taxes withheld on the amount withdrawn from decedent's deposit account	79,013	-	79,013
Final income taxes withheld on income payment	-	-	-
	89,788,537	10,281,247	100,069,784

Withholding tax payable is presented as part of Accrued taxes, interest and other expenses in the statement of condition.

(iii) All other local and national taxes

All other local and national taxes paid/accrued for the year ended December 31, 2020 consist of:

	Paid	Accrued	Total
Gross receipts tax	195,651,791	52,610,612	248,262,403
Municipal taxes / Mayor's permit	14,052,367	-	14,052,367
Fringe benefits tax	109,525	112,833	222,358
Others	7,310,320	-	7,310,320
	217,124,003	52,723,445	269,847,448

Except for the gross receipts tax which is netted against the related income, local and national taxes are presented as part of taxes and licenses under Other operating expenses in the statement of income.

(iv) Tax cases and assessments

As at reporting date, the Bank has pending cases filed in court and with the tax authorities contesting tax assessments. Management is of the opinion that the ultimate outcome of the said case will not have a material impact on the Bank's financial statements.