BanKo

A subsidiary of BPI

Annual Report 2020

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OUR MISSION

Building a Better Philippines

OUR VISION

To uplift the lives of Filipinos whose needs are underserved and unserved by formal financial institutions.

OUR BUSINESS

BPI Direct BanKo, Inc. (or **BanKo**) is a wholly-owned subsidiary and the microfinance arm of the Bank of the Philippine Islands (BPI). Since 2016, it has endeavored to strengthen the financial capacities of thousands of Filipino Self-Employed Micro-Entrepreneurs (SEMEs) nationwide by creating an enabling business environment for them. True to its mission of empowering the Negosyanteng Pinoy, BanKo has provided access to easy, convenient and affordable loan products to fund their operations, and provided them with an opportunity to grow and expand their businesses. It has increased its presence in more communities, releasing Php 18 billion in loans and servicing 145,000 unique borrowers in over 300 branches and branch lite units located in 74 provinces nationwide.

BanKo is guided by BPI's core competencies of providing high quality customer service and a comprehensive set of products, multi-channel delivery, and stringent credit, risk and compliance processes while addressing the needs of unbanked and underserved, giving them access to formal financial services that they have been deprived of.

NEGOSYOKO LOAN

The Bank's primary product is the **NegosyoKo Loan**, a microloan that allows SEMEs to fund their existing businesses easily. It's highly focused sales distribution and high-touch delivery service to its clients is supported by a branch network located near microenterprise locations primarily for loans solicitation, processing and servicing.

The market it serves is comprised of 5.4 million households from the C&D classes who own micro-enterprises with 10 employees or less, and assets not greater than Php 3 million. These microbusinesses fall under the following categories: wholesale and retail trading (market stalls, sari-sari stores), manual services (hairdressers, auto repair shop owners, tailors), food services (mini-eateries and bakeries), manufacturing (furniture, handicrafts), and agriculture (animal product farming).

BanKo's loan officers, called BanKoMares and BanKoPares, establish direct relationships with its clients through financial literacy discussions. Its 304 branches nationwide are present in micro-enterprise locations, providing a venue for servicing loans. An innovative scorecard based on interviews with local residents and community leaders, and decentralized approval of loans by in-branch personnel result in a fast turnaround time. Collection terms and methods are flexible.

Currently, BanKo has a microinsurance product bundled with the microloans that offers an affordable basic life and non-life insurance coverage.

With the success of the NegosyoKo Loan, BanKo is now the 2nd biggest microfinance bank in the country, with a 17% share in microfinance loans among banks. BanKo's relevance has also been validated through several recognitions from local and international agencies.

PONDOKO SAVINGS ACCOUNT

PondoKo Savings is an app-based, interest-bearing basic deposit account with no maintaining balance that enables clients to build up their funds and manage their cash flow. Through PondoKo Savings, clients can also conveniently conduct banking transactions such as Buy Load, Send Money, Pay Bills, and Pay Loan via BanKo Mobile.

FINANCIALS AND OPERATING HIGHLIGHTS

	2020	2019	Change
BALANCE SHEET (in Php mn)			
Assets	21,910	17,871	22.6%
Treasury Assets	9,239	3,933	134.9%
Net Loans	10,723	12,194	-12.1%
Deposits	17,848	13,961	27.8%
Equity	2,342	2,617	-10.5%
INCOME STATEMENT (in Php mn)			
Net Interest Income	2,809	2,782	1.0%
Non-Interest Income	428	390	9.7%
Net Revenues	3,237	3,172	2.1%
Operating Expenses	2,380	2,170	9.7%
Pre-Provision Profit	858	1,002	-14.4%
Impairment Losses	1,920	576	233.6%
Net Income	-752	273	
FINANCIAL INDICATORS			
Profitability	-	-	-
Return on Equity	-30.1%	10.5%	-387.2%
Return on Assets	-3.4%	1.8%	-289.9%
Margin and Liquidity	-	-	-
Net Interest Margin	14.2%	20.4%	-30.6%
Net Loans to Deposit Ratio	60.1%	87.3%	-31.2%
Cost Efficiency	-	-	-
Cost to Income Ratio	73.5%	68.4%	7.4%
Cost to Average Asset Ratio	10.7%	14.2%	-24.5%
Asset Quality	-	-	-
NPL Ratio	15.8%	7.0%	125.2%
NPL Cover	58.0%	57.9%	0.2%
Capital Leverage	-	-	-
CET1 Ratio	11.0%	15.2%	-27.4%
Capital Adequacy Ratio	11.8%	16.1%	-26.5%
DISTRIBUTION NETWORK AND MANPOWER			
Branches/Branch - Lite Units	304	300	1.3%
Employees	**2,758**	**2,833**	**-2.6%**
Officers	716	688	4.1%
Staff	2,042	2,145	-4.8%

BUSINESS REVIEW AND CLIENT TESTIMONIALS

FINANCIAL PERFORMANCE

In 2020, the Bank's total assets grew by 22.6% to Php 21.9 billion or Php 4.0 billion higher than the previous year. Deposits grew by 27.8% with a 21.5% and 46.8% growth from float and bought deposits, respectively.

Net interest income of Php 2.8 billion was flat primarily due to to the deposit build up activity via time deposit offering that increased the cost of funds. Fees and commissions grew by 9.7%, which was driven by late payment fees from SEME.

The Bank generated pre-provision profit of Php 858 million, down 14% compared to 2019 with the full cost of the 100 new branches opened in 2019; 60 of which were opened in the 3rd quarter of that year.

As of the end of 2020, consolidated common equity tier 1 ratio stood at 11.0% and capital adequacy ratio was at 11.8%. These ratios are well above minimum regulatory requirements, with an adequate buffer to support the Bank's operations.

NPL levels were reported in accordance with BSP relief guidelines, Circular 941 .

CONNECTING WITH CLIENTS DURING THE CRISIS

The COVID-19 crisis and the series of natural disasters that hit the country in 2020 have greatly affected businesses especially the micro-enterprises. True to its mission, BanKo was at the forefront of recovery, serving the Self-Employed Micro-Entrepreneurs with affordable credit to help them recover, sustain their operations, and fuel economic growth. BanKo employees took on a more proactive role in helping clients recover from these challenges. As NegosyoKo partners, BankoMares and BankoPares continued to engage their clients and service their banking needs.

Early in 2020, BanKo ramped up its disaster response efforts immediately after the eruption of the Taal Volcano by offering a deferred payment program to clients located in areas directly impacted by the eruption, allowing qualified clients to pay at a later date without penalties. Later in the year, BanKo clients who were affected by Typhoons Ulysses and Rolly were given cash assistance courtesy of the Secure Assist Insurance Policy.
During the COVID-19 pandemic, BanKo offered different programs to help borrowers recover after being suspending their business operations due to community restrictions. BanKo rolled out the Loan Rehab Program that allowed qualified borrowers to take on a secondary loan. Remedial programs were likewise offered such as Loan Term Extension and Compromise Agreement, where loans were restructured to reflect the new cash flow of the borrowers. In compliance with the Bayanihan to Heal as One Act (BAHO) and Bayanihan to Recover as One Act (BARO2), the Bank implemented a mandatory grace period for all borrowers in Q2 and again in Q4 respectively.

The strict lockdown from mid-March to the end of May 2020 resulted to minimal loan releases as some branches implemented intermittent branch operations schedule during the period of enhanced community quarantine. In spite of these challenges, the Bank continued to respond to the requirements of the micro-entrepreneurs by resuming loan releases in the second half of the year, releasing Php 6.87 billion in total disbursed loans, benefiting 99,867 SEMEs. BanKo opened four (4) additional branch-lite units (BLUs) in 2020, further expanding its reach to new markets.

FINANCIAL INCLUSION POWERED BY DIGITAL

In February 2020, BanKo launched its mobile app which can be downloaded through IOS and Android, making it easier for the market it serves to open a PondoKo Savings account and access their account through their mobile phones. Banking transactions such as Buy Load, Pay Bills, Send Money and Pay Loan can be done safely and securely.

CREATING RESIIENT ENTREPRENEURS

As BPI's vehicle for financial inclusion, BanKo's long-term vision is to make a significant contribution in nation-building as it enables its SEME clients with the tools and expertise for business growth.

Clients have considered BanKo as their partner in progress. To date, BanKo was able to help change the lives of more than 100,000 Negosyanteng Pinoys, and will continue to strengthen its commitment towards sustainable development and nation-building.

Four clients share their experiences with BanKo.

Cindy Camale, a retailer of consumer goods and feeds, is one of BanKo's many success stories.

"I have been a client of BanKo since 2018," said Cindy. "I was able to open branches and buy a multi-cab with the loan from BanKo. Even if 2020 has been a challenging year for me, I am confident of the recovery of my business. I recently applied for a loan to open another branch since sales have picked up and I have more consignors. Today I have eight employees and I help send young people to school. I am very grateful for the opportunities that BanKo has given me."

Another client, Raynol Alquiza of Montevista, a banana farmer from Montevista, Davao De Oro, expressed his appreciation for BanKo's services. Due to the pandemic, the price of his produce dropped, severely affecting the profit from his harvest.

"Because of the pandemic, the price of bananas dropped and my profits went down too. I availed of the Rehab Fund of BanKo to be able to pay for the salaries of my laborers and buy fertilizers and insecticides. I thank BanKo for helping me sustain my business in this pandemic," said Raynol.

Manelyn Dela Cruz Rabulan was one of BanKo Biñan's first clients when the branch opened in 2018. Her first two loan availments were used to buy equipment for her ice cream production business. She then used her subsequent loans as downpayment for a lot where she built rooms for her employees, and eventually added ice cream carts that roamed from Biñan to GMA, Cavite. While her business was forced to temporarily shut down during the lockdown, she continued to provide for her employees' daily needs.

"The pandemic taught us to value the knowledge of the business so that when our people leave, we can still run the business. BanKo has helped us tremendously in growing our business and in purchasing the equipment that we need," said Manelyn.

Crab seller and distributor Melinda Dilag Belinario from San Jose, Occidental Mindoro, said her success would not have been possible without BanKo.

"I used my first loan in 2017 to buy crabs and put up a stall at the public market. After I year, I availed of a second loan and started shipping my products to Laguna, Manila, and Occidental Mindoro. With my third loan, I was able to open a grocery store. Because of my business and the help of BanKo, I was able to build a house for my family, set up a fish pond, and purchase six hectares of land," said Melinda.

CONTRIBUTION TO THE SUSTAINABLE DEVELOPMENT GOALS

More than just attaining financial returns, BanKo strives to achieve sustainability by creating shared value for its clients, shareholders, and society as a whole. The microfinance loans business of BanKo contributes to Sustainability Development Goal 8, or the provision of decent work and economic growth among Filipinos, by providing affordable source of additional capital for the micro-businesses of borrowers, spurring growth and increasing their number of employees. In 2020, BanKo facilitated additional investment to 99,867 businesses, which is 16% higher compared to 2019. Of the total businesses who benefited from the Banko NegosyoKo Loan program, 74% are owned by women. BanKo's borrowers also include farmers to support their agricultural needs.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PHILOSOPHY

The Board of Directors and Management, employees and shareholders of BPI Direct BanKo, Inc., A Savings Bank (BanKo) believe that a sound and effective corporate governance is the cornerstone of its strength and long term existence. It subscribes to a philosophy of adhering to honesty, integrity, and professionalism in the conduct of its business, exercising prudence in arriving at decisions, enforcing internal discipline and a system of checks and balances in its operating processes, and providing transparency to its various publics regarding basic management policies and practices, major business strategies and decisions and its operating results.

The Board of Directors and Management, commit themselves to the principles and practices of the corporate governance philosophy of the bank. They shall also undertake every effort necessary to create the necessary awareness of these principles and practices within the organization in order to ensure proper internalization by every member of the organization

GOVERNANCE STRUCTURE

Board of Directors

The Board of Directors (the Board) bears the primary responsibility for creating and enhancing the long term shareholder value of BanKo and ensuring that this objective is achieved in all its business activities. It must ensure BanKo's ability to satisfy the needs of its customers, sustain its leadership and competitiveness, and uphold its reputation in order to maintain BanKo's long term success and viability as a business entity. Its mandate consists of setting the strategic business directions of BanKo, appointing its senior executive officers, confirming its organizational structure, approving all major strategies and policies, overseeing all major risk-taking activities, monitoring the financial results, measuring and rewarding the performance of management, and generating a reasonable investment return to shareholders. It shall also provide an independent check on management.

Term limits of Independent Directors

An independent director may only serve as such for a maximum cumulative term of nine (9) years. After which, the independent director shall be perpetually barred from serving as independent director, but may continue to serve as a regular director.

Policy on Directorships

Directors are bound by BanKo's Director's Code of Conduct to take into account their individual circumstances and the nature, scale and complexity of the Bank's activities in showing full commitment to the Bank - devoting the time, schedule and attention necessary to its business interests, to properly and effectively perform their duties and responsibilities and to avoid conflicts of interest.

A rigorous nomination process to ascertain fitness and propriety of candidate directors and examine their principal commitments is also done every year, prior to the Annual Stockholders Meeting. Board and committee attendance is closely monitored and reported. The Board also conducts an annual performance evaluation of itself, its committees and directors, which includes an affirmative determination of time commitments.

Powers of the Board of Directors

The corporate powers of a bank shall be exercised, its business conducted and all its property controlled and held, by its board of directors. The power of the board of directors as conferred by law are original and cannot be revoked by the stockholders. The directors hold their office charged with the duty to exercise sound and objective judgment for the best interest of the bank.

Duties and Responsibilities

The position of a Bank director is a position of trust. A director assumes certain responsibilities to different constituencies or stakeholders, i.e., the bank itself, its stockholders, its depositors and other creditors, its management and employees, the regulators, deposit insurer and the public at large. These constituencies or stakeholders have the right to expect that the institution is being run in a prudent and sound manner. The board of directors is primarily responsible for approving and overseeing the implementation of the Bank's strategic objectives, risk strategy, corporate governance and corporate values. Further, the board of directors is also responsible for the selection of key members of senior management and control functions as well as monitoring and overseeing the performance of senior management as the latter manages the day to day affairs of the institution.

Selection

Our shareholder may recommend candidates for board membership for consideration by the Nominations Committee. Such recommendations are sent to the Committee through the Office of the Corporate Secretary. Candidates recommended by shareholder are evaluated in the same manner as Director Candidates identified by any other means. The Committee itself may identify and recommend qualified individuals for nomination and election to the Board. For this purpose, the Committee may utilize professional search firms and other external groups to search for qualified candidates.

The Nominations Committee pre-screens the candidates and prepares a final list of candidates prior to the Annual Stockholders Meeting. Only nominees whose names appear on the final list of candidates are eligible for election to the Board.

No other nomination shall be entertained after the final list of candidates are drawn up. No nomination shall be entertained or allowed on the floor during the Annual Stockholders Meeting.

Board members are elected by BanKo stockholders who are entitled to one vote per share at the Bank's Annual Stockholders Meeting, where votes may be cumulated as provided for in the Corporation Code. The nominees receiving the highest number of votes are declared elected and hold office for one year until their successors, qualified in accordance with the by-laws, are elected at the next Annual Stockholders Meeting.

Board Composition and Qualification

Pursuant to Sections 15 and 17 of R.A. No. 8791, and the Bank's Amended By-Laws, there is a maximum of nine (9) members of the Board who are elected by the stockholders entitled to vote at the annual meeting, and shall hold office for one (1) year and until their successors are elected and qualified in accordance with the Bank's By-Laws.

Marie Josephine M. Ocampo (Non- Executive Director), Filipino, 59 years old, is the Chairman of the Board of BanKo. She currently heads the Mass Retail Segment of BPI where she oversees BPI's credit, debit and prepaid card businesses as well as personal and micro finance loans. She is a member of the Board of BPI Payments Holdings Inc., Global Payments AsiaPacific Philippines, Inc., AF Payments Inc., Zalora Philippines, and CARD MRI Rizal Bank Inc. Ms. Ocampo started her career in BPI as Vice President for Marketing and Sales of BPI Credit Cards in 1996. She soon took the position of President for BPI Card Corporation, the BPI's credit card subsidiary where she won the prestigious Agora Award-2000 Marketing Company of the Year. In 2005, Ms. Ocampo was then cross-posted to BPI's Consumer Banking Group as Head of Kiosk Banking and Head of Personal Banking. She also became the Chief Marketing Officer of BPI from 2008 until 2014 where she was responsible for retooling the Bank's data warehouse and customer analytics capabilities into its distinct competitive advantage. Ms. Ocampo also developed the Bank's CRM initiatives on top of driving the BPI's advertising and digital initiatives across the breadth of products, channels and services. In 2015, she became the Payments and Remittance group head, and was tasked to grow fee revenue via expanding existing businesses and developing new payment platforms.

Prior to joining BPI, Ms. Ocampo gained over 10 years of marketing experience in Procter & Gamble and Johnson & Johnson Australia and the Philippines, where she led the expansion of J&J's Health Care, Baby Care, and Sanitary Protection business. Ms. Ocampo graduated magna cum laude and received her Bachelor of Science in Business Management, Honors Program at Ateneo de Manila University. She also completed the Advanced Management Program at the Harvard Business School in 2007.

Natividad N. Alejo, (Non-Executive Director), Filipino, 64 years old, is a member of the Bank's Audit Committee and Risk Management Committee. She was the Chairman of BanKo from June 2017 to December 2017 and a BanKo Director since 2012. She was the President of BPI Family Savings Bank from 2015 to 2017.

Ms. Alejo graduated with an AB Economics degree (Summa Cum Laude and Gansewinkle Scholastic Trophy Awardee) from Divine World University, Tacloban City in 1976. She took up MA Economics at University of the Philippines in 1978 and completed the Advanced Management Program at Harvard Business School in fall of 2005.

Ignacio R. Bunye, (Independent Director), Filipino, 76 years old, has been an independent member of the Board since June 27, 2018. He is the Chairman of the Bank's Corporate Governance and Related Party Committee. He is a member of the Bank's Risk Management Committee. Mr. Bunye was a member of the Monetary Board of the Bangko Sentral ng Pilipinas from 2008 to 2014. He previously held the positions of Presidential Political Adviser in 2008, Presidential Spokesperson in 2003, and Press Secretary in 2002.

Mr. Bunye is a member of the Philippine Integrated Bar. He obtained his Bachelor of Arts degree and Bachelor of Laws degree from Ateneo de Manila University in 1964 and 1969 respectively. He passed the Philippine Bar Examination in 1969. Significant awards and recognition received by Mr. Bunye include the Asian Institute of Management Honor and Prestige Award, the Bangko Sentral Service Excellence Medal, the Gran Oden de Isabela Catolica, and the Order of Lakandula.

Jose Ferdinand B. De Luzuriaga (Independent Director), Filipino, 59 years old, is the Chairman of the Bank's Risk Management Committee and member of the Audit Committee. Mr. De Luzuriaga is the Group Investment Officer and Group Chief Finance Officer and Committee Chairman of Inquirer Group of Companies and President of LINQ Information Entertainment Quadrant Corporation (Philippines).

Mr. De Luzuriaga graduated with a BS Management degree from the University of the Philippines in 1983.

Jerome B. Minglana (Executive Director), Filipino, 47 years old, President of BPI Direct BanKo since January 2017. He previously served as President of BPI Globe BanKO from 2015-2016. He also took on other roles in BPI, such as Vice President and Division Head of Retail Banking Group and served as Area Business Director of extreme North Luzon area.

Mr. Minglana obtained his Bachelor of Science in Accountancy and BS Commerce major in Management degrees from St. Louis University in 1994 and 1995 respectively.

Aurelio R. Montinola III, (Non- Executive Director), Filipino, 69 years old, served as President and Chief Executive Officer of BPI for eight years from 2005 to 2013, and BPI Family Savings Bank, Inc. for 12 years from 1992 to 2004. He is the Chairman of the Bank's Personnel and Compensation Committee. Mr. Montinola is the Chairman of the Board and Non-Executive Director of Far Eastern University and an Independent Director of Roxas and Company, both listed companies. Since May 2017, he has served as an Independent Director of Xeleb Technologies, Inc., a subsidiary of publicly-listed Xurpas, Inc. He is also the Chairman of the Nicanor Reyes Educational Foundation Inc., Roosevelt Colleges, Inc., East Asia Computer Center Inc., Amon Trading Corporation, and the Kabang Kalikasan ng Pilipinas Foundation, Inc. He is also a member of the Board of Trustees of BPI Foundation Inc. where he sits as Vice-Chairman.

Among the significant awards received by Mr. Montinola include Management Man of the Year 2012 (Management Association of the Philippines), Asian Banker Leadership Award (twice), and Legion d'Honneur (Chevalier) from the French Government. He obtained his degree in Bachelor of Science in Management Engineering from the Ateneo de Manila University in 1973 and his MBA from Harvard Business School in 1977.

Simon R. Paterno (Non-Executive Director), Filipino, 62 years old, is the Founder and CEO of 2QR Corporation, a financial Technology start-up. He served as the head of BPI's Financial Products & Alternative Channels until his retirement in June 30, 2019. He was responsible for building and managing BPI's service capabilities across all asset, liability, payments, and bancassurance platforms. He also served on BPI's Management, Asset & Liability, Credit Committees, as well as on the Boards of AF Payments, Zalora Philippines, BPI Century Tokyo Lease and Finance Corporation, BPI Century Tokyo Rental Corporation, BPI/MS Insurance Corporation and BPI Direct BanKo where he was the Chairman from 2018 to 2019.

Mr. Paterno received his MBA from Stanford University in 1984 and his AB Honors Program in Economics (Cum Laude) from the Ateneo de Manila University in 1980.

Jesus V. Razon, Jr. (Independent Director), Filipino, 74 years old, is the Chairman of the Bank's Audit Committee and a member of the Corporate Governance, Nomination, and Personnel and Compensation committees. Mr. Razon was the Senior Vice President of the Consumer Banking Group and Human Resources Management Group at BPI. He also previously served as a Director of Prudential Bank since August 2005.

Mr. Razon received his Master in Management from the Asian Institute of Management in 1990 and his degree in AB Economics from the Ateneo de Manila University in 1967.

Jaime Alfonso Antonio E. Zobel de Ayala, Filipino, 30 years old, joined as board director in June 2020. He is the Head of Business Development of Ayala Corporation. He is also a Director of Exenor, Inc. MCT Berhad, BPI Capital Corporation and Ayala Land Logistics Holdings Corp.

Mr. Zobel de Ayala graduated from Harvard in 2013 with a Degree in Primary Concentration in Government and completed his MBA from Columbia University in 2019.

Corporate Secretary

Angela Pilar B. Maramag. Filipino, 51 years old, was appointed Corporate Secretary on April 8, 2015. She is also the Corporate Secretary of BPI subsidiaries and affiliates, including BPI Family Savings Bank, BPI Capital Corporation, BPI Asset Management and Trust Corporation, BPI/MS Insurance Corporation, and BPI Foundation. Prior to joining BPI, Ms. Maramag was Senior Counsel at the Bank for

International Settlements (BIS) in Basel, Switzerland, from 2001 to 2008, and Head of Finance and Administration at the BIS Representative Office in Hong Kong from 2008 to 2011. She was a Legal Officer at the United Nations Compensation Commission in Geneva, Switzerland, from 1998 to 2001. Ms. Maramag was admitted to the Philippine Bar (1995) and New York State Bar (1998). She received her Master in Laws (LL.M) from the University of Chicago in 1997, Juris Doctor (J.D) in 1994 from Ateneo de Manila School of Law, and AB Honors Program in Economics in 1990 from Ateneo de Manila University.

Board Committees

Chairman	Marie Josephine M. Ocampo*
Members	Natividad N. Alejo Ignacio R. Bunye . (Independent) Jose Ferdinand B. De Luzuriaga (Independent) Jerome B. Minglana Aurelio R. Montinola III Simon R. Paterno Jesus V. Razon, Jr. (Independent) Jaime Alfonso Antonio E. Zobel de Ayala

*Replaced Mr. Simon R. Paterno as Chairman of the Board effective January 22, 2020

Corporate Governance Committee

The Corporate Governance Committee assists the Board in fulfilling its corporate governance responsibilities, and ensures the Board's effectiveness and due observance of sound corporate governance principles and guidelines, as embodied in the Manual of Corporate Governance.

It also performs the function of a Related Party Transaction Committee and is charged with ensuring that the Bank's dealings with the public and various stakeholders are imbued with the highest standards of integrity. In conjunction with the Audit, Risk, and Corporate Governance Committees, this Committee endeavors to ensure compliance with Bangko Sentral regulations and guidelines on related party transactions. The committee independently reviews, vets, and endorses significant and material related party transactions—above and beyond transactions qualifying under directors, officers, shareholders, and related interest restrictions—such that these transactions are dealt on terms no less favorable to the Bank than those generally available to an unaffiliated third party under the same or similar circumstances.

Chairman	Ignacio R. Bunye (Independent)
Members	Jesus V. Razon Jr. (Independent) Simon R. Paterno

Nomination Committee

The Nomination Committee ensures that the Board of Directors is made up of individuals of proven integrity and competence, and that each member possesses the ability and resolve to effectively oversee the Bank in his capacity as board member and member in their respective board committee. This Committee also reviews and evaluates the qualifications of all persons nominated to the Board.

Chairman	Marie Josephine M. Ocampo

Members	Jose Ferdinand B. De Luzuriaga (Independent) Simon R. Paterno

Audit Committee

The Audit Committee monitors and evaluates the adequacy and effectiveness of the Bank's system of internal control systems, risk management, and governance practices. It provides oversight on the integrity of the Bank's financial statements and financial reporting process, performance of the internal and external audit functions and compliance with bank policies, applicable laws, and regulatory requirements. This Committee also reviews the external auditor's annual audit plan and scope of work, and assesses its overall performance and effectiveness. In consultation with management, this Committee also approves the external auditor's terms of engagement and audit fees.

Chairman	Jesus V. Razon, Jr. (Independent)

Members	Natividad N. Alejo Jose Ferdinand B. De Luzuriaga (Independent)

Risk Management Committee

The Risk Management Committee is tasked with nurturing a culture of risk management across the enterprise. It supports the Board by overseeing and managing the Bank's exposures to financial and non-financial risks, assesses new and emerging risk issues across the Bank, regularly reviews the Bank's risk management appetite, policies, structures and metrics, and monitors overall liquidity and capital adequacy, in order to meet and comply with regulatory and international standards on risk measurement and management.

Chairman	Jose Ferdinand B. De Luzuriaga (Independent)

Members	Natividad N. Alejo Ignacio R. Bunye (Independent)

Personnel and Compensation Committee

The Personnel and Compensation Committee directs and ensures the development and implementation of long-term strategies and plans for the Bank's human resources, in alignment with the Board's vision for the organization.

Chairman	Aurelio R. Montinola III

Members	Simon R. Paterno Jesus V. Razon Jr. (Independent)

Executive Officers of BanKo

The Executive Officers of BanKo are the President, Senior Vice President, Vice President, Secretary and Treasurer. The Executive Officers shall be appointed by the Board of Directors. In addition, the Board of Directors shall appoint (from time to time) such other senior officers as provided for in the BanKo By-Laws.

President	Jerome B. Minglana

Senior Vice President	Rodolfo K. Mabiasen, Jr.

Vice President	Ma. Cynthia Leticia S. De Jesus

Meetings and Attendance

The BPI Direct BanKo Board meets regularly for the effective discharge of its obligation. Regular board meetings are convened monthly, held every fourth Wednesday of the month. Board of Directors meetings are set immediately after the Annual Stockholder Meeting to cover the full term of the newly elected or re-elected members of the Board, reckoned from the date of the current year's Annual Stockholder Meeting to that of the following year. Special meetings may be called for as needed. Discussions during the board meetings and open independent views are given due consideration. Board reference materials are made available to the directors at least five days in advance of the scheduled meeting. Independent and Non- Executive Directors of the Bank also meet at least once a year without the presence of the executive director or management.

The Board's full-year attendance at the 2020 Board Meetings and Committee Meetings are outlined as follows:

BOARD

NAME OF DIRECTOR	NO. OF MEETINGS	NO. OF MEETINGS ATTENDED	ATTENDANCE PERCENTAGE
Marie Josephine M. Ocampo	13	13	100%
Natividad N. Alejo	13	13	100%
Ignacio R. Bunye	13	13	100%
Jose Ferdinand B. de Luzuriaga	13	13	100%
Rodolfo K. Mabiasen, Jr.*	6	6	100%
Jerome B. Minglana	13	13	100%
Aurelio R. Montinola III	13	13	100%
Simon R. Paterno	13	13	100%
Jesus V. Razon, Jr.	13	13	100%
Jaime Alfonso Antonio E. Zobel de Ayala**	7	7	100%

*Board member until 24 June 2020
**Elected as Board member effective 24 June 2020

AUDIT COMMITTEE

NAME OF DIRECTOR	NO. OF MEETINGS	NO. OF MEETINGS ATTENDED	ATTENDANCE PERCENTAGE
Jesus V. Razon, Jr.	6	6	100%
Natividad N. Alejo	6	6	100%
Jose Ferdinand B. de Luzuriaga	6	6	100%

CORPORATE GOVERNANCE COMMITTEE

NAME OF DIRECTOR	NO. OF MEETINGS	NO. OF MEETINGS ATTENDED	ATTENDANCE PERCENTAGE
Ignacio R. Bunye	2	2	100%
Jesus V. Razon, Jr.	2	2	100%
Maria Josephine M. Ocampo*	1	1	100%
Simon R. Paterno**	1	1	100%

RISK MANAGEMENT COMMITTEE

NAME OF DIRECTOR	NO. OF MEETINGS	NO. OF MEETINGS ATTENDED	ATTENDANCE PERCENTAGE
Jose Ferdinand B. de Luzuriaga	3	3	100%
Ignacio R. Bunye	3	3	100%
Simon R. Paterno*	1	1	100%
Natividad N. Alejo**	2	2	100%

NOMINATION COMMITTEE

NAME OF DIRECTOR	NO. OF MEETINGS	NO. OF MEETINGS ATTENDED	ATTENDANCE PERCENTAGE
Maria Josephine M. Ocampo	2	2	100%
Jose Ferdinand B. De Luzuriaga	2	2	100%
Simon R. Paterno	2	2	100%

PERSONNEL & COMPENSATION COMMITTEE

NAME OF DIRECTOR	NO. OF MEETINGS	NO. OF MEETINGS ATTENDED	ATTENDANCE PERCENTAGE
Aurelio R. Montinola III	1	1	100%
Simon R. Paterno	1	1	100%
Jesus V. Razon, Jr.	1	1	100%

*Committee member until 24 June 2020
**Committee member effective 24 June 2020

Performance Evaluation and Self-Assessment

Monitoring of governance by the Board requires a continuous review of the internal structure of the Bank to ensure that there are clear lines of accountability for management throughout the organization.

In this regard, the Board, under the guidance of the Corporate Governance Committee, annually conducts a self-assessment to ascertain the alignment of leadership fundamentals and issues, validate the Board's and Senior Management's appreciation of its roles and responsibilities and confirm that the Board and Senior Management possesses the right mix of background and competencies. Performance of the Board and Senior Management is measured on the basis of what it delivers and how it delivers, how it meets its responsibilities to all BPI Direct BanKo stakeholders, and how it addresses issues that impact the Board's and Senior Management ability to effectively fulfill its fiduciary duties.

Succession Planning and Talent Management

Financials services today face many transformative factors – regulation, market disruption, new technologies and business models, competition- that affect the business in major and long-term ways. Our Board understands that the Bank must continually evolve, adapt, and even restructure the business to remain ahead of strategic, market, technology and regulatory shifts. The Board, through its Personnel and Compensation Committee, manages the talent pipeline and assembles the required personnel capable of navigating such changes.

In consultation with the President, the Personnel and Compensation Committee reviews the Bank's talent development process for the proper management. Senior management provides a report to this Committee on the results of its talent and performance review process for key management positions and other high-potential individuals. Aside from ensuring that there is a sufficient pool of qualified internal candidates to fill senior leadership positions, this review process identifies opportunities, performance gaps, and proactive measures in the Bank's executive succession planning. And as part of the same executive planning process, the Committee as a whole or a part thereof, in consultation with the Board and the President~~,~~ evaluates and nominates potential successors to the President and the Senior Management.

Induction and Director Education

Board members acquire appropriate skills at appointment, and thereafter remain abreast of relevant new laws, regulations, and changing commercial risks through in-house training and external courses. New Directors are briefed on BPI Direct BanKo's background. Organizational structure, and, in compliance with Bangko Sentral Circular No. 758, the general and specific duties and responsibilities of the Board.

They also receive briefings on relevant policies and rules governing their roles as Directors. They are given an overview of the industry, regulatory environment, business of banking, strategic plans of the Bank, its governance framework, i.e. Manual of Corporate Governance, Director's Code of Conduct, Board operations (schedules, procedures and processes), including support from the Corporate Secretary and senior management. Continuing education of Board members includes internal meetings with senior executives and operational or functional heads, dedicated briefings, on specific areas of responsibility within the business and special presentations on current issue or regulatory initiatives with respect to Data Privacy, Cyber Risk, and Cyber Security, the Anti- Money Laundering and Terrorist Financing Prevention Program, Foreign Account Tax Compliance Act, Securities Regulations Code, SEC memorandum circulars, and Bangko Sentral regulations, among others. The Bank brings technical, subject matter experts as needed. Other in-bank courses on anti- money laundering, business continuity management, conflict of interest, risk management overview, and information security awareness. Board members also regularly attend governance conferences, and summits.

Remuneration

Our remuneration decisions for the Board and management are aligned with risk incentives and support sustainable, long-term value creation. Apart from ensuring that Board and management pay appropriately reflects industry conditions and financial performance, the Bank likewise rebalances returns back to shareholders through dividend declaration.

Under the Bank's Amended By-Laws, as approved by the shareholders, the Board of Directors, as a whole, determines the level of remuneration and/or benefits for directors sufficient to attract and retain directors and compensate them for their time commitments and responsibilities of their role.

Our Personnel and Compensation Committee (PerCom) recommends to the Board the fees and other compensation for directors, ensuring that compensation fairly remunerates directors for work required in a company of BanKo's size and scope. As provided by our Amended By-Laws and pursuant to a Board resolution, each director is entitled to receive fees and other compensation for his services as director. The Board has the sole authority to determine the amount, form, and structure of the fees and other compensation of the directors.

Board members receive per diems for each occasion of attendance at meetings of the Board or of a board committee. All fixed or variable remuneration paid to directors may be given as approved by stockholders during the Annual Stockholders Meeting, upon recommendation of the PerCom. Other than the usual per diem arrangement for Board and Committee meetings and the aforementioned compensation of Directors, there is no standard arrangement as regards compensation of directors, directly or indirectly, for any other service provided by the directors for the last completed fiscal year.

Board members with executive responsibilities within the BPI group are compensated as fulltime officers of the company, not as Executive Directors or Non-Executive Directors. No director participates in discussions of the remuneration scheme for himself or herself. The remuneration policy is reviewed annually to ensure that it remains competitive and consistent with the Bank's high performance culture, objectives, and long-term outlook, risk assessment and strategies.

The Board, through the PerCom, annually approves the remuneration payable to the President and Senior Management who have the authority and responsibility for the Bank's overall direction and strategy execution. The PerCom monitors and assesses how the remuneration was implemented each year and ensures that it corresponds to the remuneration policy.

Code of Business Conduct and Ethics

BanKo's core values encapsulate what we believe in and what we stand for. All Directors and Employees are expected to observe the highest standards of accountability, performance, punctuality, honesty, integrity, courtesy, and teamwork, and thus contribute to the achievement of the Bank's goals of customer satisfaction, excellence and profitability.

Whistleblower Policy

The Whistleblower Program is the Bank's mechanism for preventing and detecting fraud or misconduct, and enabling fast and coordinated incident responses and avenues for establishing cause, remedial actions, and damage control procedures.

Under the Policy, it is the responsibility of all personnel, including the Board, Officers and employees, to comply with the rules and regulations of the Bank and to report violations or suspected violations in accordance with the Whistleblower Policy. Any person who knowingly aids, abets, or conceals or otherwise deliberately permits the commission of any irregular or fraudulent act directed against the Bank shall be considered as guilty as the principal perpetrators of the fraud or irregularity. Hence, all personnel, including the Board, Officers and employees, have a duty to cooperate with investigations initiated under the policy.

Anti-Bribery and Anti-Corruption Policy

The Bank puts the highest premium on sound, responsible and effective corporate governance and does not tolerate bribery, corruption or improper acts of any kind in all business dealings. As such, it has enabled and equipped the Bank's officers and Employees, with the requisite policies, programs and guidance through its Code of Business Conduct and Ethics and Standards on Conflict of Interest to combat risks in corruption and bribery.

Remuneration Structure and Policies

Remuneration for the President and Senior Management is set in the same way as for all officers, employees and staff, being contractually fixed, based on the role, the skills and experience of the individual, and reviewed annually with reference to relevant market benchmarks. Remuneration for Senior Management, as reflected in the ratio between fixed and variable components of their total compensation, changes according to performance, rank and function.

- The PerCom ensures that Senior Management remuneration and incentives reflect prudent risk-taking and effective control.
- Salary reviews (covering fixed and variable compensation) are done annually to ensure market competitiveness of the senior officer's total remuneration. The Bank also participates in Executive and Total Remuneration Surveys to benchmark on its market positioning.

The remuneration of the Head of Risk Management and Head of Compliance Department are reviewed and endorsed by the Risk Management Committee and Audit Committee respectively and subsequently approved by the Board. The performance of control functions, (Audit, Compliance and Risk) are assessed independently from the business units they support to prevent any conflicts of interests.

These principles of paying competitively and paying for performance applies equally to our Board, Senior Management, Officers and staff. Senior management and staff remuneration must reflect the interest of the shareholder and the Company, and is structured to encourage the long-term commitment of the employee as well as long term outlook and plans of the Company.

Retirement Policy

The best interests of BanKo are served by retention of directors that make very meaningful contributions to the Board and the organization, regardless of age. It is the Bank's strong view that with age often comes unmatched wisdom and experience, expert business judgement, invaluable industry and community relations and authority, and deeply ingrained appreciation of the principles of corporate governance.

The Bank believes that imposing uniform and fixed limit on director tenure is counter-productive as it may force the arbitrary retirement of valuable directors.

Retirement of senior management is done with the requisite succession planning and in accordance with the Bank's policies and implementing guidelines of its retirement plan for all employees, the Bank's Amended By-Laws, Labor Code and the Corporation Code of the Philippines. Currently, the retirement age for employees of the Bank is set at 60 years of age.

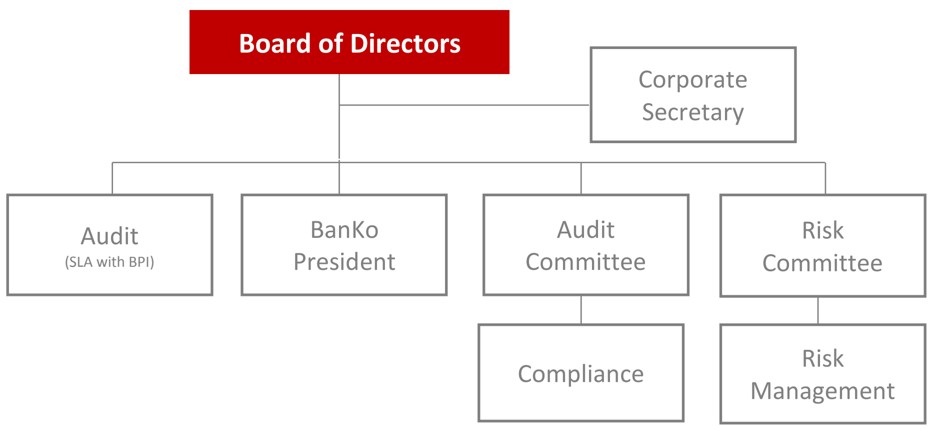
Related Party Transactions

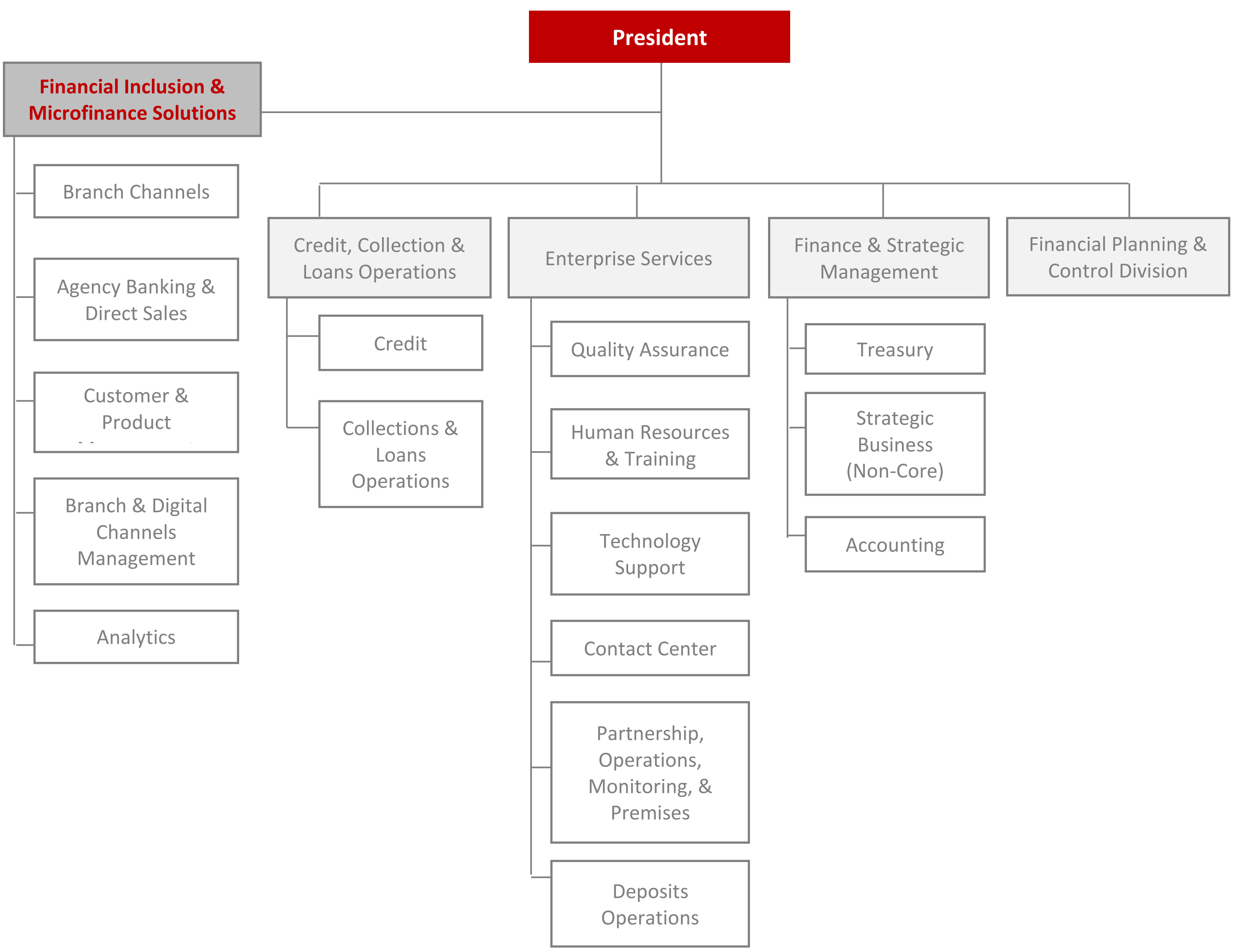
As part of the Bank's effort to ensure that transactions with related parties are normal banking activities and are done at arm's length, vetting is done either by the BanKo Management Vetting Committee, the Board-level Corporate Governance Committee or the BPI Related Party Transaction Committee, depending on materiality, prior to implementation.

OPERATING MANAGEMENT

The following is an overview of the Bank's principal activities and its functional organization (as of December 31, 2020):

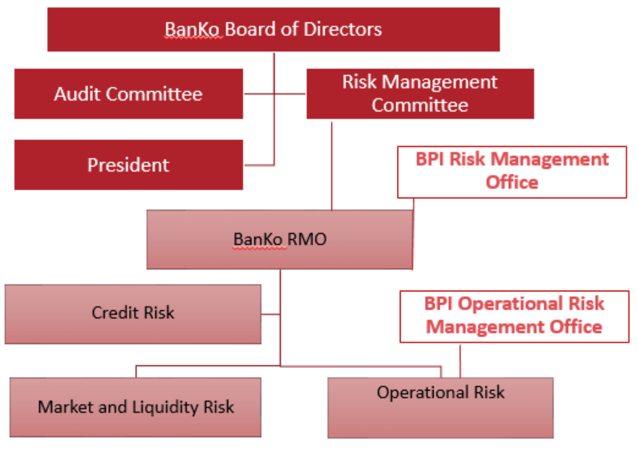
TABLE OF ORGANIZATION





RISK MANAGEMENT

Comprehensive Framework



BanKo under the centralized Enterprise Risk Management (ERM) in BPI pursues best practices across its businesses and processes. It has an established ERM and capital management framework that enables the Bank to identify, measure, control, and monitor its significant financial and non-financial risk exposures, ensure adequate liquidity, and set aside sufficient amounts of capital to cover and mitigate such risks. The framework reflects the Bank's internal standards as guided by the regulatory directives issued by the Bangko Sentral ng Pilipinas (BSP) in promoting effective risk management governance, implementing robust business continuity and resiliency standards that are regularly tested, and performing the internal capital adequacy assessment and other risk management processes. (Recommendation 2.11, 12.4 SEC CG Code for PLCs)

Risk management in BPI follows a top-down approach, with risk appetite setting and overall risk strategy emanating from the Board of Directors (Board). The Board fulfills its risk management function through the Risk Management Committee (RMC). The RMC defines risk appetite statements at functional risk areas and reviews risk management structures, metrics, limits, and issues of the Bank, and directs the Bank's risk strategy framework anchored on sound risk management governance, value-enhancing risk methods and processes, and risk-intelligent data and technology. It oversees and manages risks and monitors regulatory and internal capital adequacy vis-à-vis risk exposures. It promotes a strong risk culture and exercises oversight through the Bank's Risk Management Office. It manages risks through clearly-delineated functions to ensure effective risk management governance and control processes across the Bank using the "three lines of defense" model. This model defines the risk management responsibilities of each unit owning and managing the risk (1st line), overseeing risk management function (2nd line), or providing independent assurance on the quality and effectiveness of risk management and internal controls (3rd line).

The Bank's risk culture is anchored on its vision of transparency and integrity in the workplace, creation of sustainable value, and delivery of maximum returns to stakeholders. In order to achieve its responsibilities to clients, employees, stakeholders, regulators and country, it exercises proactive and prudent risk management.

Chief Risk Officer (CRO). The CRO of the BPI Group thru the BanKo Risk Officer leads the formulation of risk management policies and methodologies in line with overall business strategy. The CRO thru the BanKo Risk Officer, who is primarily responsible for the overall management of the Bank's total risk, ensures that risks are prudently and rationally taken, within the Bank's risk appetite, and commensurate with returns on capital. The Bank's risk appetite is a careful measure of the amount of risk it is willing to assume in order to achieve business objectives. Risk appetite statements are regularly reviewed and approved by the Board through the RMC.

The CRO and the BanKo Risk Officer is supported by the Risk Management Office (RMO), a team of skilled risk managers dedicated to identifying, measuring, controlling, and monitoring the BPI Group's risk exposures. The Bank's risk managers keep abreast of industry developments, emerging risks, and risk management best practices through continuous and adequate training. The CRO and the RMO actively engage the RMC, Management, and business units to effectively communicate through various internal channels the Bank's risk culture, risk awareness campaigns and learning programs, and risk management best practices. (Recommendation 12.5 of the SEC CG Code for PLCs).

BPI identifies risks according to three major classifications:

- Credit Risk (including concentration)
- Market (including foreign exchange, interest rate, and equity price risks) and Liquidity Risks
- Operational and Information Technology (IT) Risks

Credit risk refers to the risk of default on obligations that may arise if a borrower fails to make required payments such as principal and/or interest on an agreed date; market risk due to price movements/fluctuations in trading and distribution activities of credit securities, foreign exchange, and derivative instruments (as allowed by regulation); liquidity risk from the management of the Bank's cash flows and balance sheet; and operational and IT risks from inadequate or failed internal processes, people, information technology and systems, and threats from external events that pose risks of financial losses and damage to the Bank's reputation. The Bank is likewise cognizant of other emerging risks (e.g., environmental, social, and geopolitical risks) that it may be exposed to in its day-to-day business operations and these are identified, measured, controlled, and monitored accordingly.

The Bank has established risk management processes and controls and uses various methodologies, metrics, tools, and systems to identify, measure, control, and monitor its risk exposures. It continuously invests in risk technologies and business-enabling systems, and enhances its processes to ensure completeness and accuracy of data, 360o risk perspective, and timely reporting. With the implementation of the Risk Data Architecture system leveraging on the Bank's Enterprise Big Data platform, the availability of automated risk data not only supports the Bank's risk management activities, but also enables risk data servicing of the various business units.

In compliance with BSP Circular 989 (Conduct of Stress Testing Exercises), the RMO together with the Strategy & Finance Group have employed a formal integrated risk and capital stress testing framework, with forward looking assessment of risks under given stressed scenarios identified or developed by the Bank's experts, to facilitate the development of contingency and recovery plans.

Independent reviews are regularly conducted by the Bank's Internal Audit, external auditors, and regulatory examiners to ensure that controls and risk mitigation are in place and functioning as intended. The Bank also engages various risk management experts to independently assess the Bank's risk maturity covering areas such as business continuity, cyber and information security, and ERM.

All these efforts have been undertaken and conscientiously practiced in recognition of BSP Circular 971 (Risk Governance), as well as benchmarked to the Committee of Sponsoring Organization's (COSO) ERM integrated framework. These have likewise proven indispensable with the Bank heavily relying on its established risk management system to ensure continued delivery of value to its stakeholders during unprecedented times brought about by the COVID-19pandemic.

Credit Risk

The single largest risk for most local banks, arises from the Bank's core lending and investing businesses, and involves thorough credit evaluation, appropriate approval, management and continuous monitoring of risk exposures such as borrower (or counterparty) risk, facility risk, concentrations and industry risks relating to each loan account. The Bank's credit risk management process is governed by established underwriting policies and credit parameters, and lending procedures and standards which are regularly reviewed and updated given regulatory requirements and market developments. The Bank's loan portfolio is continuously monitored and reviewed as to overall asset quality and credit risk concentration.

In 2020, the Bank experienced a decrease in loan volumes and increase in credit risk due to the COVID-19 pandemic, but was able to manage overall credit risk and maintain asset quality, in general compliance with regulatory and prudential requirements relating to credit risk management. The Bank continues to maintain a diversified loan portfolio with no significant concentrations. Top borrower exposures remain within the internal single borrower's limit.

The Bank regularly reviews the sufficiency of loan loss provisioning which is based on expected credit loss (ECL) model developed for each loan portfolio.

The Bank adopted credit score card to assess the borrowers' credit worthiness. The credit scorecard model undergo model enhancement and independent validation to ensure maintain predictive power and performance.

The Bank fully implemented Philippine Financial Reporting Standards 9 (PFRS 9)-based policies, models, and ECL methodologies for all of its credit portfolios, rendering it compliant to both the BSP and accounting standards on PFRS 9 implementation. Loss provisioning are based on ECL, which is a function of the probability of default, loss given default, and exposure at default.

The Bank measures credit risk exposures in terms of regulatory capital requirements using the standardized approach in compliance with Basel III and BSP standards on minimum capital requirements. Using this approach, credit exposures are risk-weighted and allows for the use of eligible collaterals (cash, financial instruments, and guarantees) to mitigate credit risk.

The Bank continuously enhances its credit policies, processes, guidelines, and lending programs to conform with sound credit risk management.

The Bank regularly conducts stress tests on its loan portfolio to determine the impact of changes in various macroeconomic scenarios, surface any undue credit concentration risk, and comply with regulatory reporting. Assessment of stress testing impact to the Bank's financials is also performed simultaneously. In the most recent exercise, results showed that the Bank's capital adequacy ratio (CAR) and common equity tier 1 ratio (CET1) generally remain above or at about the regulatory capital requirements, even with assumed write-down scenarios and COVID-19- affected portfolio.

All these efforts have been undertaken in recognition of BSP Circular 855 (Sound Credit Risk Management Practices).

Market, Interest Rate in the Banking Book (IRRBB), and Liquidity Risks

Risk Management Office exercises its market, IRRBB, and liquidity risk management duties and responsibilities in coordination with BPI parents Market and Liquidity Risk Management Division (MRM). The division employs various risk metrics commensurate to the size and sophistication of its business operations which guide the Bank to effectively manage the risks arising from position taking strategies balanced by the Board's overall risk appetite. Risk limits are continuously reviewed and updated to align with the Bank's objectives, strategies, and overall risk appetite. MRM also provides forward looking scenario analysis, simulations, and stress tests to complement the risk metrics and provide a broader and holistic risk perspective to the RMC and Management. For 2020, amidst the COVID-19 pandemic, the Bank's market risk, IRRBB, and liquidity risk exposures were generally within the RMC-approved limits.

The Bank closely monitors the risk exposures of both trading and non-trading portfolios. Assets in both on- and off balance sheet trading portfolios are marked-to-market and the resulting gains and losses are recognized through profit or loss. Market risk exposures from these portfolios are measured using the historical simulation Value-at-Risk model complemented by several risk metrics such as Stop Loss and dollar duration (DV01).

IRRBB is the current and prospective risk to the Bank's capital and earnings arising from adverse movements in interest rates that affect its banking book positions. Excessive levels of interest rate risks in the banking book can pose a significant threat to the Bank's earnings and capital base. Therefore, it is imperative for the Bank to establish adequate risk management policies and procedures, appropriate risk measurement models, risk limits structure, and a robust risk management system measured through (a) Earnings-at-Risk (EaR), or the potential deterioration in net interest income over the next 12 months due to adverse movements in interest rates, and (b) balance sheet Value-at-Risk (BSVaR), or the impact on the economic value of future cash flows in the banking book due to changes in interest rates. BSVaR considers both principal and interest payments while EaR considers principal payments only. Both are built on the repricing profile of the balance sheet accounts. IRRBB risk levels are compared against RMC approved limits and regularly reported to the RMC and Senior Management.

The Bank ensures adequate liquidity levels at all times and contingency plans are in place in the event of liquidity stress. The Bank's liquidity profile is measured and monitored through its internal metric – the Minimum Cumulative Liquidity Gap (MCLG), and the regulatory metrics – Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). MCLG measures the smallest net cumulative cash inflow (if positively gapped) or the largest net cumulative cash outflow (if negatively gapped) over the next three months. This 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. LCR determines the short-term resilience of the Bank's liquidity risk profile, requiring financial institutions to hold adequate level of high-quality liquid assets to cover net cash outflows in the next 30 days. The Bank maintains adequate liquidity to provide sufficient buffer for critical liquidity situations. NSFR complements the LCR by limiting the overreliance on short-term wholesale funding and promotes enhanced assessment of funding risk across all on- and off-balance sheet accounts. An escalation procedure is in place to immediately report to Management and the RMC when MCLG, LCR, and NSFR levels are approaching approved floor levels and the minimum regulatory limits, respectively. Corrective actions are identified and implemented to resolve possible and actual breaches, if any, in order to maintain a stable liquidity environment. Scenario analyses and simulations provide forward looking liquidity conditions to anticipate potential funding requirements.

The Bank performs regular stress testing activities to determine its ability to withstand and evaluate the impact of financial crises and other types of stress events. It conducts price stress tests in the banking book and EaR stress tests using a variety of interest rate shock scenarios to identify the impact of adverse movements in interest rates on the Bank's economic value and earnings. The design of the price and EaR stress tests includes various scenarios such as steepening and flattening yield curves, parallel up/down and short rate up/down scenarios, and other notable stressed events experienced by the financial industry. The interest rate shocks applied are calibrated for all significant currencies in which the Bank has active positions. The Bank also conducts liquidity stress tests using different risk events, scenario types, and stress horizons to assess the Bank's iquidity position and determine potential liquidity shortfalls during stress events.

The results of the stress tests are presented to the RMC and Senior Management to integrate them to the overall risk management process of the Bank. In 2020, the Bank conducted various portfolio and risk simulations to evaluate the impact of possible strategies and actions to address the COVID-19 pandemic. Hypothetical scenarios taking into account the COVID-19 pandemic were also used for the Bank's price, IRRBB and liquidity stress testing activities. All these initiatives were undertaken to ensure that the relevant market, IRRBB and liquidity risks are identified and controlled.

The risk management process, including its various components, is subject to regular monitoring and periodic independent review (i.e., internal/regulatory audit and model validation), and consistently calibrated to ensure accuracy, propriety, and timeliness of data and assumptions employed. The assumptions and parameters used in developing these metrics are properly documented, and any change in the methodology and assumptions is approved by the CRO and noted by the RMC.

Operational and Information Technology Risks

The Bank's Operational Risk Management Team monitors risks arising from inadequate or failed internal processes, people, and systems or from external events such as natural disasters that damage physical assets and electrical or telecommunication failures that disrupt the Bank's operations. Operational risk is inherent in all banking products and services, and may include risks that give rise to adverse legal, tax, regulatory, or reputational consequences. Information Technology (IT) is a significant risk factor assumed in conjunction with operational risk, given the highly automated nature of the Bank's processes and services. The Bank defines IT risk as the risk of any potential adverse outcome arising from the use of or reliance on IT (i.e., computer hardware, software, devices, systems, applications, and networks). IT risk includes, but is not limited to, information security, service availability, reliability and availability of IT operations, completion on specification of IT development projects, and regulatory compliance pursuant to the BSP's guidelines on Information Technology Risk Management.

The Bank develops and monitors Key Risk Indicators (KRIs), oversees thoroughness of Bank-wide risk and control self-assessments, loss event management processes, and operational risk management awareness and appreciation programs. The Bank manages its operational and IT risks by ensuring such risks are thoroughly identified, assessed, monitored, reported, and mitigated. It has defined clear responsibilities related to the performance of the risk management function, as well as the accountabilities, methods, and tools employed to identify and mitigate operational and IT risks in the Bank's operating units. It requires operating units to undertake regular self-assessments to identify risks, assess the inherent and residual risks, identify controls, and assess the design and the performance effectiveness of these controls. KRIs are used to monitor risk profiles, trigger early-warning alerts, and instigate mitigating action. Operational loss events data collection and analysis provide meaningful information in effectively managing risks. The risk and control library improves the Bank's aggregation and reporting process by providing an aligned taxonomy of risks and controls.

The Bank's exposure to operational risks is identified, assessed, and monitored as an integral part of the risk assessment processes. The Bank currently uses the Basel II regulatory basic indicator approach to quantify operational risk-weighted assets, using the historical total annual gross income as the main measure of risk.

The Bank regularly performs operational risk stress tests, through scenario analysis, to support the internal capital assessment for operational and IT risks, as part of the Bank's initiatives to advance risk management methodologies. Through a series of stress scenarios, the Bank is able to identify, analyze, and assess the impact of unexpected and severe operational risk events. This exercise ensures that the impact of high-severity events is captured during risk assessment, especially those not yet reflected in the Bank's existing historical loss data.

The Bank's risk management processes are ingrained in the Bank's new product development efforts. From inception to launch, new products or programs, as well as its related processes and systems, are subject to rigorous risk assessments, design and testing activities aimed at safeguarding both the Bank and its clients from the risks of economic loss, operational disruption, or compromise of personal or financial data. The Bank has updated its guidelines on the assessment and approval process for engaging in new business activities to cover not only products and processes, but also new markets and new business locations or offices.

The Board-level RMC is regularly apprised of IT risks through monthly reports and quarterly meetings.

The Bank continues to closely monitor established measurements and limits on risk indicators, and implement mitigating measures in view of increasing cyber-related risks and risks related to the COVID-19 pandemic, primarily on the health and safety of the Bank's employees and continuity of operations with the significant portion of the work force on work-from home arrangements. The Bank's strategic initiatives on digitalization, improvements on IT infrastructure and cybersecurity technology, and availability of business recovery sites enabled the continued delivery of the Bank's products and services to its customers. The Bank remains operational as it implemented split operations, activated alternate work sites and mobility areas to improve accessibility of the Bank's employees to office premises, and adjusted working hours and work-from home arrangements. The Bank also launched the mobility program for employees, and equipped them with adequate tools to allow work outside of Bank premises.

For personnel safety and welfare, the Bank fully complied with health and medical guidelines from the Department of Health (DOH) and Department of Labor and Employment (DOLE). Additional precautionary measures continue to be implemented and include providing transportation for employees, enforcing virtual meetings, and limiting movements of personnel within and across its business offices. COVID-19 rapid testing for all employees and maintenance personnel were likewise carried out.

Business Continuity Risk

The Bank is able to maintain its business continuity capability and organizational resilience by means of an effective and sustainable Business Continuity Management (BCM) program aligned with BPI parent. This program was self-assessed by the Bank, aligned with ISO 22301 and BSP Circular 951 (Business Continuity Management). Within this program are methodology, products and services, recovery plans, and a response structure to provide adequate level of services until normal operations resume. The Business Impact Analysis (BIA) methodology identifies products, services, and processes that should be prioritized during a disruption. Risk Assessment for Business Continuity (RABCon) identifies the most probable threats to the Bank, assesses the likelihood of their occurrences and their impact to key areas of the Bank. Business Recovery Plan (BRP) provides a suitable solution that focuses on the impact of events and the timely restoration of building, equipment and supplies, technology and vital documents, human resources, and third-party vendors.

Resiliency structure is in place and functional areas have been identified to meet business continuity objectives and to support the agreed recovery solution. Each functional area has a designated Functional Business Continuity Coordinator who handles localized risk events impacting business units in the functional areas, with the support and guidance of tactical teams such as the Incident Management Teams and the Corporate BCM Unit. For incidents that rise to the level of a true crisis, the Crisis Resiliency Committee (CRC) central in BPI parent, composed of senior officers which includes senior officers of BanKo, is convened to establish command and control.

At the onset of the pandemic, the CRC which includes senior officers of BanKo convened regularly to provide direction and to streamline critical parts of the operational approach for the Bank to operate more effectively. Employees were transitioned to remote working, equipped with the necessary access and tools, and precautionary measures were implemented in all the corporate offices and branches for the safety and security of the employees. The Bank's business recovery sites (as allocated in coordination with BPI parent) is in strategic locations proved to be helpful as it enabled the Bank to immediately implement split operations (Team A and Team B), physical distancing, and decreased personnel density in the main corporate sites to contain infection.

The foundational capabilities that the Bank has in place, which included anything from experience and relationships to frameworks and data, allowed the Bank to be resilient in the face of the disruptions related to the pandemic.

Information and Physical Security Risks

The Bank is vigilant about information and physical security. The Banks' Information Security Management aligned with BPI's Enterprise Information Security Management (EISM) team is continuously maintaining and revalidating the inventory of the Bank's information assets to enhance monitoring and reporting of information security risks. It addresses the evolving cyber-threat landscape and adheres to applicable laws such as the Data Privacy Act by continuously improving its defenses, following the Bank's Information Security Program. To secure the new computing environment, the Bank implemented technical and organizational controls that maintain the confidentiality, integrity, and availability of information assets and IT facilities.

To complement continued investments in technical controls and recognizing the criticality of a cyber aware organization in securing the Bank from attacks, the Bank has an established awareness program that includes classroom trainings, e-learning courses that are accessible anytime, anywhere, roadshows, and periodic bulletins. Awareness campaigns for clients to combat fraud, which has risen as a consequence of increased adoption of online services by the public, have been intensified with sustained engagement also conducted extensively online via social media, website, press releases, and e-mail bulletins. The Bank continually implements programs such as these to make clients and employees aware of the current cybercrime landscape, emerging risks and trends, and mitigating measures to further strengthen operational risk and information awareness. An established third party or vendor risk management program ensures that the use of service providers and IT suppliers do not unnecessarily expose the Bank to operational, regulatory, and reputational risk.

BPI's Facilities Services Group (FSG) is at the forefront of ensuring a safe and secured environment within which the Bank's clients and personnel can conduct business at their convenience. Being the office responsible for the physical security of the Bank's facilities and the overall safety of its clients and employees, FSG implements a proactive and integrated approach to people, infrastructure, and information security to address the increasingly sophisticated and cross-border threats on financial products and services fulfillment. Facilities security and monitoring are constantly evaluated and enhanced to achieve more advanced, dynamic and resilient designs integrating traditional physical security system with value engineering of more advanced tools to stay ahead of the evolving physical and financial security landscape. Reinforcing this effort is capability development through physical security monitoring systems improvement and deployment of emergency communications at strategic areas for enhanced coordination. Amidst the COVID-19 pandemic, FSG provided several safety initiatives aligned with Inter- Agency Task Force on Emerging Infectious Diseases (IATF) guidelines which include the employee shuttle services, disinfection of premises, distribution of Personal Protective Equipment (PPE) such as face masks and hand sanitizers and conversion of idle workspaces for mobility or alternate sites. With the foregoing and FSG's Physical Security and Safety Response Plan laid down for all types of emergencies and calamities that is further supported by trained personnel and physical & technological assets, the Bank is ready for any kind of eventualities and emergencies.

Legal and Tax Risks

The Bank outsourced the legal services to BPI. BPI has two specialized legal services divisions composed of highly-trained legal professionals with experience in banking and corporate law that serve as BPI Group's main legal resource. These two legal divisions play critical roles in the operations of the Bank especially during this time of the pandemic.

The BPI Corporate Legal Affairs Unit composed of the Documentation, Legal Advisory, Legal Risk, Tax Compliance, Tax Advisory and Tax Risk Management units provide proactive guidance and support to effectively manage the Bank's legal and tax risks. The Documentation and Legal Advisory units ensure that the Bank's rights and obligations are protected in its contractual relations, and that the Bank is abreast of legal developments and requirements, respectively. It also conducts a legal risk assessment of potential claims against the Bank and recommends legal risk mitigation measures. It further empowers the Bank units by issuing legal and tax advisory bulletins and providing supporting training seminars that highlight legal and tax issues, new laws, and regulatory fiats that impact the Bank's products and services, and promote awareness of initiatives of various regulatory agencies.

During the pandemic, BPI's Corporate Legal Affairs continued to provide legal direction and support to the Bank, working closely with Management, Risk and Compliance Offices, and the various business segments in monitoring, interpreting, and implementing laws, government regulations and issuances in connection with the pandemic. These include the Bayanihan to Heal as One Act, Bayanihan to Recover as One Act, implementing rules and regulations issued by the BSP and SEC, various IATF resolutions, BIR issuances, and local government ordinances.

The Bank's Dispute Resolution and Litigation officer, under BanKo HR Team, plays a significant role in protecting the Bank's rights and interests and in avoiding losses when it is involved in all types of disputes from customer complaints before regulatory bodies to full blown litigation in all levels of the judicial proceedings as well as from trial courts to the Supreme Court. He likewise ensures compliance with all issuances of the DOLE, and other related regulatory issuances of the BSP.

Reputational Risk

The Bank defines reputational risk as the risk of potential negative public perception or uncontrollable events and developments to have an adverse impact on the Bank's brand and reputation that can affect the ability to maintain existing or establish new business relationships and continued access to sources of funding.

A company's reputation is a very valuable asset, especially for a financial institution. A negative corporate reputation harms client and investor trust, erodes customer base, and hinder sales. Poor reputation also correlates with increased costs for hiring and retention which degrades operating margins and prevents higher returns. Furthermore, reputational damage increases liquidity risk which impacts stock price and ultimately slashes market capitalization.

The Bank complies with the BPI established reputational risk management framework that provides consistent standards for the identification, assessment, and management of reputational risk issues. While all employees have a responsibility to protect the Bank's reputation, which forms part of the Bank's Code of Conduct, the primary responsibility for managing and reporting reputational risk matters lies with the business and operating units in the first line of defense.

The Corporate Affairs and Communications unit in BPI, on the other hand, is the risk control owner of reputational risk, promoting awareness and application of the BPI's policies and standards regarding reputational risk and encouraging business units to take account of the Bank's reputation in all decision-making, including dealings with customers and suppliers, and among employees.

Sound Capital Management

Effective capital management supports the Bank's assets and absorbs losses that may arise from credit, market and liquidity, operational and IT, and other risk exposures. The Bank's capital management framework ensures that on standalone, there are sufficient capital buffers at all times to support the respective risk profiles of the various businesses of the Bank, as well as changes in the regulatory and accounting standards and other future events. The Bank submits a comprehensive internal capital adequacy assessment process, or ICAAP, document annually to the Bangko Sentral ng Pilipinas, in accordance with the Pillar 2 guidelines of the Basel framework. As of December 31, 2020, The Bank's

CET1 and CAR Ratio stood at 11.03% and 11.79% respectively, both higher than the minimum regulatory requirements.

The table below shows the Bank's CAR components for 2020 and 2019:

Risk (Php Mn)	2020	2019
Credit Risk	10,379	12,624
Market Risk	29	25
Operational Risk	3,842	2,146
Total	**14,250**	**14,795**
Capital Adequacy (Php Mn)	2020	2019
CET1/Net Tier1 ¹⁄	1,571	2,247
T2/Net Tier2 ²⁄	109	128
Total QC ³⁄	**1,680**	**2,375**
Total CRWA 4⁄	10,379	12,624
Total MRWA 5⁄	29	25
Total ORWA 6⁄	3,842	2,146
TRWA 7⁄	**14,250**	**14,795**
Ratios (%)		
CET1	**11.03**	**15.19**
CAR	**11.79**	**16.05**

¹⁄ Common Equity Tier 1 Capital/Net Tier 1
²⁄ Tier 2 Capital/Net Tier 2
³⁄ Qualifying Capital
4⁄ Credit risk-weighted assets
5⁄ Market risk-weighted assets
6⁄ Operational risk-weighted assets
7⁄ Total risk-weighted assets

The bank's types and level of risk willing to assume in order to achieve business objectives is conveyed through the risk appetite statements approved by the Risk Management Committee. This covers each important risk identified.

Risk Area	BanKo Risk Appetite Statements
1. Enterprise Risk	The Bank adopts an overall low risk appetite for the Bank's aggregated and total financial and non-financial risk exposures.
2. Credit Risk (portfolio quality)	The Bank shall ensure to maintain a moderate level of non-performing loans (NPLs), and make certain that the amounts of loss reserves are sufficient to cover the NPL and ROPA levels.
3. Credit Risk (Regulatory Limits, Credit Counterparty Risk & Credit Concentration)	The Bank has low appetite for non-compliance to regulatory limits and ceilings on credit risk, particularly on credit portfolio concentration and credit test results.
4. Market Risk	The Bank has low appetite for losses from the day-to-day trading activities, which are monitored against the Bank's profit-and-loss (P&L and comprehensive income levels.
5. Liquidity Risk	The Bank aims to meet regulatory and internal requirements of liquidity in terms of the ability to meet current and prospective obligations.
6. Interest Rate Risk	The bank has low appetite for losses due to adverse movements in the interest rates as measured by the impact on the Bank's net interest income and underlying value of assets, liabilities and off-balance sheet instruments.
7. Model Risk	The Bank has a moderate appetite for the financial losses due to the use of risk models that are work in progress in absence of a stable model in the industry.

8. Business Strategic Risk	The Bank has moderate appetite for losses to earnings or capital, whether current or prospective, due to adverse business decisions, improper implementation of decisions or lack of responsiveness to industry changes in business conditions.
9. Reputational Risk	The Bank has a very low appetite for reputational risk and takes immediate action to resolve clients' complaints, local and overseas regulatory concerns, and high risk issues.
10. Conduct Risk	The Bank has zero tolerance for incidents involving improper business practices. The Bank nurtures a culture of high ethical and moral standards among employees where the tone is set at the top for conducting business with honesty, decency, fairness and integrity.
11. Operational Risk	The Bank strive to mitigate risks with no annual aggregated operational risk losses to exceed 1% of gross income per year. The Bank have zero tolerance for any loss incident of catastrophic proportions.
A. Operational Risk (Run the Bank)	The Bank aims to achieve 99.5% availability of critical customer-facing services.
1. Business Process Execution Failure	The Bank has a low operational risk appetite for process failure and low tolerance for high risk internal audit issues.
2. Regulatory and Compliance	The Bank has a low appetite for legal action against it with assessed unfavorable outcome. The Bank aims to maintain compliance with regulatory requirements across BanKo and to address any breach within the time provisions of regulators
3. Damage to Physical and Intangible Assets, Technology Failures and Damages	The Bank pursues to have effective and tested business continuity plans, responding to cover mission-critical products / services and making these available within two (2) to four (4) hours.
4. Vendor Failures and Damages	The Bank does not tolerate failure from providers of critical outsourced services
5. Trade Counterparty Failures	The Bank has a low appetite for counterparty failures. The Bank exercises due diligence when dealing with counterparties and correspondent banks.
B. Operational Risk (Secure the Bank)	The Bank applies industry standards in securing our assets, including physical and financial assets, customer data and other highly sensitive data and human resources. The Bank strives to mitigate emerging risks with zero tolerance for data confidentiality and integrity breaches leading to financial loss, reports to regulators and/or media reports.
1. Employment Practices and Workplace Safety	The Bank has zero appetite for events and work activities that compromise the health and safety of employees, causing serious illness or injuries or loss of life. The Bank gives utmost priority to providing adequate safety equipment to prevent any accident in the workplace
2. Internal Theft and Fraud	The Bank aims to employ sufficient, suitably skilled and experienced staff with clearly defined roles and responsibilities. The Bank has zero appetite for any fraudulent activity, and all potential conflicts of interest shall be avoided and disclosed.
3. External Theft and Fraud	The Bank invests in learning the latest fraud trends and work towards deploying security measures in minimizing theft and fraud incidence in the Bank. The Bank strives to have zero occurrence of robberies and burglaries in any of the bank and branch premises
4. Financial Crime	The Bank has zero appetite for any misconduct or employees, clients, and third parties such as bribery and corruption or activities related to money laundering or terrorist financing. The Bank is committed to combating financial crime and ensuring that offered products and services are not misused for the purpose of money laundering, terrorism financing and fraud

	events.
C. Operational Risk (Build the Bank)	The Bank will innovate by adopting and customizing new, market-tested technologies with the key objective of providing our customers with the best banking experience and with minimum security risks.
IT Project Failures	The Bank has a moderate appetite for IT project failures. The Bank uses established industry practices to deliver projects with minimal time, budget and quality variances.

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.

As part of the Bank's effort to ensure that transactions with related parties are normal banking activities and are done at arm's length, vetting is done either by the Board-level Corporate Governance Committee, defending on materiality, prior to implementation.

In 2020, the Bank made additional purchase of personal loans from BPI Parent aggregating Php 3.1Bn.

Significant related party transactions are also disclosed in the Audited Financial Statements, particularly Note 18 on RPTs.

COMPLIANCE

Regulatory Compliance

The Bank views compliance to mean not only adherence to laws, regulations, and standards but, more importantly, the *consistent conduct of the affairs of the Bank within a culture of high integrity, bounded by conformity to ethical business practice, abiding by the principles of fair dealing, accountability and transparency.* This ensures that in all our areas of activity, the Bank and its stakeholders are protected from regulatory and business risks as comprehensively as possible.

Oversight of the management of the Bank's regulatory and business risks and implementation of its compliance function is the responsibility of our Board of Directors, through the Audit Committee. At the management level, the compliance function is carried out by the Compliance Office, led by our Compliance Officer.

Anti-Money Laundering Compliance

The prevention of financial crimes is a top priority of BanKo, not only because they pose a significant threat to our reputation, but because they weaken the integrity of the global financial system. Hence, our Compliance Office extends its ambit beyond the Bank, its policies, and its employees to ensure that our clients also act within the law and do not use the Bank for illegal activities.

The Compliance Office's Anti-Money Laundering Department is responsible for monitoring customer and counterparty transactions in compliance with the Anti-Money Laundering Law, its implementing rules and regulations, and Bangko Sentral Circular No. 950. Developed under the guidance of the Bangko Sentral's Money Laundering and Terrorist Financing Prevention Program.

Financial Consumer Protection Framework

The Bank has a financial consumer protection governance structure that aims to establish a business environment that protects the interest of financial consumers and create an institutional culture of fair and responsible treatment of customers through good governance exercised by the Board and governing bodies, and reinforced by the various functions that own, manage, oversee, or provide independent assurance over consumer protection activities.

BanKo Customer Care Office in coordination with other units and BanKo Compliance Office has established a Consumer Protection Compliance Program aimed at preventing or reducing regulatory violations and protecting customer from harm or loss associated with non-compliance.

Data Privacy

BanKo has a strong Data Privacy Policy in place, which describes to whom the policy applies to, what personal data the Bank collects and how such data is collected, how the Bank may use personal data for core business and marketing purposes, how the Bank may disclose and share such personal data, how such personal data is stored and retained, and how such data can be accessed or corrected. The Data Privacy Policy is posted on the company website and complies with the requirements of the Data Privacy Act and the National Privacy Commission.

Internal Audit and Control

The enterprise Internal Audit Division is an independent body that supports the BPI and its subsidiaries' respective Audit Committees in fulfilling its oversight responsibilities by providing an independent, objective, assessment on the adequacy and effectiveness of the Bank's risk management, internal controls, and governance processes through well- established risk-based audit plans. Internal Audit also ensures that the Bank's operating and business units adhere to internal process and procedures and to regulatory and legal requirements.

It collaborates with other assurance providers such as the Risk Management Office, Compliance Office, external auditors, and other oversight units for a comprehensive review of risks and compliance in the institution, and ensures that business units proactively manage the risk and compliance exposures.
The internal audit function as empowered by the Internal Audit Charter includes free access to all records, properties and personnel. In this respect, the Audit Committee reviews the internal audit function, including its independence and the authority of its reporting relationship. The Internal Audit Division continuously improves the capabilities of its auditors through continuous education on specialized areas knowledge, auditing techniques, regulations, and banking products and services.

The enterprise Internal Audit Division has an established quality assurance and improvement program to ensure that audit activities conform to the International Standards for the Professional Practice of Internal Auditing. The program includes periodic internal and external quality assessment and ongoing monitoring of the performance of the internal audit activity. Periodic internal assessments are conducted annually, while external quality assessments are conducted at least once every five years by a qualified independent validator. This unit maintains its "generally conforms" ratings on both internal and external assessment, which indicate that its activities have continuously conformed to professional standards, code of ethics, and other internal standards.

Dividend Policy

BanKo may declare dividends subject to the discretion of the Board. However, the SEC may direct BanKo to declare dividends when its retained earnings is in excess of 100% of its paid-in capital stock, except:

- When justified by definite corporate expansion projects or programs approved by the Board;
- When BanKo is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured;
- When it can be clearly shown that such retention is necessary under special circumstances obtaining, such as when there is a need for a special reserve for probable contingencies.

For 2020, BanKo did not declare dividends.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) MATTERS

Employee Health and Safety

In March 2020, the National Government had recognized the threat that the COVID-19 outbreak posses to its citizens. The Government enacted Proclamation No. 922 on March 16, 2020 declaring a nationwide State of Public Health emergency. In order to prevent the sharp rise of COVID-19 cases in the country, the entire island of Luzon was placed under Enhance Community Quarantine (ECQ) and an Inter-Agency Task Force on Emerging Infectious Diseases (IATF-EID) was created.

In response to the declaration of ECQ and the guidelines released by the IATF-EID, BanKo decided to only allow essential personnel to report to the Head Office and its branches in order to continue to serve its clients in this challenging times. Those employees who continued reporting for work were given additional compensation in the form of Special Meal and Transportation Allowance (SMTA) as high as P1200 depending on the declared COVID-19 state. In addition, to ensure the safety of employees reporting for work alcohol, face mask and face shield were also made available to BanKo employees. Additional safety protocols were also enacted such as temperature checking 2x a day, Stay Safe PH scanning before entering the premises. installation of acrylic dividers in the work stations, set-up of air purifiers, posting of reminders on social distancing and proper washing of hands.

From May 27 to June 2, 2020 and from August 4 to 28, 2020, as more employees were allowed to report back at the head office and due to lack of available public transformation, shuttle service were provided consisting of 4 vans, wherein pick-up and drop points were designated in major areas.

Finally, BanKo employees were divided them into two teams (Team A and Team B) with alternate work schedule of one week at the office and the following week as work from home. Also, employees who were identified as high risk were allowed to continue to work from home as long as they can deliver 75% of their daily work load.

SUPPLEMENTARY SCHEDULES ON CAPITAL AND RISK MANAGEMENT DISCLOSURES PURSUANT TO THE BANKO SENTRAL'S MEMORAMDUM M-2017-011

Capital Structure

The Bank's qualifying capital for the years ended 2020 and 2019 were Php1.57 billion and Php2.24 billion, respectively. The Bank's total qualifying capital for 2020 and 2019 were largely composed of CET1 capital and Tier1 at 94.0% and 95.0%, respectively.

The table below shows the composition of the Bank's capital structure and total qualifying capital.

Capital Structure (Php Mn)	31-Dec-20			31-Dec-19		
	CET1/ Tier1	Tier 2	TOTAL	CET1/ Tier1	Tier 2	TOTAL
Core Capital	**2,317**	**108**	**2,425**	**2,602**	**128**	**2,730**
Paid-up common stock	905	-	905	405	-	405
Additional paid-in capital						
Retained earnings	2,210	-	2,210	1,939	-	1,939
Undivided profits	(757)	-	(757)	276	-	276
Net unrealized gains or losses on AFS securities						
Cumulative foreign currency translation						
Remeasurements of Net Defined Benefit Liability (Asset)	(41)	-	(41)	(18)	-	(18)
Minority interest 1⁄						
General loan loss provision 2⁄	-	108	108	-	128	128
Deductions	**745**	**-**	**745**	**354**	**-**	**354**
Total O/S unsecured credit accommodations 3⁄						
Deferred tax assets	716	-	716	327	-	327
Other intangible assets						
Defined benefit pension fund assets	24	-	24	18	-	18
Investments in equity 5⁄						
Significant minority investments 6⁄						
Other equity investments 7⁄						
TOTAL QUALIFYING CAPITAL	**1,572**	**108**	**1,680**	**2,248**	**128**	**2,376**
	94%	**6%**	**100%**	**95%**	**5%**	**100%**

1⁄ Minority interest in subsidiary banks, which are less than wholly-owned
2⁄ General loan loss provision, limited to a maximum of 1% of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio
3⁄ Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)
4⁄ Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates
5⁄ Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies), after deducting related goodwill, if any (for solo basis only and as applicable) and Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any (for both solo and consolidated bases and as applicable)
6⁄ Significant minority investments (10%-50% of voting stock) in securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases)
7⁄ Other equity investments in non-financial allied undertakings and non-allied undertakings

Credit risk-weighted assets. Using the Basel regulatory standardized approach, our total credit risk-weighted assets as of December 31, 2020 amounted to Php10.85 billion, and composed of on-book credit exposures after risk mitigation of Php10.37 billion.

The table below provides a summary of the Bank's credit risk-weighted assets for 2020 and 2019:

Credit RWAs (Php Mn)	Amount 2020	2019
Total RWA (On-balance sheet) 0/	10,854	12,796
Total RWA (Off-balance sheet) 0/	0	0
Total counterparty RWA (banking book) 1/	0	0
Total counterparty RWA (trading book)	0	0
Total RWA credit-linked notes (banking book)	-	-
Total Gross RWA	**10,854**	**12,796**
Deductions: General loan loss provision 2/	475	172
Total Credit RWAs	**10,379**	**12,624**

0/ Risk-weighted assets
1/ For derivatives and repo-style transactions
2/ In excess of the amount permitted to be included in upper Tier 2

Schedule A

December 31, 2020 (Php Mn)	Exposure after risk mitigation	Risk Weights 0%	20%	50%	75%	100%	150%	Total CRWA 1/
Cash on hand	253	253	-	-	-	-	-	**253**
Checks and other cash items	2	-	**2**	-	-	-	-	**2**
Due from BSP	8,169	8,169	-	-	-	-	-	**8,169**
Due from other banks	815		-	**778**		**37**	-	**815**
Available-for-sale (AFS)	-	-	-	-	-	-	-	-
Held-to-maturity (HTM)	-	-	-	-	-	-	-	-
UDSCL 2/	-	-	-	-	-	-	-	-
Loans and receivables	11,307	-	-	**4,634**	-	**5,999**	**601**	**11,236**
Loans and receivables - Others 3/	-	-	-	-	-	-	-	-
Sales contract receivables	-	-	-	-	-	-	-	-
ROPA 4/	61	-	-	-	-		**61**	**61**
Sub-total	**20,607**	**8,422**	**2**	**5,412**	-	**6,036**	**662**	**20,536**
Other assets	1,116	-	-	-	-	**1,116**	-	**1,116**
Total exposure, plus other assets	**21,723**	**8,422**	**2**	**5,412**	-	**7,152**	**662**	**21,652**
Total risk-weighted OBSA (no CRM) 0/5 /			**0**	**2,708**	-	**7,152**	**993**	**10,853**
Total risk-weighted OBSA (with CRM)5 /			-	-	-	-	-	-
Total RWA (On-Balance Sheet)			**0**	**2,708**	-	**7,152**	**993**	**10,853**

December 31, 2019 (Php Mn)	Exposure after risk mitigation	Risk Weights						Total CRWA 1/
		0%	20%	50%	75%	100%	150%	
Cash on hand	215	215	-	-	-	-	-	215
Checks and other cash items	2	-	2	-	-	-	-	-
Due from BSP	2,196	2,196	-	-	-	-	-	2,196
Due from other banks	1,131		-	1,073		58	-	1,131
Available-for-sale (AFS)	0	-	0	-	-	-	-	0
Held-to-maturity (HTM)	-	-	-	-	-	-	-	-
UDSCL 2/	-	-	-	-	-	-	-	-
Loans and receivables	12,494		-	1,693	3,843	6,689	269	12,494
Loans and receivables - Others 3/	394	394	-	-	-	-	-	394
Sales contract receivables	-	-	-	-	-	-	-	-
ROPA 4/	64	-	-	-	-		64	64
Sub-total	**14,744**	**2,805**	**2**	**2,766**	**3,843**	**6,747**	**332**	**14,744**
Other assets	804	-	-	-	-	804	-	804
Total exposure, plus other assets	**15,548**	**2,805**	**2**	**2,766**	**3,843**	**7,551**	**332**	**15,548**
Total risk-weighted OBSA (no CRM) 0/5 /			328	1,383	2,882	8,034	498	12,797
Total risk-weighted OBSA (with CRM)5 /			-	-	-	-	-	-
Total RWA (On-Balance Sheet)			**328**	**1,383**	**2,882**	**8,034**	**498**	**12,797**

1/ Credit risk-weighted assets
2/ Unquoted debt securities classified as loans
3/ Loans and receivables arising from repurchase agreements, certificates of assignment/participation with recourse, and securities lending and borrowing transactions
4/ Real and other properties acquired
5/ Not covered by, and covered by credit risk mitigants, respectively

Market risk-weighted assets. In terms of capital usage using the Basel standardized approach, total market risk-weighted assets stood at Php29 million as of end-2020, of which foreign exposures accounted for more than half, followed by interest rate exposures and equity exposures, respectively.

The table below presents the breakdown of the Bank's market risk-weighted assets for 2020 and 2019:

MARKET RWA (Php Mn)	2020	2019
Using standardized approach		
Interest rate exposures	-	-
Foreign exposures	29	25
Equity exposures	-	-
TOTAL MARKET RWA 0/	**29**	**25**

0/ Risk-weighted assets

Operational risk-weighted assets. We currently use the Basel regulatory basic indicator approach to quantify operational risk-weighted assets, by using the historical total annual gross income as the main measure of risk. In 2020, the Bank's total operational risk-weighted assets stood at Php3,842 million.

The table below presents the breakdown of the Bank's market risk-weighted assets for 2020 and 2019:

OPERATIONAL RWA (Php Mn)	AMOUNT	
	2020	**2019**
Gross income (a)	3,329	2,110
Capital requirement [1]/	499	317
Average capital requirement (b) [2]/	307	171
Adjusted capital charge (c) [3]/	384	215
TOTAL OPERATIONAL RWA [0]/ [4]/	3,842	**2,146**

0/ Risk-weighted assets
1/ (a) multiplied by 15 percent
2 / Average of 15 percent of (a) for the past (3) years
3 / (b) multiplied by 125 percent
4 / (c) multiplied by factor 10

Corporate Information

The following is an overview of the Bank's major stockholders, including nationality, percentage of stockholdings and voting status (as of December 31, 2020):

AMENDED GENERAL INFORMATION SHEET (GIS)
STOCK CORPORATION

================================ PLEASE PRINT LEGIBLY ================================

CORPORATE NAME:	BPI DIRECT BANKO, INC., A SAVINGS BANK (formerly BPI Direct Savings Bank, Inc.)		
TOTAL NUMBER OF STOCKHOLDERS:	10	NO. OF STOCKHOLDERS WITH 100 OR MORE SHARES EACH:	1
TOTAL ASSETS BASED ON LATEST AUDITED FINANCIAL STATEMENTS:	P 17,871,278,572.00		

STOCKHOLDER'S INFORMATION (as of 29 December 2020)

NAME, NATIONALITY AND CURRENT RESIDENTIAL ADDRESS	SHARES SUBSCRIBED				AMOUNT PAID (PhP)	TAX IDENTIFICATION NUMBER
	TYPE	NUMBER	AMOUNT (PhP)	% OF OWNER-SHIP		
1. BANK OF THE PHILIPPINE ISLANDS Filipino Ayala North Exchange Tower 1, Ayala Avenue cor. Salcedo St., Legaspi Village Makati City, Metro Manila 1229	Common A	14,399,991	1,439,999,100.00	100.00%	905,571,200.00	000-438-366-000
	Common B	600,000	60,000,000.00			
	TOTAL	14,999,991	1,499,999,100.00			
2. MARIE JOSEPHINE M. OCAMPO Filipino 596 Colgate St. East Greenhills, Mandaluyong City	Common A	1	100.00	0.00%	100.00	129-453-280
	TOTAL	1	100.00			
3. NATIVIDAD N. ALEJO Filipino # 15 Toledo St., Merville Park, Paranaque City	Common A	1	100.00	0.00%	100.00	135-539-388
	TOTAL	1	100.00			
4. IGNACIO R. BUNYE Filipino 101 Dr. Alfredo M. Bunye St., Alabang, Muntinlupa City	Common A	1	100.00	0.00%	100.00	130-921-365
	TOTAL	1	100.00			
5. JOSE FERDINAND B. DE LUZURIAGA Filipino 3 Basco Street, Las Villas de Manila, Biñan, Laguna	Common A	1	100.00	0.00%	100.00	146-868-956
	TOTAL	1	100.00			
6. JEROME B. MINGLANA Filipino #5222 San Lazaro St., San Antonio Valley 5, San Antonio, Parañaque City	Common A	1	100.00	0.00%	100.00	195-409-322
	TOTAL	1	100.00			
7. AURELIO R. MONTINOLA III Filipino 29 Pili Avenue, South Forbes Park, Makati City	Common A	1	100.00	0.00%	100.00	135-558-086
	TOTAL	1	100.00			
8. SIMON R. PATERNO Filipino 58 McKinley Road, Forbes Park, Makati City	Common A	1	100.00	0.00%	100.00	203-010-472
	TOTAL	1	100.00			
9. JESUS V. RAZON, JR. Filipino 83 Mabolo St., Mapayapa Village I, Capitol Site, Quezon City	Common A	1	100.00	0.00%	100.00	135-562-098
	TOTAL	1	100.00			
10. JAIME ALFONSO ANTONIO E. ZOBEL DE AYALA Filipino Unit 31, Kasiyahan Village, North Forbes Park, 58 Mckinley Road, Makati	Common A	1	100.00	0.00%	100.00	500-076-884
	TOTAL	1	100.00			
TOTAL AMOUNT OF SUBSCRIBED CAPITAL			1,500,000,000.00	100.00%	905,572,100.00	
		TOTAL AMOUNT OF PAID-UP CAPITAL				

INSTRUCTION: SPECIFY THE TOP 20 STOCKHOLDERS AND INDICATE THE REST AS OTHERS

Note: For PDTC Nominee included in the list, please indicate further the beneficial owners owning more than 5% of any class of the company's voting securities. Attach separate sheet, if necessary.

PRODUCT AND SERVICES

DEPOSITS

Peso

Checking Account
Savings Account
Time Deposits Account

Foreign Currency

Savings Account

Microfinance

PondoKo Savings

LOANS

Consumer

Auto Loans
Housing Loans

Microfinance

NegosyoKo Loan

ELECTRONIC CHANNELS

BanKo Mobile

BRANCH DIRECTORY

A Branch refers to any permanent office other than the Head Office where the Bank may perform activities and provide products and services that are within the scope of its authority and relevant license.

Branch Lite Unit (BLU) refers to any permanent office or place of business of the Bank, other than its Head Office or a branch. It performs limited banking activities and records its transactions in the books of the Head Office or the branch to which it is annexed to.

Count	Location	Branch Type	Address
1	Head Office/Greenhills , NCR	Branch	220 Ortigas Avenue BanKo Center, North Greenhills, San Juan City
2	Naga , Camarines Sur	Branch	Unit 302 Level 3, Nagaland E-mall Elias Angeles Street San Francisco Naga City, Camarines Sur
3	Dumaguete, Negros Oriental	Branch	Unit K-12 Twin Arcade Building, Perdices Street, Dumaguete City, Negros Oriental
4	Davao, Davao Del Sur	Branch	5-A Bajada Plaza Building, J.P. Laurel Avenue, Davao City, Davao Del Sur
5	Angeles, Pampanga	Branch	Romercial Purok 5, San Francisco St. Lourdes North West, Angeles City, Pampanga
6	Caloocan, NCR	Branch	G/F 98 A. Mabini Street Maypajo, Caloocan City, Metro Manila
7	Cainta, Rizal	Branch	Unit 7 ARDI Bldg. Ortigas Avenue Ext., Cainta Rizal
8	Lipa, Batangas	Branch	Kapitan Simeon Luz, Barangay 4 Lipa City, Batangas
9	Iloilo, Iloilo	Branch	161 Fuentes Street, San Jose, Iloilo City
10	General Santos, South Cotabato	Branch	Santiago Blvd., General Santos City South Cotabato
11	Legazpi, Albay	Branch	2/F Hotel Rex Building, Aguinaldo corner Penaranda Sts. Legaspi City, Albay
12	San Fernando, Pampanga	Branch	G/F EKO Building. Consunji St. Barrio Sto. Rosario, San Fernando City, Pampanga
13	Tabaco , Albay	Branch-Lite Unit	VSP Building Riosa Street, Divino Rostro, Tabaco City, Albay
14	Iriga, Camarines Sur	Branch-Lite Unit	Tansylit Commercial Building, Zone 4 Alfelor St., San Roque, Iriga City, Camarines Sur
15	Apalit, Pampanga	Branch-Lite Unit	St. Jude Commercial Bldg., along MacArthur Highway, Brgy. San Vicente, Apalit, Pampanga
16	Guagua, Pampanga	Branch-Lite Unit	G/F 174 Lapid Bldg., Sto. Nino, Guagua, Pampanga
17	Sta. Ana, Pampanga	Branch-Lite Unit	Corner Gamboa St., and A. Dizon St., San Joaquin, Sta. Ana, Pampanga
18	Guihulngan, Negros Oriental	Branch-Lite Unit	Nesto Commercial Space, ML Quezon St., Guihulngan, Negros Oriental
19	Tanjay , Negros Oriental	Branch-Lite Unit	Josephine Building, Lot 642, Opao Barrio Poblacion, Tanjay City, Negros Oriental
20	Bayawan, Negros Oriental	Branch-Lite Unit	Cor. Bollos and J. P. Rizal St., Brgy. Boyco, Bayawan City
21	Digos, Davao Del Sur	Branch-Lite Unit	2094 Rizal Avenue, Zone II, Digos City, Davao Del Sur
22	Panabo, Davao Del Norte	Branch-Lite Unit	Asaje Realty Corporation Property, Prk. Tambis, Sto. Nino, Panabo City
23	Tagum, Davao Del Norte	Branch-Lite Unit	DCC Building, Dalisay-Gante Road Prk. Bayanihan, Magugpo West, Tagum City
24	Mati, Davao Oriental	Branch-Lite Unit	Lot 12, Blk 13, Asaje Building, Rizal Ext., Barangay Central City of Mati, Davao Oriental
25	Pili, Camarines Sur	Branch-Lite Unit	Guevarra St., Old San Roque, Pili, Camarines Sur
26	Butuan, Agusan Del Norte	Branch	Purok 7, Brgy. Limaha 14, Langihan Road, Butuan City, Agusan Del Norte
27	Iligan, Lanao Del Norte	Branch	Door #4 Alco Building, Gregorio T. Lluch, Sr Ave. corner F. B. Laya St. Iligan City, Lanao Del Norte
28	Santa Maria, Bulacan	Branch	J. C. De Jesus St., Poblacion, Santa Maria, Bulacan
29	Tanauan, Batangas	Branch-Lite Unit	Almeda Space Rental, Burgos St., Poblacion 7, Tanauan City, Batangas
30	Ozamis , Misamis Occidental	Branch-Lite Unit	132 A Gomez Ext. Cor. Zulueta, Trigold Trade Mindanao Bldg. Sta Cruz, Ozamis City, Misamis Occidental

Count	Location	Branch Type	Address
31	Baliuag, Bulacan	Branch-Lite Unit	J & U Bldg., 321 B.S Aquino Ave., Bagong Nayon, Baliuag Bulacan
32	Dagupan , Pangasinan	Branch	#20 Burgos St., Brgy. Tapuac, Dagupan City, Pangasinan
33	Urdaneta, Pangasinan	Branch-Lite Unit	Lot 357-B Mac Arthur Highway Poblacion, Urdaneta City, Pangasinan
34	Marilao, Bulacan	Branch-Lite Unit	2nd Floor 208, Poblacion 2, Marilao, Bulacan
35	Gingoog , Misamis Oriental	Branch-Lite Unit	Princity Bldg., Barangay 19 Gingoog City, Misamis Oriental
36	Toril, Davao Del Sur	Branch-Lite Unit	Purok 8 Vdlr Street, Lower Portion, Brgy. Bayabas Crossing, Toril District, Davao City
37	Kidapawan, North Cotabato	Branch-Lite Unit	Armando Realty Corp., Padilla St., Brgy. Poblacion, Kidapawan, North Cotabato
38	San Jose De Buenavista, Antique	Branch-Lite Unit	Bantayan Road, Funda-Dalipe, San Jose De Buenavista, Antique
39	Silang, Cavite	Branch-Lite Unit	01 Yakal St. Brgy. San Miguel I, Silang, Cavite
40	Iba, Zambales	Branch-Lite Unit	2nd Floor, Camara Bldg., National Road Zone I, Iba, Zambales
41	Mandaue, Cebu	Branch-Lite Unit	Unit 1B Zion Center, A. Del Rosario St. Brgy. Guizo, Mandaue City Cebu
42	Concepcion, Tarlac	Branch-Lite Unit	Arthur Go Bldg., L. Cortez St., Brgy. San Jose, Concepcion, Tarlac
43	Tarlac City, Tarlac	Branch	NP Magbag Bldg. F. Tanedo corner Sapiro St. San Nicolas, Tarlac City
44	Binangonan, Rizal	Branch-Lite Unit	GMG Bldg. Blk 1 Lot 1 Branch Lite Uniteridge Village, Brgy. Tagpos, Binangonan Rizal
45	Ilagan, Isabela	Branch-Lite Unit	Rizal St., San Vicente, Ilagan City, Isabela
46	Baguio, Benguet	Branch	G/F Kayang Business Center No. 08 Unit L3-G Shagem Street corner Kayang Road, Baguio City
47	Balanga, Bataan	Branch	Capinpin Road, Market Site San Jose, Balanga City, Bataan
48	Tuguegarao, Cagayan	Branch	Rizal Street, Centro 08, Tuguegarao City, Cagayan
49	Santa Rosa, Laguna	Branch-Lite Unit	#94, J.P. Rizal Blvd., Tagapo, Santa Rosa Laguna
50	Gumaca, Quezon	Branch-Lite Unit	J. P. Rizal St., Brgy. Penafrancia, Gumaca, Quezon
51	Kalibo, Aklan	Branch-Lite Unit	Door F. Barrios Building Roxas Ave., Ext. Andago, Kalibo, Aklan
52	Estancia, Iloilo	Branch-Lite Unit	E. Reyes Ave., Poblacion Zone 2, Estancia, Iloilo
53	Paniqui, Tarlac	Branch-Lite Unit	GF Patricia Anne Bldg. M. H. Del Pilar St. Brgy. Estacion, Paniqui Tarlac
54	Tanay, Rizal	Branch-Lite Unit	Sampaloc Rd., Brgy. Plaza Aldea, Tanay Rizal
55	Kabankalan, Negros Occidental	Branch-Lite Unit	G. Cordova St., Brgy. 3, Kabankalan City, Negros Occidental
56	San Francisco, Agusan Del Sur	Branch-Lite Unit	Unit 4, Romana-Paul Tan Building, Bonifacio Street, Poblacion, Brgy. 4, San Francisco, Agusan Del Sur
57	Malaybalay, Bukidnon	Branch-Lite Unit	Moreno St., Barangay 05, Malaybalay City , Bukidnon
58	Cagayan De Oro, Misamis Oriental	Branch	Door#2, Anthony Tion Bldg., Hayes St. Nazareth, Cagayan De Oro City
59	La Trinidad, Benguet	Branch-Lite Unit	Rose Buan Bldg., KM 4 Balili, La Trinidad, Benguet
60	Puerto Princesa, Palawan	Branch	GSK Bldg., Lacao St. Puerto Princesa City, Palawan
61	Cabatuan, Iloilo	Branch-Lite Unit	Morales Bldg., Rizal St., Cabatuan Iloilo
62	Antipolo, Rizal	Branch-Lite Unit	Lot 64-66, Cogeo Trade Hall, Sitio Kasapi, Bagong Nayon, Antipolo City
63	Bacolod, Negros Occidental	Branch	Door 5 Ava Arcade San Sebastian Gatuslao St., Brgy. 13, Bacolod City, Negros Occidental
64	Malolos, Bulacan	Branch-Lite Unit	#31 Tanjeco St., San Vicente, Malolos City, Bulacan
65	San Jose, Nueva Ecija	Branch-Lite Unit	#126 Maharlika Highway, Brgy. Malasin, San Jose City, Nueva Ecija
66	Gapan, Nueva Ecija	Branch-Lite Unit	Maharlika Hiway, JC Ramirez Bldg., Brgy. San Vicente, Gapan City, Nueva Ecija
67	San Carlos , Negros Occidental	Branch-Lite Unit	JL Tourist Inn, S. Carmona St., Brgy. IV, San Carlos City, Negros Occidental
68	San Carlos, Pangasinan	Branch-Lite Unit	#38 Rizal Ave., San Carlos City, Pangasinan
69	Cauayan, Isabela	Branch-Lite Unit	King Street Mall, Rizal Ave., District III, Cauayan City, Isabela
70	Santiago, Isabela	Branch-Lite Unit	A and A Musngi Bldg., City Road Centro East, Santiago City, Isabela
71	Tacloban, Leyte	Branch	Cor. P. Zamora S. P. Paterno Sts., Brgy. 26 Tacloban City, Leyte
72	Catarman, Northern Samar	Branch-Lite Unit	Corner Quirino Street, Barangay Jose P. Rizal, Catarman, Northern Samar
73	Surigao, Surigao Del Norte	Branch	Borromeo Cor. Magallanes St., Brgy. Washington, Surigao City, Surigao Del Norte
74	Vigan, Ilocos Sur	Branch	Sky 1 Bldg., Del Pilar St., Barangay VIII, Vigan City
75	Calamba, Laguna	Branch	106 Commerce Center, Parian, Calamba City, Laguna

Count	Location	Branch Type	Address
76	Candelaria, Quezon	Branch-Lite Unit	Del Valle St., Poblacion, Candelaria Quezon
77	Polomolok, South Cotabato	Branch-Lite Unit	Cannery Road, Sanchez Subd., Brgy. Poblacion, Polomolok, South Cotabato
78	Tacurong, Sultan Kudarat	Branch-Lite Unit	Jose Abad Santos Street, Poblacion, Tacurong City, Sultan Kudarat
79	Balayan, Batangas	Branch-Lite Unit	Lot 356-A #123 Damballelos St. Brgy 4 Balayan, Batangas
80	Roxas, Capiz	Branch	Roxas Avenue, Brgy. VIII, Roxas City, Capiz
81	Ligao, Albay	Branch-Lite Unit	1 Door 10 Dy - OK Bldg., Legazpi St., Guilid, Ligao City, Albay
82	Masbate, Masbate	Branch	Good Star Bldg., Corner Cortidor & Zurbito Sts., Bapor, Masbate City
83	Lapu-Lapu, Cebu	Branch-Lite Unit	Ompad St. Poblacion, Lapu-Lapu City, Cebu
84	Ormoc , Leyte	Branch-Lite Unit	Gr. Fl Lam Bldg., Cor. Carlos Tan & Mabini St., District 23, Ormoc City, Leyte
85	Laoag, Ilocos Norte	Branch	2nd Floor, Conching Bldg., Rizal St., Brgy 16, Laoag City, Ilocos Norte
86	Bangued, Abra	Branch-Lite Unit	McKinley St. Zone 2, Bangued, Abra
87	San Jose Del Monte, Bulacan	Branch-Lite Unit	MASJ Building Unit D&E Carriedo St., Muzon, San Jose, Del Monte, Bulacan
88	Tagbilaran, Bohol	Branch	6R's Bldg. Belderol St., Cogon, Tagbilaran City, Bohol
89	Cebu City, Cebu	Branch	Unit 6, The Eden, Colon St., Kalubihan, Cebu City
90	Danao, Cebu	Branch-Lite Unit	Rizal St., Poblacion, Danao City, Cebu
91	Maasin, Southern Leyte	Branch-Lite Unit	Oppus St., Tunga Tunga, Maasin City, Southern Leyte
92	Sagay, Negros Occidental	Branch-Lite Unit	Avancena St. cor. Osmena St., Poblacion 1, Sagay City, Negros Occidental
93	Silay, Negros Occidental	Branch-Lite Unit	Prince Hypermart, Cor. Antonio Luna and Rizal St., Brgy. I Silay City, Negros Occidental
94	Solano, Nueva Vizcaya	Branch	1 De Luna Bldg. Espino St., Brgy. Quirino, Solano, Nueva Vizcaya
95	Binan, Laguna	Branch-Lite Unit	Bonifacio St., Canlalay, Binan, Laguna
96	Santa Cruz , Laguna	Branch-Lite Unit	1618 J. Falcon St., Poblacion 5, Sta. Cruz Laguna
97	Lucena, Quezon	Branch	29A Quezon Avenue cor. Ravanzo St., Brgy. I, Lucena City, Quezon
98	Calapan, Oriental Mindoro	Branch	J.P. Rizal St., San Vicente Central, Calapan, Oriental Mindoro
99	Polangui, Albay	Branch-Lite Unit	Sapalicio St., Basud, Polangui, Albay
100	Baler, Aurora	Branch	Purok 2, Sitio Kinalapan, Brgy. Pingit, Baler, Aurora
101	Cabanatuan City, Nueva Ecija	Branch	Cor. Burgos and Sanciangco Sts., Brgy. Fatima, Cabanatuan City Nueva Ecija
102	Valencia, Bukidnon	Branch	NVM Mall, Guinoyan Road, P-4, Poblacion, Valencia City, Bukidnon
103	San Jose , Occidental Mindoro	Branch-Lite Unit	Capt. Cooper St., Poblacion, Brgy. IV, San Jose, Occidental Mindoro
104	Olongapo, Zambales	Branch	GF 1995 Ave., West Bajac Bajac, Olongapo City, Zambales
105	San Fernando , La Union	Branch-Lite Unit	BHF Bldg., 147 P. Burgos St., Ilocanos Sur, San Fernando City La Union
106	Virac, Catanduanes	Branch-Lite Unit	Brgy. Concepcion, Virac, Catanduanes
107	Batangas City, Batangas	Branch-Lite Unit	H. C. Tomson Commercial Bldg., D. Silang St. Poblacion 015, Batangas City
108	Sorsogon, Sorsogon	Branch	Quezon St., Polvorista, Sorsogon City, Sorsogon
109	Bacoor, Cavite	Branch	No. 369 Gen. E. Aguinaldo Hi-way, Talaba IV, Bacoor Cavite
110	Koronadal, South Cotabato	Branch-Lite Unit	Salanga Bldg., Morales Ave., Brgy. Gen. P. Santos, Koronadal City, South Cotabato
111	Cadiz, Negros Occidental	Branch-Lite Unit	Magsaysay Ext., Andrea Village, Poblacion 3, Cadiz City, Negros Occidental
112	Roxas , Isabela	Branch-Lite Unit	Bethany Hotel Bldg., Osmena St., Brgy. Bantug, Roxas, Isabela
113	Brooke's Point, Palawan	Branch-Lite Unit	NT Bldg., Poblacion District II, National Highway, Brooke's Point, Palawan
114	Tigbauan, Iloilo	Branch-Lite Unit	Tupas St., Brgy. 7 Poblacion, Tigbauan, Iloilo
115	Pinamalayan, Oriental Mindoro	Branch-Lite Unit	Amando Marciano Bldg., cor. Mabini and Quezon St., Zone III, Pinamalayan, Oriental Mindoro
116	Rodriguez, Rizal	Branch	#50 E. Rodriguez Hi-way corner Kalantas St., Brgy. San Jose, Rodriguez, Rizal
117	Trece Martires, Cavite	Branch-Lite Unit	13 Martyrs St., Mariden Bldg. Brgy. San Agustin, Trece Martires, Cavite
118	Consolacion, Cebu	Branch-Lite Unit	Westside Properties, 803 V & G Subdivision, Brgy. Nangka, Consolacion, Cebu
119	Lingayen, Pangasinan	Branch-Lite Unit	41 C. Avenida Rizal, East Poblacion, Lingayen, Pangasinan
120	Rosales, Pangasinan	Branch	CSC Bldg., General Luna St., Zone III, Poblacion, Rosales, Pangasinan

Count	Location	Branch Type	Address
121	Boac, Marinduque	Branch	Del Mundo St. Cor. Madrigal St., Brgy. Malusak, Boac, Marinduque
122	Minglanilla , Cebu	Branch-Lite Unit	1316 Natalio B. Bacalso, South National Highway, Poblacion Ward I, Minglanilla, Cebu
123	Dasmariñas, Cavite	Branch-Lite Unit	Unit 6 Ground Floor AVM Building, Isidro Mangubat St., Brgy. Zone IV, Dasmarinas, Cavite
124	Pototan, Iloilo	Branch-Lite Unit	#5008 SRG Bldg., Villa Cecilia Subd., Brgy. Malusgod, Pototan, Iloilo
125	Talisay, Cebu	Branch-Lite Unit	Talisay Town Center Unit 12, Victoria St., Bgy. Tabunok, Talisay City, Cebu
126	Cubao, NCR	Branch	St. Anthony Bldg., Aurora Blvd., Brgy. E. Rodriguez, Cubao, Quezon City
127	Cavite City , Cavite	Branch-Lite Unit	P. Burgos Avenue, Caridad, Cavite City, Cavite
128	GMA, Cavite	Branch-Lite Unit	Door 4 Umerez Properties Bldg., Bgy. San Gabriel, GMA formerly Carona, Cavite
129	Rosario, Cavite	Branch-Lite Unit	#248 Abutin Bldg., Gen. Trias Drive, Tejeros Convention Bgy. Tejeros, Rosario, Cavite
130	Sariaya, Quezon	Branch-Lite Unit	Maharlika Highway, cor. Pablo St., Sariaya, Quezon
131	Lemery, Batangas	Branch-Lite Unit	Miranda Building, Ilustre Avenue, District 3, Lemery, Batangas
132	Guimaras, Guimaras	Branch-Lite Unit	Zemkamps Chalet Bldg. Stall 5 & 6, New Site, San Miguel, Jordan, Guimaras
133	Daet, Camarines Norte	Branch	Bagasbas Road cor. Diego Linan St., Bgy. 6, Daet, Camarines Norte
134	Plaridel, Bulacan	Branch-Lite Unit	JMET's Building 215 J. Garcia St., Banga 1st, Plaridel, Bulacan
135	General Trias, Cavite	Branch-Lite Unit	9026 C.M. Delos Reyes St., Bgy. Manggahan, General Trias City, Cavite
136	Talavera, Nueva Ecija	Branch-Lite Unit	Maharlika Highway, Esguerra District, Talavera, Nueva Ecija
137	Imus, Cavite	Branch-Lite Unit	R. Nuguid & Sons, Inc., Building, Emilio Aguinaldo Highway, Brgy. Tanzang Luma 3, Imus, Cavite
138	Bago, Negros Occidental	Branch-Lite Unit	2nd St., Marhil Subdivision, Poblacion, Bago City, Negros Occidental
139	Bayambang, Pangasinan	Branch-Lite Unit	Rizal Avenue, Poblacion Sur, Bayambang, Pangasinan
140	Lucban, Quezon	Branch-Lite Unit	Quezon Avenue, Lucban, Quezon
141	Carcar, Cebu	Branch	San Vicente St., Poblacion 1, Carcar City, Cebu
142	Floridablanca, Pampanga	Branch-Lite Unit	Sta. Maria St., Poblacion, Floridablanca, Pampanga
143	Mangaldan, Pangasinan	Branch-Lite Unit	602 Rizal St., Brgy. Poblacion, Mangaldan, Pangasinan
144	Nasugbu, Batangas	Branch-Lite Unit	Brias St., Barangay 9, Nasugbu, Batangas
145	San Juan, Batangas	Branch-Lite Unit	Gen. Luna St., Poblacion, San Juan, Batangas
146	Bogo, Cebu	Branch-Lite Unit	J. Almerante St., Brgy. San Vicente, Bogo City, Cebu
147	Baybay, Leyte	Branch-Lite Unit	Prince Town Baybay Unit N-24 A. Bonifacio St., Baybay City, Leyte
148	Ubay , Bohol	Branch-Lite Unit	Tan Nene St., Poblacion, Ubay, Bohol
149	Pagadian, Zamboanga Del Sur	Branch-Lite Unit	J. Ariosa St., San Francisco District, Pagadian City, Zamboanga del Sur
150	Calinog, Iloilo	Branch-Lite Unit	Cor. Rizal-Osmena St., Poblacion Centro, Calinog, Iloilo
151	Labo, Camarines Norte	Branch-Lite Unit	Don Juan Building 2, Brgy. Masalong, Labo, Camarines Norte
152	Guimba, Nueva Ecija	Branch-Lite Unit	Onjianco St., Brgy. Sta. Veronica, Guimba, Nueva Ecija
153	Mariveles, Bataan	Branch-Lite Unit	Lot 1B, Jonalyn's Bldg., Paguio St., Poblacion, Mariveles, Bataan
154	Magalang, Pampanga	Branch-Lite Unit	Acejo, Arnel B. Bldg., Sta. Cruz, Magalang, Pampanga
155	Bayugan, Agusan Del Sur	Branch-Lite Unit	Libres St., Taglatawan, Bayugan, Agusan del Sur
156	Maramag, Bukidnon	Branch-Lite Unit	Jacob, Juanity Bldg. P-2 South Poblacion, Maramag, Bukidnon
157	Candon, Ilocos Sur	Branch-Lite Unit	De Guia Building, Brgy. San Juan, Candon City, Ilocos Sur
158	Sto. Tomas, Batangas	Branch-Lite Unit	Sierra Makiling Bldg., Maharlika Highway, Brgy. San Antonio, Sto. Tomas, Batangas
159	Dipolog, Zamboanga Del Norte	Branch-Lite Unit	Quezon Avenue, Brgy. Central, Dipolog City, Zamboanga del Norte
160	Irosin, Sorsogon	Branch-Lite Unit	St. Vincent Building, Bgy. San Julian, Irosin, Sorsogon
161	Jagna, Bohol	Branch-Lite Unit	7S Shopping Center, Looc, Jagna, Bohol
162	Dumanjug, Cebu	Branch-Lite Unit	Gaisano Grand Mall Dumanjug Unit DMG-ARS-03 G/F Arcade Villa St., cor. G. Gica St., Poblacion, Dumanjug, Cebu
163	Toledo, Cebu	Branch-Lite Unit	V & U Bldg., corner Rafols and Poloyapoy St., Toledo City, Cebu
164	Mabalacat, Pampanga	Branch-Lite Unit	Clark Gateway Commercial Complex, L 290 & 292 Velasquez St., San Francisco, Mabalacat, Pampanga
165	Porac, Pampanga	Branch-Lite Unit	General Luna St., Bgy. Cangatba, Porac, Pampanga

Count	Location	Branch Type	Address
166	Capas, Tarlac	Branch-Lite Unit	Sto. Cristo St., Brgy. Sto. Rosario, Capas, Tarlac
167	Hilongos, Leyte	Branch-Lite Unit	C.V Alcuino St., Brgy. Central Pob. Hilongos, Leyte
168	Allen, Northern Samar	Branch-Lite Unit	Rizal St., Brgy. Sabang 1, Allen, Northern Samar
169	Calbayog, Samar	Branch-Lite Unit	Rosales Blvd., Bgy. Central, Calbayog City, Samar
170	Catbalogan, Samar	Branch	2nd Floor, Casa Cristina Hotel Building, 152 San Roque St., Bgy. Poblacion 11, Catbalogan City, Samar
171	Borongan, Eastern Samar	Branch-Lite Unit	Brgy. Songco, Borongan City, Eastern Samar
172	Hinigaran, Negros Occidental	Branch-Lite Unit	Rizal B St., Bgy. 4, Poblacion, Hinigaran, Negros Occidental
173	Alaminos, Pangasinan	Branch-Lite Unit	BHF Branch Lite Unite Horizon Building, Quezon Avenue, Poblacion, Alaminos, Pangasinan
174	Villanueva, Misamis Oriental	Branch-Lite Unit	NVCDC Building 1, National Highway, Katipunan, Villanueva, Misamis Oriental
175	Tandag, Surigao Del Sur	Branch-Lite Unit	Cabrera St., Purok Maligaya, Bag-ong Lungsod, Tandag City, Surigao del Sur
176	Agoo, La Union	Branch-Lite Unit	56 National Highway, San Miguel, Agoo, La Union
177	Pagbilao, Quezon	Branch-Lite Unit	Corner Alvarez, Bonifacio St., Bgy. Del Carmen, Pagbilao, Quezon
178	Nabunturan, Davao De Oro	Branch-Lite Unit	Arellano St., Puro 5, Poblacion, Nabunturan, Compostela Valley
179	Cotabato, Maguindanao	Branch	Ground Floor, Happy King Hotel and Restaurant, Jose Lim Sr. Street., Cotabato City
180	Rosario , Batangas	Branch-Lite Unit	26 Carandang St. Brgy. C, Rosario, Batangas
181	Oroquieta, Misamis Occidental	Branch-Lite Unit	John Paul Co. Bldg., Barrientos St., Poblacion 2, Oroquieta City, Misamis Occidental
182	Sindangan, Zamboanga Del Norte	Branch-Lite Unit	Gov. Lim St., cor. Mabini St., Poblacion, Sindangan, Zamboanga del Norte
183	Molave, Zamboanga Del Sur	Branch-Lite Unit	Rizal Ave., cor Quezon St., Purok Bulawanon, Bgy. Madasigon, Molave, Zamboanga del Sur
184	Zamboanga City, Zamboanga Del Sur	Branch	Jilron Bldg., La Purisima St. Zone II, Zamboanga City, Zamboanga del Sur
185	Ipil, Zamboanga Sibugay	Branch-Lite Unit	Ipil Citi Suites Hotel Building Purok San Francisco, Poblacion, Ipil, Zamboanga Sibugay
186	Goa, Camarines Sur	Branch-Lite Unit	Rizal St. Brgy. Panday, Goa, Camarines Sur
187	San Miguel, Bulacan	Branch-Lite Unit	Tecson St., Bgy. San Jose, San Miguel, Bulacan
188	Hagonoy, Bulacan	Branch-Lite Unit	#2 Emilio Perez St., Purok 4, Bgy. Sto. Nino, Hagonoy, Bulacan
189	City Of Naga, Cebu	Branch-Lite Unit	National Highway, South Poblacion, City of Naga, Cebu
190	Tanza, Cavite	Branch-Lite Unit	Antero Soriano Highway, Poblacion 4, Tanza, Cavite
191	Victorias, Negros Occidental	Branch-Lite Unit	Lot 51-54 Blk 1 Osmena Avenue, Brgy. 13, Victorias City, Negros Occidental
192	San Marcelino, Zambales	Branch-Lite Unit	Delta Building, National Highway, Bgy. Consuelo Sur, San Marcelino, Zambales
193	Malasiqui, Pangasinan	Branch-Lite Unit	JB Realty Calle Montemayor, Bgy. Poblacion, Malasiqui, Pangasinan
194	Pozorrubio, Pangasinan	Branch-Lite Unit	Poblacion, District IV, Pozorrubio, Pangasinan
195	Tayug, Pangasinan	Branch-Lite Unit	Corner Magtali St. and Bonifacio St., Bgy. Poblacion B, Tayug, Pangasinan
196	Los Baños, Laguna	Branch-Lite Unit	Ocho Miembros Bldg., Brgy. Maahas, National Highway, Los Banos, Laguna
197	San Pablo, Laguna	Branch-Lite Unit	A. Flores St., Bgy. 7-C, San Pablo City, Laguna
198	San Pedro, Laguna	Branch-Lite Unit	14-E Luna St., Poblacion, San Pedro, Laguna
199	Oton, Iloilo	Branch-Lite Unit	J.C. Zulueta St., Poblacion South, Oton, Iloilo
200	Passi , Iloilo	Branch-Lite Unit	Padernilla St., Poblacion, Passi City, Iloilo
201	Norzagaray, Bulacan	Branch-Lite Unit	Roadside View Subdivision, Bgy. Partida, Norzagaray, Bulacan
202	Arayat, Pampanga	Branch-Lite Unit	Pistahan Building, Bgy. Plazang Luma, Arayat, Pampanga
203	Tumauini, Isabela	Branch-Lite Unit	#49 National Highway, Bgy. San Pedro, Tumauini, Isabela
204	Zaragoza, Nueva Ecija	Branch-Lite Unit	Biak na Bato, Del Pilar East, Zaragoza, Nueva Ecija
205	Cuyapo, Nueva Ecija	Branch-Lite Unit	Aguila St., District 1, Cuyapo, Nueva Ecija
206	Rizal, Nueva Ecija	Branch-Lite Unit	Aglipay St., Poblacion Sur, Rizal, Nueva Ecija
207	Lubao, Pampanga	Branch-Lite Unit	#31 JP Rizal St., Sta. Cruz, Lubao, Pampanga
208	Sipalay, Negros Occidental	Branch-Lite Unit	Corner Lacson, Alvarez St., Bgy. 1, Poblacion, Sipalay, Negros Occidental
209	Alicia, Isabela	Branch-Lite Unit	LM Building, Magsaysay, Alicia, Isabela
210	Cabadbaran, Agusan Del Norte	Branch-Lite Unit	A. Curato St., Corner Garame St., Bgy. 4, Poblacion, Cabadbaran City, Agusan del Norte

Count	Location	Branch Type	Address
211	Manolo Fortich, Bukidnon	Branch-Lite Unit	Prince Hypermart Bgy. Tankulan, Manolo Fortich, Bukidnon
212	Compostela , Davao De Oro	Branch-Lite Unit	Purok 9 Magsaysay St., Poblacion, Compostela, Compostela Valley
213	M'lang, North Cotabato	Branch-Lite Unit	M.H. Del Pilar St., Poblacion, M'lang, North Cotabato
214	Bantayan, Cebu	Branch-Lite Unit	Ticad, Bantayan, Cebu
215	Daanbantayan, Cebu	Branch-Lite Unit	Osmena St., Poblacion, Daanbantayan, Cebu
216	Naic, Cavite	Branch-Lite Unit	Corner Public Market Road, Poblete St., Ibayo, Silangan, Naic, Cavite
217	Siquijor, Siquijor	Branch-Lite Unit	St. Francis Assisi Convent New Building, Poblacion, Siquijor, Siquijor
218	Aparri, Cagayan	Branch-Lite Unit	EH Chua Bldg., 68 De Rivera St., Centro 14, Aparri, Cagayan
219	Bambang, Nueva Vizcaya	Branch-Lite Unit	Maharlika Highway, Brgy. Banggot, Bambang, Nueva Vizcaya
220	Aritao, Nueva Vizcaya	Branch-Lite Unit	Purok Payao, Poblacion, Aritao, Nueva Vizcaya
221	San Ildefonso, Bulacan	Branch-Lite Unit	National Highway, Sapang Putol, San Ildefonso, Bulacan
222	Guiguinto, Bulacan	Branch-Lite Unit	GD Plaza, Mc Arthur Hiway, Ilang-ilang, Guiguinto, Bulacan
223	Manaoag, Pangasinan	Branch-Lite Unit	Ground Floor JCJ Bldg. Soriano St., Poblacion, Manaoag, Pangasinan
224	Cabagan, Isabela	Branch-Lite Unit	Ugad, Cabagan, Isabela
225	Cabarroguis , Quirino	Branch-Lite Unit	Purok 2, Gundaway, Cabarroguis, Quirino
226	Bauang, La Union	Branch-Lite Unit	Blade Building, National Highway, Qinavite, Bauang, La Union
227	Midsayap, North Cotabato	Branch-Lite Unit	Corner Quezon Ave., National Highway, Poblacion 3, Midsayap, Cotabato
228	Surallah, South Cotabato	Branch-Lite Unit	Poblacion, Surallah, South Cotabato
229	Bauan, Batangas	Branch-Lite Unit	Sta. Cruz St. Poblacion IV, Bauan, Batangas
230	San Jose , Batangas	Branch-Lite Unit	Macalintal Ave., Brgy. Sto. Cristo, San Jose, Batangas
231	Calumpit, Bulacan	Branch-Lite Unit	St. Peter Commercial Bldg. Mc Arthur Hi-way, Corazon, Calumpit, Bulacan
232	Balagtas, Bulacan	Branch-Lite Unit	National Highway, Balagtas, Bulacan
233	Meycauayan , Bulacan	Branch-Lite Unit	Meycauayan College Mc Arthur Highway, Calvario, Meycauayan, Bulacan
234	Murcia, Negros Occidental	Branch-Lite Unit	Corner Dinsay, Arimas St., Bgy. Zone IV, Murcia, Negros Occidental
235	Narvacan, Ilocos Sur	Branch-Lite Unit	Old National Highway St., San Jose, Narvacan, Ilocos Sur
236	Santa Cruz, Ilocos Sur	Branch-Lite Unit	Gabor Norte, Sta. Cruz, Ilocos Sur
237	Bansalan, Davao Del Sur	Branch-Lite Unit	R. Delos Cientos St., Poblacion Dos, Bansalan, Davao Del Sur
238	Samal, Davao Del Sur	Branch-Lite Unit	P-1 Sitio Pantalan, Brgy. Miranda-Pichon, Island Garden City of Samal, Davao del Norte
239	Santo Tomas, Davao Del Norte	Branch-Lite Unit	FDR District 3, National Highway, Sto. Tomas, Davao del Norte
240	Buug, Zamboanga Sibugay	Branch-Lite Unit	National Highway, Buug, Zamboanga Sibugay
241	Solana, Cagayan	Branch-Lite Unit	#054 Rizal St., Bgy. Centro Southeast, Solana, Cagayan
242	Bislig , Surigao Del Sur	Branch-Lite Unit	Door 2 Sia Bldg., RB Castillo St., Mangagoy, District II, Bislig, Surigao del Sur
243	Lopez, Quezon	Branch-Lite Unit	10 Rosario Corner Judge Olega St. Brgy. Gomez, Lopez, Quezon
244	Kabacan, North Cotabato	Branch-Lite Unit	Rizal Avenue, Poblacion, Kabacan, Cotabato
245	Calabanga, Camarines Sur	Branch-Lite Unit	San Antonio, Poblacion, Calabanga, Camarines Sur
246	Bongabon, Nueva Ecija	Branch-Lite Unit	#5 Bgy. Mantile, Bongabon, Nueva Ecija
247	Science City Of Munoz, Nueva Ecija	Branch-Lite Unit	Poblacion East, City of Science of Munoz, Nueva Ecija
248	Carmen, Bohol	Branch-Lite Unit	Poblacion Sur, Carmen, Bohol
249	Pilar, Sorsogon	Branch-Lite Unit	Cor. Milleza St., Main Road and Prieto St., Poblacion, Dao, Pilar, Sorsogon
250	Gerona, Tarlac	Branch-Lite Unit	Poblacion 1, Gerona, Tarlac
251	San Mateo, Isabela	Branch-Lite Unit	Barangay 1, Purok 3, National Highway, San Mateo, Isabela
252	Mambajao, Camiguin	Branch-Lite Unit	J.P. Rizal St., Poblacion, Mambajao, Camiguin
253	Infanta, Quezon	Branch-Lite Unit	Rizal Street, Poblacion 1, Infanta, Quezon
254	Lebak, Sultan Kudarat	Branch-Lite Unit	Door #7 Dimar's Building, Poblacion 1, Lebak, Sultan Kudarat
255	Kapatagan, Lanao Del Norte	Branch-Lite Unit	Prince Hypermart, Poblacion, Kapatagan, Lanao del Norte

Count	Location	Branch Type	Address
256	Calamba, Misamis Occidental	Branch-Lite Unit	Matunog St., Southwestern Poblacion, Calamba, Misamis Occidental
257	Liloy, Zamboanga Del Norte	Branch-Lite Unit	Baybay, Liloy, Zamboanga del Norte
258	San Miguel , Zamboanga Del Sur	Branch-Lite Unit	Purok Meliton, Poblacion, San Miguel, Zamboanga del Sur
259	Zarraga, Iloilo	Branch-Lite Unit	Gomez St., Barangay Poblacion, Ilaud, Zarraga, Iloilo
260	Carigara, Leyte	Branch-Lite Unit	Real St., Brgy. Baybay, Carigara, Leyte
261	Sablayan , Occidental Mindoro	Branch-Lite Unit	National Highway, Brgy. Buenavista, Sablayan, Occidental Mindoro
262	Roxas , Oriental Mindoro	Branch-Lite Unit	SMH Bldg., Morente Ave., Bagumbayan, Roxas, Oriental Mindoro
263	Lala , Lanao Del Norte	Branch-Lite Unit	Purok Apitong, Maranding, Lala, Lanao del Norte
264	Libmanan, Camarines Sur	Branch-Lite Unit	Nik Nok Farm Realty Corp. Palo St., Poblacion, Libmanan, Camarines Sur
265	Talibon, Bohol	Branch-Lite Unit	CPG Avenue, Poblacion, Talibon, Bohol
266	Tubigon, Bohol	Branch-Lite Unit	Centro, Tubigon, Bohol
267	Moncada, Tarlac	Branch-Lite Unit	Poblacion 1, Moncada, Tarlac
268	Guiuan, Eastern Samar	Branch-Lite Unit	Concepcion St., Brgy. 7, Guiuan, Eastern Samar
269	Taytay, Rizal	Branch-Lite Unit	Unit 9 & 10 Leoncio Commercial, National Road, Brgy. San Juan, Taytay, Rizal
270	Bolinao, Pangasinan	Branch-Lite Unit	Don Agustin Cacho St., Concordia Poblacion, Bolinao, Pangasinan
271	Alubijid, Misamis Oriental	Branch-Lite Unit	National Highway, Purok 2, Poblacion, Alubijid, Misamis Oriental
272	Batac, Ilocos Norte	Branch-Lite Unit	Washington St., Brgy. 2 Ablan, Batac City, Ilocos Norte
273	Montevista, Davao De Oro	Branch-Lite Unit	1022 Valderama St., Purok 6A, Poblacion, Montevista, Compostela Valley
274	Narra, Palawan	Branch-Lite Unit	National Highway, Panacan 2, Narra, Palawan
275	Banate, Iloilo	Branch-Lite Unit	Union St., Brgy. Bularan, Banate, Iloilo
276	Santa Rosa , Nueva Ecija	Branch-Lite Unit	328 Bgy. Cojuangco. Sta. Rosa, Nueva Ecija
277	Cabiao, Nueva Ecija	Branch-Lite Unit	#15 San Juan South, Cabiao, Nueva Ecija
278	Argao, Cebu	Branch-Lite Unit	Albarracin St., Poblacion, Argao, Cebu
279	Tuburan, Cebu	Branch-Lite Unit	National Highway, Brgy. 3 Tuburan, Cebu
280	Orani, Bataan	Branch-Lite Unit	National Highway, Bgy. Mulawin, Orani, Bataan
281	Camiling, Tarlac	Branch-Lite Unit	Quezon Ave., Poblacion I, Camiling, Tarlac
282	Sogod, Southern Leyte	Branch-Lite Unit	L. Regis St., Zone 5, Sogod, Southern Leyte
283	Naval, Biliran	Branch-Lite Unit	BZL Building, Vicentillo St., Smo, Rosario, Naval, Biliran
284	Mangatarem, Pangasinan	Branch-Lite Unit	#30 Burgos St., Poblacion, Mangatarem, Pangasinan
285	Bayombong, Nueva Vizcaya	Branch-Lite Unit	Galamay Bldg., National Road, Poblacion, District IV, Bayombong, Nueva Vizcaya
286	Santa Maria , Ilocos Sur	Branch-Lite Unit	Poblacion Sur, Sta. Maria, Ilocos Sur
287	Malungon, Sarangani	Branch-Lite Unit	Purok Waling Waling, National Highway, Malandag, Malungon, Sarangani Province
288	Isulan , Sultan Kudarat	Branch-Lite Unit	National Highway, Kalawag 3, Isulan, Sultan Kudarat
289	Odiongan, Romblon	Branch-Lite Unit	J.P. Laurel St., Cocoville, Dapawan, Odiongan, Romblon
290	Culasi, Antique	Branch-Lite Unit	National Highway, Centro Poblacion, Culasi, Antique
291	Pontevedra , Capiz	Branch-Lite Unit	Isagani St., Poblacion, Ilawod, Pontevedra, Capiz
292	Mambusao, Capiz	Branch-Lite Unit	Villareal Highway, Poblacion, Mambusao, Capiz
293	Cataingan, Masbate	Branch-Lite Unit	Quezon Extension, Poblacion, Cataingan, Masbate
294	Moalboal, Cebu	Branch-Lite Unit	2nd Floor Gaisano Grand Mall, Poblacion East, Moalboal, Cebu
295	Indang, Cavite	Branch-Lite Unit	A. Mabini St., Poblacion 1, Indang, Cavite
296	Cabuyao, Laguna	Branch-Lite Unit	Unit 1112 Sala Commercial Bldg., National Highway, Brgy. Sala, Cabuyao, Laguna
297	Nagcarlan, Laguna	Branch-Lite Unit	General Luna St., Bgy. 1, Nagcarlan, Laguna
298	Mamburao, Occidental Mindoro	Branch-Lite Unit	Rizal St. Corner Mercene St. Bgy. 3, Mamburao, Occidental Mindoro
299	Victoria, Oriental Mindoro	Branch-Lite Unit	National Highway, Poblacion 1, Victoria, Oriental Mindoro
300	Malay, Aklan	Branch-Lite Unit	National Road, Caticlan, Malay, Aklan
301	San Juan , Ilocos Sur	Branch-Lite Unit	EJGS Commercial Building, Brgy. Bannuar San Juan, Ilocos Sur
302	Umingan, Pangasinan	Branch-Lite Unit	#3 Zamora St., Poblacion West, Umingan, Pangasinan
303	Gattaran, Cagayan	Branch-Lite Unit	National Highway Centro Sur Gattaran, Cagayan
304	Tabuk, Kalinga	Branch-Lite Unit	Purok 1, Bulanao, Tabuk City, Kalinga

CORPORATE INFORMATION

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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

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.

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.

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:
  1. PFRS 9, "*Financial Instruments*", clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
  2. 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.

<u>Forward-looking information incorporated in the ECL models</u>

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.

<u>Financial assets with low credit risk</u>

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.

<u>Definition of default and credit-impaired assets</u>

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.